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PREFACE

In October 1990 there appeared an intriguing news item: in Hungary's drive to rejoin the market economy, a group of local businessmen was proposing to recreate Hong Kong on an island in the middle of the Danube. 25,000 Chinese would leave the British colony, in time to avoid the 1997 takeover by the Beijing government, and would bring their own resources to create a Chinatown in the middle of Budapest. The plan envisaged Hong Kong style skyscrapers, banks, shops, factories, and housing in a Special Economic Zone that would attract shoppers from all over Europe.

The American papers described it as an extraordinary proposal. Maybe it was. The fact is that it was almost identical with a suggestion made in a paper by the present author in 1977. That paper, according to the British politician Sir Geoffrey Howe—later Britain's Treasury Minister and Foreign Secretary—was the origin of the Thatcher government's Enterprise Zone policy, subsequently imitated so widely in the United States. But no Enterprise Zone in practice, in either country, ever contained the essence of the 1977 plan, which was the free movement of entrepreneurship and capital from places like Hong Kong. The newly liberated Hungarians, it seems, are about to tread where Margaret Thatcher and Ronald Reagan feared to go.

It is symptomatic of the extraordinary wave of experimentation now sweeping the countries of Eastern Europe. In the hope that the idea may be imitated, IURD are reissuing this paper on the occasion of the visit of founder-members of the Foundation for Regional Development in the Lower Silesian region of Poland, who meet this month in Berkeley to discuss a cooperative assistance program for the rapid development of a dynamic free market in their region. We hope that they may find it of interest.

Also included are some subsequent reviews of the history of the enterprise zone concept in Britain and in the United States, including a new evaluation included for the first time in this reissue.

Peter Hall
Berkeley, November 1990

GREEN FIELDS AND GREY AREAS *

The sub-title of this paper could be The Urban Ski Slope. Before we have mass misunderstandings, let me say that I am not going to talk about those strange hillocks you occasionally see -- the result of local authority munificence, or recklessness, in a far distant age of buoyant municipal revenue--breaking the skyline in some public park. The reference (as it befits an academic address) is more obscure than that. In a recent conference¹ on the urban problem in the United States, the delegates looked at the most recent figures assembled by the American Census Bureau, and they concluded that their urban crisis was more serious than anyone previously had thought. Rather than being just a problem of the declining inner city or central city -- as it has been interpreted for two decades in the States, and as it is just beginning to be interpreted here -- it is now a problem of urban America as a whole. In brief, the growth of the urban areas -- especially the larger ones -- has slowed down, and has almost ceased. In the older industrial parts of America, the fear is of mass rundown. And that finally prompted one delegate, Roger Starr of New York, to suggest the idea of the urban ski slope.

In the State of Vermont in the 1930s, Starr said, there was everywhere a state of depression and decay. Vermont is a far north New

* Address to the Royal Town Planning Institute Annual Conference, Chester, England, June 15, 1977.

England state. It gets cold in winter and much of the soil is rocky and poor. The farmers could not make a living; many of them had cut their losses and run; much of the land was abandoned, and in a sorry state. No one could see a future for the Vermont rural economy until someone noticed that in Europe, people enjoyed a recreation called skiing. Imported into Vermont, skiing became the salvation of the state. Farmers turned over their land to it, making agriculture a subsidiary activity to meet their own needs. Later, as more and more winter tourists came to Vermont, some began to return in summer too. Some even decided it was a good place for retiring, and some younger visitors, around the end of the 1960s became eco-freaks, began to buy the abandoned land, and turned it into prosperous farmland cultivated on ecological lines.

None of this would have happened unless one man had thought up skiing. So, Starr suggested, we should not be finding the urban equivalent to skis. Maybe, even now, in decaying New York, some dreamer in a garret is having just the idea that will save the city. For, without such a radical change in the basis of the urban economy -- so many of the delegates gloomily agreed -- America's once great urban areas would simply decay.

A Cautionary Tale

And I think the writing is already on the wall here. Academic studies, like those made earlier at Political and Economic Planning and now at the London School of Economics, suggest that urban Britain is following the path of urban America. The biggest urban areas have seen their

growth slow down, stop and then reverse. They are losing people and jobs. And the loss is not confined to the inner cities -- though it is most intense there. Now, there are vacant factories and the population in the outer parts of our great conurbations is declining too.

So the problem may be wrongly defined. We may soon be asking how to save whole conurbations. And since we are already trying to help all the assisted areas, which make up much more than half the area of Britain and around half the population, the question soon will be how far the remaining small prosperous piece of Britain can possibly prop up the rest.

To put it another way: perhaps the inner cities, like the assisted areas, are just microcosms -- extreme examples, if you like -- of a more general British problem. That problem is fundamentally economic, though of course it has many ramifications -- education, social policy, housing, transport. The problem is that a large and increasing part of our space economy is in a state of structural decline. In those areas, we have to run to keep still. We must keep feeding in new sources of economic growth, simply to compensate for the decline of older basic industry. We have recognized this problem, and have gone some way to dealing with it, in the assisted areas, ever since it was exposed in the great depression of the 1930s. Now, in the great recession of the 1970s, it is exposed in whole new areas of the country. But, just as forty years ago, it is unlikely to go away when the good times return. The real causes are not short term and cyclical; they are long term and structural.

To find solutions, you first must find causes. Our urban research industry is now busy trying to define the real sources of urban decline, and with some success. But, though everyone can identify symptoms, the deeper interpretation is still fiercely debated.

The conventional planning wisdom, and the most comforting explanation, is that the villain of the piece is to be found in the wrong policies we have been pursuing. We bulldozed thriving industry in the inner areas of cities, as part of comprehensive renewal policies. We denied Industrial Development Certificates (IDCs) to other thriving firms, and drove them to the assisted areas or the new towns. So, by reversing the policies, we can persuade industry to thrive again. I fear this is hopelessly simplistic. For one thing, the new towns have never accounted for more than a small part of the whole process of outward movement. Only 3 percent of our total housing stock, for instance, has been built there since World War II. For another, as anyone can see, there are plenty of vacant premises all over London and Liverpool and Birmingham, and there are no takers. The firms have simply disappeared, and they will not come back by waving a magic wand. Fifty-one percent of total manufacturing losses in London, according to the Department of Industry, are due to firms shutting up shop. The reason is far more complex than mere urban renewal.

Demise of Small Firms

One thing we do know from the London study: that a disproportionate number of the closures have been of small firms. Traditionally, in the East End of London or in the small masters' district of Birmingham, this

small workshop industrial quarter was not the norm. Now, it appears that it cannot compete. On this point, curiously, two groups -- the right wing Conservatives and the Marxists -- agree. The high Tory answer is that the small industrialist has been persecuted by bureaucracy -- by high tax rates, by regulations on safety and redundancy and almost everything else. Reduce this red tape, they say, and industry will thrive again. One problem with this answer is that the small industrialists of the past have gone; they will not be brought to life again. Another is that we have seen the same process happening in other countries with very different regulatory and tax regimes. Small industry is declining not merely in London and Birmingham, but also in Paris and New York.

The Marxists see urban decline as a stage in the evolution of what they call late capitalism. Small scale industry, in their analysis, is destroyed in competition by large scale corporations, who work by takeover, by rationalization of production, by sale of land and asset stripping. Using their immeasurably greater resources, these big corporations destroy their small competitors -- and they have little interest in settling in the older urban areas. I must own that I find this analysis very plausible; indeed it is almost a truism. The problem is to understand what the solution might be. To hasten the end of capitalism might or might not be desirable, depending on your own value judgments, but it certainly will not alter this problem -- which is a symptom of very advanced industrial economies in general, and could as easily occur in a Socialist example.

In fact, the Bolton Committee on Small Firms² analyzed this problem

exhaustively, aided by much research, back in 1971. They concluded that small firms had declined in relation to the total of economic activity, both in terms of employment and in terms of output, since at least the 1920s -- and that this was a world-wide process, though more advanced in Britain than almost anywhere else, which would continue. They also concluded that small firms tended to be less productive -- perhaps because of the products they made -- but more innovative than average, despite a low research and development (R and D) input. Nevertheless the Committee recommended that they should get no special help in terms of finance, advice or training, but that they did seem to have special problems in terms of taxation (partly now resolved by the introduction of VAT), form filling and planning. On this last, they recommended that small firms should be able to build up to 10,000 square feet without an IDC, that local authorities should use powers to develop industry in residential areas, and that the same local authorities should have greater responsibilities to find alternative accommodation and compensate firms in cases of clearance. Some of this is now done; but by no means all.

There is yet a fourth explanation, and it has the merit of offering a simple solution. It is provided by the garden city or new towns movement. The outward movement of industry and people is a natural process that merely needs to be guided in the interests of good planning. As Geddes and then Mumford said long ago, modern industry -- the sort Geddes called neotechnic -- does not need big cities any more. It can operate almost anywhere, so long as it finds an adequate supply of the right kinds of labor, a contented workforce, and adequate communications. And, in the conditions of today, it is far more likely to find

these in a new town than in a congested large city. What is happening naturally for the garden city movement, has the virtue of being also highly desirable. The industrialist has read the message that Howard began to preach nearly eighty years ago.

This last group, therefore, sees no need to do anything, since in its view there is no problem. The Marxists have an analysis, but no very clear solution. The radical Tories have an answer that is very unlikely to be sufficient; the planning critics likewise, but even more so.

Possible Strategies

Maybe there is no answer -- in which case, we should follow the garden cities people, and put all our new investment in the green fields where it will most likely fructify. But maybe, by looking more closely at the evidence, we can find elements of all four of these explanations, that can be glued together thus to suggest possible strategies for the cities.

First, the Marxists are right: industry has been rationalizing. Large-scale organization has won out over small-scale. There have been massive increases in productivity -- even in slow-developing, low-productivity Britain. (Were we efficient, it would all doubtless have been much worse.) Many kinds of job, commonplace twenty years ago -- the brute force, materials-humping kind -- have declined, especially in manufacturing and in warehousing and dock work. As these jobs have been rationalized, for a smaller and more highly trained workforce, they have tended to move out from the city. Dock work is a classic example. As

the Liverpool inner area study showed, old jobs have died at the center, while new jobs have been created out of commuter range, at the edge of the conurbation.

Second, while manufacturing as a group declines, so do some of the older tertiary industries (transport, public utilities such as gas, electricity and water). Other kinds of tertiary industry increase. There has been major growth in what Daniel Bell³ calls the quaternary sector (trade, finance, insurance, property) but even more in the quinary sector (health, education, research, government, recreation). Some of the biggest growth, rightly or wrongly, has been in the public sector quinary--especially education. Much of this has gone outside the cities; some (schools) has simply followed population, others (universities, polytechnics, colleges of education) could have been located anywhere. Some private sector quinary industries have also grown massively--especially tourism, which shares with education the distinction of being the fastest-growing industry in most advanced countries in the last decade.

Two things are worth noting about the growth of the tertiaries. First, an appreciable growth is in jobs needing a great deal of education and training. These are high level managerial or professional jobs or education and research jobs (the quinary sector). According to Daniel Bell, in the coming post-industrial society, the manufacturing sector will decline sharply as a proportion of total employment, the tertiary sector (in his sense) will grow, but the major growth is in quaternary and quinary industry. Secondly, an increasing proportion of jobs in these sectors are open to women, or even traditionally reserved

for them. It is quite conceivable, in such a post-industrial society, to find a buoyant labor market for women and heavy unemployment among the less skilled men. London at the present time provides an example.

Thirdly, the high Tories are right too: all this has been exacerbated and accelerated by the policies that have helped stifle small industry. (And the reason why it's happening in New York is that there, too, the tentacular regulatory bureaucracy has run amok: just read Business Week for confirmation.) The Marxists come in again here: the state bureaucracy and the big corporations -- Galbraith's "planned sector" cooperate to stifle the "market sector" which threatens their power.

Innovation, Not Resuscitation

The trick, however, is to discover how to bring back to life that which has been killed. And the first step is to realize that this is impossible; what is necessary is to find new sources of innovation and enterprise, to replace that which is gone forever. The same goes, lastly, for the bulldozing argument. To put it simply: in former times, the city was always a seedbed for innovation, for new development impulses. Some entrepreneurs succeeded and grew large; as they did, they not seldom took their business out of the city in search of larger scale, rationalized production processes. Others stagnated or even died; but there were always others to take their place, and again some of those would succeed. Now, we seem to have succeeded in killing off an abnormal proportion, and there is all too little innovation to fill the gap. One must discover how to reanimate the innovation.

How? There are several possible recipes. (I must stress that they are not mutually exclusive; each city should make up its own menu, depending on its tastes and dietary needs.) Here, the separate courses are best presented separately in the European culinary tradition; later on, the Chinese cooks can come in and mix them up. I want to stress that they are deliberately presented in crude cartoon form. In practice, elements of them would probably provide part of a composite urban menu.

Science-Based Industry

The first recipe is the most traditional: we should encourage science-based industry in the cities, especially in their inner areas. The value of such industry is first, that it is the only kind of manufacturing that still shows real growth in an advanced industrial economy. Secondly, it employs a large number of people with a high average wage, so -- through a high income multiplier -- it creates a wide range of jobs, not merely skilled but semi-skilled and unskilled too. If we look at the location of such industry today, we see that it has very rapidly deserted the inner cities. In Victorian times, a large part of what were then the technically most advanced crafts were small-scale inner city workshop industries: precision and scientific instruments and watches in London; jewelry, guns and machine tools in Manchester and Birmingham. Today, the leaders -- whether they manufacture big objects like Concorde at Filton, outside Bristol, or small things like Sinclair calculators at St. Ives in Cambridgeshire -- are well outside the inner cities, sometimes in suburbs, very often in small rural towns. As Brian Berry has shown in the United States, such industry is

footloose; it tends to be attracted to amenity-rich areas, since the important thing is to attract and keep a contented workforce including senior management. The same arguments are valid for the spearhead of the quaternary/quinary sector.

There is a possible way of attracting such industry back, and it is by a combination of incentives. First, universities and polytechnics would be encouraged to set up technological spin-off development corporations in their vicinities. (Some universities, for instance Loughborough, have already done this.) State aid would be available for this purpose. Further, the National Enterprise Board (NEB) would launch a special scheme to encourage innovatory individuals to develop a small-scale production base. This would involve advance workshops available at an initial low rent (with some profit-sharing arrangement for NEB). Government skill centers, located nearby, would help produce the skilled manpower that would be needed to fill the jobs as these industries grew. Lastly, to attract already established firms to set up branch plants in these areas, there would need to be some provision for attractively planned industrial parks. These would be planned in conjunction with specialized housing and leisure facilities, and could be combined with the tourist strategy that is later described. The objective would be to create the same sort of environment now provided in the very best private industrial parks in the suburbs of some American cities.

The value of such industry is not restricted to pure manufacturing employment. For such firms also have very extensive R and D activities. (IBM is perhaps the best known example of a large corporation which exists through the application of research.) For such large firms, R and

D is a systematic, organized activity. Again, if such undertakings can be attracted to urban locations, the value is not restricted to the immediate impact of the employment they create. It also involves the indirect effect of income and employment multipliers on the total pattern of activity in the area. This is a particularly potent way of building the urban ski slope. But I should stress that there are snags. All over the world, up to now, such industry has recently shown very little affinity for urban areas, especially inner ones. It may go to the outer fringes of the more attractive and growing metropolitan areas — Los Angeles, San Diego, Dallas, Atlanta, or it may go where they please: industry follows them. The only way we are going to tempt it back into the cities, if at all, is through a very imaginative programme that deliberately caters for the whims of such people. That means the creation of high-amenity environments such as I have described, plus adjacent high-income housing schemes, plus motorways for them to drive from outer suburbs. All of which is rather far removed from the policies of many local councils in British cities.

Professionals

The second strategy may in its way be just as unpalatable, because it is very similar. It involves building on the fastest-growing industries of Daniel Bell's quaternary and quinary sectors: management, the professions, education. (Indeed, in research and development it overlaps with my first strategy.) That means encouraging activities like banking, finance and insurance; the mass media, including publishing of books and magazines, and newspapers, television and radio, all kinds of new audio-visual technologies, advertising and PR, plus entertainment;

consultancy activities in all kinds of professional areas, ranging from engineering to architecture to accounting (including planning for overseas clients); and higher education and culture. Everywhere in advanced countries, these are the growth industries. Some of them are public sector industries, and cater in large measure for ourselves. But others are potentially very important exporters, and they could -- and should -- be further encouraged by government. We are not doing nearly as much as we ought, for instance, to sell British expertise overseas, either through direct provision of educational services or through consultancy.

This recipe has other virtues. One of the most important is that more than any other bundle of industries, these seem to show a continuing affinity to the center of the city. The other is that the jobs tend to be exceptionally well-paid and so have a very great multiplier effect. Further, though a high proportion of the jobs are skilled, many of these industries do employ a range of talents. Universities and research institutions and television stations need cleaners and night watchmen and porters. Above all, such industries have a very high density of workers in relation to both people and capital equipment. That makes them ideal city industries.

But it is no use denying that again, there are snags. Much of the work does use very special skills, which may be in short supply. If such people come in to the city, they may create demands for housing which will make it more difficult for low-income people to live there--as has happened, visible, with the process of "gentrification" in London. Not merely in housing, but in many other areas of consumer life, from eating out to getting odd jobs done, they may cause inflation of

prices. And, most telling of all, this recipe may suit only a very limited number of cities. It could clearly work for London and maybe for Manchester, but is less likely for Birmingham, Liverpool or Glasgow.

There is one last problem, and it had better be faced. American experience now indicates that this kind of industry, too, is beginning to desert the city. True, much of it is still concentrated right at the heart of New York, Chicago or San Francisco. And in some cities -- Boston, Atlanta, San Francisco, Los Angeles -- there have been downtown booms in recent years. But the analysts are concluding that the general trend, as with so much other activity, is outwards. New York has been steadily losing office development to outer suburban towns like Bridgeport and Greenwich and Stamford and New Haven, which happen to be environmentally more attractive and nearer the places where the workers live. Suburban office developments have become more and more commonplace in the United States. There is some evidence that the same process is happening here. Big office developments are happening not merely in the medium-sized towns around London, like Reading and Guildford and Southend, but now much more widely afield. Maybe we can reverse the process -- if we want. But it may not be easy.

Tourism

That suggests that we should look at other strategies. There is one in particular that commends itself, because we know from recent experience that it is particularly attracted to some cities: that is, an economic development based on tourism plus associated service and manufacturing activities. Apart from higher education, tourism is almost certainly the fastest-growing industry of recent times in

advanced countries, and all predictions suggests that it will remain so for some time. Further, it creates a very wide spread of employment of all kinds, including a lot of fairly unskilled jobs. Finally, we know that some kinds of tourism are particularly attracted to some cities (with London well up in the world league).

Tourism is in fact a very varied activity. It includes not merely conventional package tourists arriving in their jumbo jets at Heathrow, but also businessmen and professionals who spend time out in the evenings or at weekends, and visitors to fairs and conventions. Further, it can help spin off a very widespread manufacturing activity -- especially in production of small-scale craft goods, which are particularly suited to inner city locations -- since there the goods can be displayed in showrooms at or near the point of manufacture. As we know from Covent Garden and some other examples, this can be a particularly good way of using old premises that otherwise become derelict. The means to encourage such industry are in some ways very like the incentives to science-based industry: help from NEB, skillcenter training, provision of low rent premises. But craft industry may be easier to attract, because of its natural affinity to the inner city.

In fact, one plausible argument is that a tourist kind of city is the one that spins off all sorts of odd fringe activities, any one of which could prove to be the urban equivalent to skis. Such a city develops an aura, which may or may not last: San Francisco in the 1960s, Los Angeles or New York or Paris at almost any time. It attracts thousands of creative people, predominantly young, for at least part of their lives, and by mixing them it creates a ferment of innovatory

ideas. As examples, look at the classified advertisements in London's Time Out: a rich and even bizarre collection of enterprises (ear piercing, unisex sauna, air freight, whole food shops, College of Acupuncture clinic, Krishnamuri videotapes). They may sound funny, but some may sound less funny in 1967 if they prove to be the growth industries of the 1980s. Recall: when the founder of General Motors tried to interest his bank manager in his first products, that august gentleman was so incensed that he showed his visitor the door. We could be making the same mistake again -- and so could the government.

Again, as ever, there are snags. One is that this is again overwhelmingly a London -- perhaps an Edinburgh -- activity. But deliberate action can change that. Birmingham's National Exhibition Center is already beginning to do that for our second city. All kinds of other developments could carry that further--including, possibly, the revival of Birmingham's old craft industry as a tourist attraction in what little remains of the Victorian city.

The Example of Disneyland

The most promising, perhaps, is the deliberate development of large-scale tourist attractions. Disney did this, classically, in creating the Walt Disney World theme park at Orlando, Florida. He chose a location that was favorable for tourism but was so far undeveloped. He bought all the land, not merely for the park, but for every possible associated development for miles around. We totally lack such big theme parks in Britain. Yet unique opportunities exist to tell our history, both to our own children and to foreigners, in an imaginative way. The

museums of the industrial revolution -- at Coalbrookdale, at Beamish in County Durham, now at Cardiff -- are a start. But what we really need is a combination of the best parts of these parks and the flamboyant showmanship of Walt Disney Enterprises. That could help transform a derelict northern inner city environment, for instance, into one of the greatest tourist attractions in Europe. But all our politicians can think of is manufacturing industry that will never return.

Disney illustrates another vital point. His theme parks contain reconstructions of the past and visions of the future. The latter, in particular, can serve as a showcase for new science-based industry in the local region, and so powerfully reinforce such a strategy. Further, such a development may well include convention center facilities which will help encourage a different kind of tourism and, indirectly, quaternary and quinary industry.

Immigrants

But it could be that none of these recipes can really perform the miracle for some areas. After all, some of our cities are today very far decayed places. Their industrial base is fast disappearing. Their more skilled workers, and their middle class, have already gone. Large areas of the city seem to be in course of becoming West Indian or Asian ghettos. There is a general sense -- powerfully conveyed in the DOE's own inner city studies⁴ -- of decay and apprehension.

Yet the Birmingham study, focused on the Small Heath area, actually argues that the Asian concentration there is a source of hope and strength for the future. This community, the consultants argue, is

strong and self-reliant. It is already a source of spontaneous improvement; a high proportion of the Asians own their own homes, and are willing to spend time and money on upgrading them. Similarly, the business traditions of the community generate many jobs of the kind that are all too scarce in the inner city.

In an article⁵ earlier this year I argued that this might provide the basis of yet another solution for urban ills. Instead of discouraging immigration, I argued, we should actually encourage it -- but we should be sharply selective. We should try to attract small businessmen, with capital and proved expertise, to settle here and establish small workshops and associated trading enterprises. What I had in mind was to try to export some of the extraordinary drive and industry and flair of places like Hong Kong and Singapore, which today have some of the most innovative small businesses in the world. I was roundly attacked for that by countless correspondents, who seem not to have read what I actually wrote.

Freeport

One of the more thoughtful correspondents, though, attacked me on quite another line. As a small businessman he said has been strangled by taxation and bureaucratic red tape. How did I expect the businessman from Hong Kong to be able to do any better? What allowed Hong Kong industry to compete, often in this country, was the freedom from controls and the low taxation that it enjoyed. As we saw earlier, the Bolton Committee had a great deal of sympathy with that view -- but that was in 1971, and I doubt that matters have got much better.

Here, I honestly think that the best might be the enemy of the good. If we really want to help inner cities, and cities generally, we may have to use highly unorthodox methods. One major source of their ills is that many of their people -- so the inner city studies tell us again and again -- have been stranded high and dry by the rapid evolution of the advanced industrial (or post-industrial) economy. Their skills (or lack of skills) were readily useable in an early industrial economy, but are no more. If we try to force them to catch up, we may do them -- and us -- no good, and perhaps a great deal of harm.

Therefore, the answer might be to accept the fact. It would result in a final possible recipe, which I would call the Freeport solution. This is essentially an essay in non-plan. Small, selected areas of inner cities would be simply thrown open to all kinds of initiative, with minimal control. In other words, we would aim to recreate the Hong Kong of the 1950s and 1960s inside inner Liverpool or inner Glasgow.

The first element would encourage entrepreneurs and capital. The area would be outside United Kingdom exchange controls. Businessmen from the Third World would be welcome to come in and set up their factories. Since the area would be outside UK customs limits, all goods would be imported and sold free of duties and indirect taxes, including VAT. Such an area would thus be a Shannon Airport, or Canary Islands, right in the heart of one of our cities.

Secondly, the area would be based on fairly shameless free enterprise. It would be free of United Kingdom taxes, social services, industrial and other regulations. Bureaucracy would be kept to an absolute minimum. So would personal and corporate taxation. Trades' unions

would be allowed, as in Hong Kong, but there would be no closed shops. Wages would find their own level.

Thirdly, residence in the area would be based on choice. Since the special taxation and customs arrangements would render the area ineligible for Common Market membership, it would be most appropriately administered as a British Crown Colony or protectorate; the Isle of Man provides one model. Existing residents -- and there would not be many -- would be free to stay or leave, since they would hold UK passports. However, if they stayed they would have to do so on new terms, under the laws and regulations of the Crown Colony. Their tax levels would be much reduced, but so would their benefits. And, if they then tried to enter the United Kingdom, they might not be allowed to do so until their social security payments were made up.

Tax Haven/Social Problem

Such an area would not conform at all to modern British notions of the welfare state. But it could be economically vigorous on the Hong Kong model. Since it would represent an extremely drastic last-ditch solution to urban problems, it could be tried only on a very small scale. It is most appropriate to those inner city areas which are largely abandoned, and denuded of people; or alternatively areas with very grave social and economic problems. I envisage it as an appropriate solution for a decaying seaport such as Liverpool. Here, it could help build the basis of a vigorous tourist trade, since it should encourage a huge movement of buyers both from the United Kingdom and mainland Europe. Again, the vast tourist boom in recent years in Hong

Kong and Singapore, based very largely on the rock-bottom competitive prices in their shops, provides a foretaste of what could happen.

I do not expect the British government to act on this suggestion immediately, and I want to emphasize that I am not recommending it as a solution for our urban ills. I am saying that it is a model, and an extreme one, of a possible solution. I have deliberately included it, because if we want to analyze the problem of our cities fully we have to do so on the basis of real economic prospects, not on the basis of some fantasy of the world as we would like it to be. The evolution of the world economy is causing a very rapid reordering of the functions of cities in the western, advanced industrial world. If they are to survive at all it is on the basis of what they still do best -- or at least as well as everyone else. That means stopping a lot of things they did do, and finding new role or roles.

Facing the Facts

It follows, almost as night follows day, that some activities are going to leave cities. We need to face the fact, I think, that for many people -- perhaps most people -- in advanced industrial countries, big cities and big metropolitan areas are no longer very attractive places. They do not provide the right kinds of services at the right price, nor give the kind of environment, physical or social, that people demand. Above all, as the American economist Wilbur Thompson argued at the symposium which generated the notion of the ski slope, cities demand too much self-discipline of their people. They cannot easily drive their cars, or avoid their fellows if they want to, or have a fully private

life. Cities, as the economists say, are too full of negative externalities. They are still attractive for some people -- the young, a minority of cosmopolitans, some of the old. But for a large proportion, perhaps the majority, the only thing that keeps them in the big metropolitan center is their job. As the jobs move out, so will the people.

Probably we cannot do much about this and we should not wish to. What we can and must try to do is to ensure that the outward movement is balanced in terms of age composition, skill and education level, racial composition and job mix. In particular, as the DOE's Lambeth inner urban report stressed so eloquently, we need to ensure that more of the deprived people from the inner areas are able to move if they want. And we know what they want: between one quarter and one third, the Lambeth survey, said they would like to move out if housing and job were right. The irony is that the job prospects for these people -- and the educational prospects for their children -- would almost certainly be better in Milton Keynes or Northampton or Peterborough than in London or Islington. It is the housing trap that keeps them behind.

So the answer is that we still need investment both in the green fields and in the grey areas. We need to plan for an orderly reorientation of our space of economy whereby each part of our urban system does the things that it is best suited to do. That means providing quite new roles for our major urban areas, while some of their more traditional economic roles -- and with them, some of their populations -- move out.

2.

ENTERPRISE ZONES IN THEORY AND PRACTICE:

THE BRITISH EXPERIENCE *

My remit today is to talk about the Enterprise Zone idea in the land of its birth: Great Britain. I suppose that most people here know the history: last March our Chancellor of the Exchequer, Sir Geoffrey Howe, presented his annual budget proposals to Parliament. He announced that his government would be giving special status to a number of areas that appeared to be in need of stimulation. Instead of regulation, these areas would be set free. There would be minimal planning and other controls. And enterprises locating there would receive special tax incentives.

Last July, after a top-speed process of selection, the first seven of these areas were designated. The enabling legislation came even later. So clearly it is far too early to come to any definitive verdict as to their success in meeting their objectives. But we are free to speculate about the criteria that ought to be used in judging their performance, and about their likely success in meeting them.

You may wonder about my credentials for this job. The answer is simple: in his speech Sir Geoffrey graciously mentioned me as joint author of the Enterprise Zone idea. Whether his compliment was justified, I will

* Address to the National Urban Policy Roundtable, Economic Renewal in the 1980s (A Project of the Charles F. Kettering Foundation, Coordinated by the Academy for Contemporary Problems), Washington, DC, January 14, 1981.

leave it to you to gauge. The fact was that in June 1977, at the annual conference of the Royal Town Planning Institute, I was asked to discuss some possible solutions to a problem that Britain shares with the United States: the decline of the larger, older inner city areas, which has now reached precipitous proportions. I looked at some standard answers: inject science-based industry, develop services, encourage tourism. But at the end of this review, I concluded pessimistically that none of the standard recipes could perform the miracle for the worst problem areas.

So I argued that to help such areas, we might need to use highly unorthodox methods. One major source of the sickness that assails these places is that many of their people -- so the research studies tell us time and time again -- have been stranded high and dry by the rapid evolution of the advanced industrial -- or, if you like, the post-industrial -- economy. Their modest skills, or lack of skills, were readily useable in the economy of one hundred years ago, or even forty years ago, but they are no longer needed.

Therefore, the answer might be to accept the fact. We should look to the model provided by the real economic success stories of the 1960s and 1970s -- Taiwan and Korea, Hong Kong and Singapore. We would try to recreate, in selected areas of British cities, the same spirit of unbribed enterprise that has characterised those economies.

That would entail what I called a Freeport solution. Small, selected areas of cities would be thrown open to all kinds of initiative, with minimal governmental interference or control. The experiment would involve -- so I argued -- three main features. I want to stress these to you, because I feel that they are all essential to the success of the

plan.

The first is the most obvious, and the one that everyone has noticed about the Enterprise Zone idea in its various forms: maximum freedom and minimum restriction. But I believe that if one accepts this, one should accept the logical consequences: such an area must be, for practical purposes, outside the limits of the parent country's legislation. Free zones, I argued in 1977, should be free of United Kingdom taxation, social services, industrial and other regulations. Bureaucracy would be kept to an absolute minimum; so would personal and corporate taxation. Trade Unions would be allowed, as in Hong Kong, but there would be no closed shops. Wages would find their own level.

It follows that in an important sense, such zones would be outside the effective economic territory of the parent country. Logically, they would be outside exchange and customs controls. All goods would be imported and sold free of duties and indirect taxes. In other words, such zones would be complete Free Trade Areas.

The further logical consequence of this would be free movement of labour and capital. I would like to think that this were practically possible, but I do not; even Hong Kong has had to move to stem the flow of people out of China. However, there is one essential feature of the scheme as I see it, and that is the free movement of capital -- and with it, entrepreneurship. One of the most important ingredients for the success of the whole plan, in my view, is that it encourages the rapid growth of an indigenous entrepreneurial class, so as to try to guarantee that growth will be self-sustaining. This is the most important lesson we can learn from the success stories of the Far East, and it is a point to

which I shall return.

Finally, residence and work in the area could be based on choice. Since the special arrangements for the areas would effectively put them outside the United Kingdom, I suggested that they be administered as a British Crown Colony or Protectorate, on the Hong Kong model. Existing residents -- who would be few, since the areas would be deliberately delimited in derelict and virtually depopulated places -- would be free to stay or leave. But if they stayed, they would do so on the terms of the new territory: lower taxes, but fewer benefits.

I stressed that since such a model would present an extremely last-ditch solution to Britain's urban ills, it could be tried only on a very limited scale. It would be most appropriate for an area of a city that simultaneously faced extremely grave problems of economic decline, and of physical dereliction. But it should be tried as a unique economic experiment. The acid test would be whether such an area could emulate the Newly Industrialising Countries with their remarkable record of sustained and rapid growth through native entrepreneurship.

How do the British Enterprise Zones, as introduced by Mrs. Thatcher's government, accord with this model? The obvious answer is: only in part. They have a tax holiday, in the form of a remission of local property taxes; the loss to local revenues will be made good by a grant from the central government. They have reduced capital gains taxes. They have a 100 per cent allowance against corporate income tax for commercial and industrial buildings. They also have a bonfire of controls -- but not, notice, all controls. Zoning and planning regulations are reduced to the minimum -- but they are not entirely abolished. But all

kinds of national environmental and safety regulations remain in force. Further, the Enterprise Zones do not have Free Port status -- though arguments are still taking place about the possibility of granting that status to certain zones. Most importantly and most emphatically, they do not have what was, in my view, perhaps the most important feature: the deliberate encouragement to outside entrepreneurs to come in and establish new businesses in the zone.

So, in many ways -- despite the reputation of Mrs. Thatcher's government for conservative radicalism -- there is nothing very radical about the Enterprise Zones. The worry is that in practice they will not achieve very much, and that what they do achieve will be counter-productive. Unless they genuinely encourage new enterprise where no enterprise existed before, then it seems to me that they will be failures by definition. And what they may easily do is to attract footloose industry to locate just within the Enterprise Zone boundaries, taking it away from areas that are almost as deserving just on the other side of the line.

Those of you who are economists will spot a problem with my argument. If the result of the Enterprise Zones is to allow factors of production to be used more efficiently to produce higher returns, you will say, they are good in economic terms. The problem is that they may not have this effect. If they encourage industry to locate in places which are poor in other locational attractions -- in places with weak transportation links, or with high infrastructure costs, for instance -- then the result could be economically counter-productive. At best, the advantages would be very marginal ones. The Enterprise Zones in their

present form simply appear to avoid the issue of how to encourage new entrepreneurially-led growth.

Why, you may ask, do I keep stressing this issue of new entrepreneurial growth? I do so because it accords with what we know about the real process of growth. Many of you will have seen, in the pages of Business Week last year, the results of the remarkable research by David Birch of MIT. Using detailed Department of Commerce data, Birch has been able to demonstrate that in the United States, new jobs are created disproportionately by new, small firms. Indeed, were it not for these small firms, America's economic problems would be much worse than they are -- for the larger firms tend to shed jobs, not to create them. More accurately, the job growth comes from firms that have reached a modest size threshold and are taking off to a new threshold -- in other words, they are no longer small infant industries, many of which indeed die in infancy, but rather children growing into adulthood.

Birch concludes that the job generating firm tends to be young -- though not brand-new. It tends to be small. And it tends to be dynamic -- even volatile, for in the process of growth it may sometimes appear to contract. In other words, says Birch, it is the kind of firm that frightens bank managers and bureaucrats.

The Birch study has excited a great deal of attention in Britain -- from politicians and from bureaucrats in our equivalent of your Department of Commerce, in particular. For the small, dynamic firm is weakly developed in Britain compared with other nations -- and in particular, compared with the United States. Birch argues for the United States that the different economic performance of regions and cities is closely

related to their capacity to generate new small firms. Similarly, the notoriously poor economic performance of Great Britain could be related to the lack of this capacity.

With that background, let me address the question: what would be the relevance of the Enterprise Zone concept to economic development in the United States? What objectives should we seek to achieve in establishing them? And what, in the light of those objectives, should be the essential features we should want to incorporate in new Enterprise Zones?

First, as to the relevance of the concept. Nothing has struck me more, in the four months I have spent in the United States this time -- and let me say that I have been a regular visitor to your shores these past sixteen years -- than the fact that America is now beginning to display many symptoms of what has been called the British Disease. Indeed, many facts that are now being attributed to the world recession -- the high unemployment in some basic industries, the dismal profit record -- should more properly be ascribed to a much more insidious structural change, whereby American industries progressively fail to compete successfully with their overseas counterparts.

There are however significant differences. Both the British and the American economies have areas of strength, and areas of weakness. But overall the strong part of the American economy is far bigger, as a proportion of the whole, than is ours in Britain. You have the burgeoning industries of the Sunbelt: a wide range of consumer products in the Piedmont South, tourism and aerospace in Florida, aerospace again in Texas, energy-related developments in the Mountain West, aerospace and

-- above all -- electronics in California, aircraft in the Pacific Northwest. The British economy has little to show in comparison. However, the geographical distribution of these strong areas is highly significant, and no one here needs reminding of it. They are overwhelmingly in the Sunbelt -- while the weaker sectors are concentrated in the Frostbelt of the Eastern Seaboard and the Mid-West.

This is no accident. Regional economists and geographers have written reams of analysis of the rise of the Sunbelt states. They do not yet agree on an explanation. Probably the answer is that there is no one single factor. The search for cheap, less highly unionized labor may have been one -- but it does not explain more than a small fraction of the growth. Far more important was the emergence in the Sunbelt of new, highly innovative, technologically sophisticated industries embodying a very high content of Research and Development investment. Federal expenditure on this R & D may indeed have been a significant factor in the rise of industries like aerospace and electronics. But in others, where the innovation was less in technology than in organization and management, the critical factor seems to have been that the more entrepreneurial individuals -- for whatever reason -- were more highly concentrated in the Sunbelt. Nothing else explains the rise of new industrial empires like Kentucky Fried Chicken or MacDonald's Hamburgers, or Holiday Inns or Ramada Inns, or Coca Cola or Safeway, or Walt Disney World -- just a few of scores of major corporations that have originated in the Sunbelt. The innovative record of the Frostbelt, in contrast, is miserable.

This is clearly important in understanding what has been happening to the American economy in the last two decades. But what should really concern us now is what is going to happen to it in the remaining years of this century. Over fifty years ago a Russian economist, Kondratieff, produced a remarkable discovery: that ever since the Industrial Revolution, the economies of the western capitalist countries had moved in unison, in a series of long waves. To honor great discovery, Josef Stalin promptly put Kondratieff in jail, where he died. But in the 1930s the great American economist, Joseph Schumpeter, traced out the course of the Kondratieff waves down to that time. It emerged that the whole of modern economic history consisted of a series of Industrial Revolutions: the first, from the late eighteenth century, based on cotton textiles and iron smelting; the second, in the middle nineteenth century, based on steel and engineering; the third, in the early twentieth century, based on automobiles, chemicals and a wide range of consumer durables.

Since Schumpeter wrote, and exactly as he and Kondratieff predicted, the world has gone through a fourth long wave. It was the wave that was based on aerospace, electronics and related industries -- though, like earlier waves, it was also marked by a further expansion of industries established in an earlier cycle. According to Kondratieff, this wave should have peaked in the 1960s and have taken the world into recession in the 1970s. I leave it to you to gauge Kondratieff's gift of prophecy.

Now the significance of this digression is this: last year, in the United States, there was published a most remarkable book -- though to

my knowledge, it has received very little notice. It is a translation from the German of a work by Gerhard Mensch, called Stalemate in Technology: Innovations Overcome the Depression. With a wealth of Teutonic scholarship, Mensch shows that the Kondratieff waves were based on accumulations of innovations. Not inventions, notice: innovations are commercially usable applications of innovations, a very different thing. Mensch shows how inventions seem to pile up in history, until quite suddenly a great bunch of them get turned into innovations within just a few years. And at that point, the economy turns from recession into new growth. Mensch even distinguishes what he calls "radical years" in the economic history of the modern world: 1825, 1886 and 1935.

I guess that some of you are now doing mental arithmetic. Let me save you the trouble: the next radical year, Mensch concludes, is actually 1984. And he also concludes that at least half the basic innovations of the fifth Kondratieff wave had been completed by the end of the 1970s.

The critical question for all of us should be: where are these innovations being made? For the whole of past economic history suggests that in each of the previous Kondratieff waves, the balance of innovatory capacity has shifted. In the first, it was firmly monopolized by Great Britain. In the second, it was shared between Britain, Germany and the United States. In the third, the United States was absolutely preeminent. In the fourth, it began to share this position with Japan -- and, to a limited degree, with some western European countries. I will leave it to you to guess where I believe the innovatory leadership of the fifth wave will locate. Yes, I fear it will pass to Japan -- and with that, America could begin a long slide down the British slope.

In that context, I believe, the idea of the Enterprise Zone acquires a literally vital significance. For the only way in which our nations can turn the next great innovation wave to our advantage is to manage our affairs in such a way that innovators -- or, in other words, entrepreneurs -- are making their innovations here rather than elsewhere. It was for precisely that reason that I called for Enterprise Zones that would replicate, as far as possible, the conditions of successful entrepreneurship in the innovative countries of the new industrial world.

Let me concentrate once again on the conditions that obtain in those countries. They are sometimes represented as havens of unrestrained enterprise. I believe that this impression is wrong. Their entrepreneurs are indeed highly entrepreneurial -- but they work within a framework of quite deliberate government encouragement, to develop the new technologies and the new frameworks of organization, that will allow them to occupy the next industrial frontier.

That has been the lesson of Japan -- the nation that has pioneered this approach. American experts who have studied the Japanese success story, such as Herman Kahn and the Harvard sociologist Ezra Vogel, all stress the importance of the extremely close cooperation there between government bureaucrats and business leaders. The difference as compared with Great Britain and the United States is this: that in Japan the two sides work cooperatively, for the greater good of Japan Inc. Government supplies the basic research that identifies the next innovatory frontiers; it then pumps money into the early, more fundamental stages of research, that would be too costly and too risky for individual firms to

undertake. Thereafter, it is up to the individual entrepreneurs to undertake their true function: to turn invention into commercial utilisable form.

That is the lesson now being copied from Japan by its newly industrializing neighbors: by the Republic of Korea, by Taiwan, by Hong Kong, by Singapore. These models are not identical. Some -- Korea and Singapore -- have a greater element of governmental planning, some -- Hong Kong -- less. All however tend to base their policies on a considerable degree of freedom to entrepreneurs to take decisions, coupled with a low degree of outside regulation and interference. Most tend to inject governmental spending in the form of economic infrastructure -- especially through the planning and development of industrial estates -- and also social infrastructure, in the form of public housing, schools and hospitals. These, it should be stressed, are in no ways inimical to the success of the Enterprise Zone concept.

I suspect that within the next twenty years, we shall see an even more remarkable experiment of this kind. For there is emerging evidence that Mainland China, also, is rapidly developing its own version of the Enterprise Zone concept. In Canton, close to the Hong Kong border, it is laying out giant new industrial areas. You may be sure that the workers in these factories will be Chinese but that much of the management and virtually all the entrepreneurship -- at least in early years -- will be imported from outside. For the Chinese, with their traditional wisdom and willingness to learn, have already seen the success of the Japanese model in its homeland and outside -- and they want to be the next in line. When they are, then the United States -- and indeed

the whole industrialized world -- will face an economic challenge which will be mind-boggling.

I am arguing here that we need to learn the lesson too -- and rapidly, if Armageddon is not to overtake us. The task is to replicate the kind of business culture that thrives in the burgeoning new industrial zones of eastern Asia. Some may say that this involves a huge task of social remodelling -- that we need painfully to reshape our values, to bring them closer to those of what Herman Kahn calls the Confucian culture. Even if we determine that this is what we desire as a society, it is a job that looks like taking several hundred years -- and we almost certainly do not have that long.

Let me stress again, also, that the problem has a strong geographical dimension. Put California or Texas on their own, and they almost certainly will count among the new industrial giants. The problem is our political responsibility for places like Pittsburgh and Detroit -- or, in my country, places like Glasgow or Liverpool. They cannot lightly be abandoned -- though I think that in both our countries, we may have to accept a much greater flow of people out of such cities and regions, into the places where entrepreneurship is providing new opportunities. It is in the older, the declining cities and regions where the Enterprise Zone concept must have its major relevance.

I need not say that such a prescription will not be popular. The very restrictive Enterprise Zone concept now developed in Britain has itself been attacked on the ground that it will introduce Asiatic sweatshops into that country, and will erode the hard-won rights of the workers. How that could be true, if the zones are to be introduced on a

restrictive and experimental basis, I do not know..

Of one thing, however, I am certain. It is this: that we now need some radical experiment to bring our nations back into the front rank of innovative economic development. That effort must be concentrated in those regions and those cities where the entrepreneurial tradition is now weakest, and where therefore it is most in need of stimulation from outside. And that objective should be the first objective of any western government in the fraught circumstances of the 1980s.

3.

ECONOMIC AND LOCATION FACTORS IN ENTERPRISE ZONES *

In this presentation, I shall try to pick up some themes made by earlier speakers at the conference, and to reapply them in the context of practice: the actual task of selecting suitable locations for enterprise zones. I shall concentrate on broad strategy; Larry Revzan, coming after me, will talk about detailed tactics.

Specifically, I shall try to answer three questions. First: what factors are influencing the location of industry in the contemporary American economy? What makes for growth in some cases, decline in others? And in particular, what lies behind the much-discussed rise of the Sunbelt? Second: what could the Enterprise Zone concept do to affect these processes? In particular, how far could it allow the declining places to emulate the successful ones? And third: what does that say for the whole strategy of establishing Enterprise Zones -- in particular, for their location?

The Geography of Change

Everyone here knows the story of the economic decline of the Frostbelt and the rise of the Sunbelt. But two features need stressing. First,

* Address to the National Conference on Enterprise Zones (sponsored by the American Legislative Exchange Council in association with the Heritage Foundation and the Sabre Foundation), Atlanta, GA, February 21, 1981.

70 per cent of American employment is now not in manufacturing, but in services. Much of the new job creation is in the tertiary sector. Second, whether we talk of manufacturing or services, the main source of job creation is not the movement of plants, not even the establishment of branch plants, but the variable birth rates of new plants in different places. David Birch's research, summarized in his yesterday's lecture, shows that the Sunbelt is growing because more new firms are being born there -- even though many of these new firms actually die soon after birth. This can only be because Sunbelt firms are more entrepreneurial, more innovative. (In fact, these two words are synonymous). These firms develop new ideas. Many don't work. But some do.

It's customary to think of innovation in purely technological terms. For some Sunbelt industries and Sunbelt areas, this is true and important. But for many others, the basic innovation is not a technically sophisticated one. When, 95 years ago in this city of Atlanta, a druggist combined some secret ingredients into a new soft drink, no great technological breakthrough was involved -- yet this innovation swept first America, and then the world. Similarly, some 30 years ago, with Colonel Sanders' patent recipe for Fried Chicken. Sometimes, in fact, the innovation is purely of an organizational character. In the mid-1950s, a Memphis builder returned from a holiday vacation disgusted with the then standards of roadside motels, and determined to build some hotels with uniformly high standards; the result was the Holiday Inn chain and -- indirectly -- all its latter-day competitors. The same goes for the legendary Ray Kroc, and his application of the franchising principle to the marketing of the familiar hamburger. All the cases I have

quoted, you may notice, were innovations in the Sunbelt. (McDonalds originated in San Francisco). Franchising, indeed, seems to have been one of the distinct Sunbelt discoveries.

Why should so much innovation, since World War Two, have been concentrated in the Sunbelt? I do not know of a good answer. Some say that it was because of Federal contracts in aerospace and defense. That might explain Cape Kennedy, or Houston Space Center, or Silicon Valley. But it does not explain Holiday Inns or Kentucky Fried Chicken. Some argue that there was conscious planning by talented and far-seeing local individuals -- as in the case of Frederick Terman, the Stanford professor who encouraged his electronics graduates to stay locally after graduation and thus to build Silicon Valley. But that explains only a few of the cases. To a large degree, it seems that there was simply a "Climate of Innovation" in the Sunbelt. People felt freer here; existing industrial traditions, older ways of doing things, didn't cramp anyone's style. The British economic historian Sidney Checkland wrote a pamphlet about the rise and fall of the economy of the city of Glasgow; he called it The Upas Tree. This is a tree that spread out so far that in its shade, no other living thing would grow. Checkland argued that in Glasgow, the tradition of shipbuilding was a Upas Tree, that destroyed new and promising industrial traditions almost as soon as they were born. The Sunbelt, happily, has had no Upas Tree.

We should however not forget that there is another Sunbelt. It is so far west of here that it becomes east: the newly industrializing world of Eastern Asia, represented by such industrial success stories as Taiwan, Korea, Hong Kong and Singapore. They too are innovating. They

all started -- as did Japan, some decades earlier -- by borrowing their technology. But increasingly, they then begin to innovate themselves -- though always within the limits of commercial viability. Most importantly, they -- and their workers -- soon trade up the ladder of skills. They are not too proud to start at the bottom, and work up. Thus they continue to give work to virtually all their citizens, in good times and in bad. The demands of their industries for particular skills are perfectly matched by the supply of those skills, at the right price. They are successful in employing unskilled labor as well as skilled -- and therein lies their lesson for us.

The Role of Enterprise Zones

Recall, for a moment, that the idea of Enterprise Zones originated in Great Britain -- a country with a much more serious economic problem than the United States. There, de-industrialization is not a threat, but a fact. Basic industries, vital to the economic success of that nation, are contracting drastically; in the automobile industry, the rate of import penetration is not 25 per cent -- as currently in the United States -- but a staggering 60 per cent. Further, this decay of the economic base is concentrated in the older industrial cities that were the great manufacturing areas of the 19th century. To such an obvious case of economic malaise, the obvious remedies -- high-technology industries, tertiary industry, tourism, crafts -- provide at best very partial answers.

The most important problem is one of mismatch: for the most part, the new growing activities require skills and educational capacities that the inner city resident lacks. Britain, like America, has its growing

problem of an urban underclass -- though there, this class is not exclusively or even mainly composed of minority groups. The fact is that this group once could offer capacities -- of brawn, of muscle -- that have been displaced by capital equipment; in the age of the container and the fork lift, they are no longer needed. Yet, in just those industrializing countries to which both Britain and the United States are losing ground, the equivalent people can still find work.

The reason, it was argued, is that there they have not priced themselves out of a job. There would be a price at which the supply of labour, and the demand for it, would meet -- but it is lower than the minimum legal price in the advanced industrial countries. An argument thus emerges: that we need to create, experimentally, a new kind of enterprise in our countries: a low-skill, low-wage, but highly innovative kind of economy that competes successfully with the newly industrializing countries on their own terms. It might be argued that this solution would create "bad jobs". But they are bad only in comparison to good jobs that are not -- for these groups -- a practical proposition. They are good jobs in comparison with the unemployment line -- and that is the true comparison. Further, as the evidence of the Asian nations clearly shows, they will rapidly get better, as the firms and the workers advance up the skill and learning curve.

So the Enterprise Zones were seen in Britain as a kind of "last-ditch" solution to the problems of the most distressed areas -- the "basket cases", as one speaker here referred to them yesterday. The solution, as I originally conceived of it in a talk to the Royal Town Planning Institute in June 1977, had three essential features. First, removal of

regulations; the zones would be exempt from all kinds of national regulation, and would ideally be outside the legislative framework of their parent country. Secondly, tax incentives; this would follow from the last, as these areas would be outside the tax and social security regulations of the country. And thirdly, deliberate encouragement of the entrepreneurial spirit both locally, by identifying and encouraging potential innovators, and from outside, by encouraging the immigration of new small business persons from other regions and other countries -- above all, from the successful newly-industrializing countries.

In practice, as we have already heard from Stuart Butler, the British Enterprise Zones as introduced by Mrs. Thatcher's government go a long way short of such a radical experiment: they are essentially zones with generous tax holidays (including favorable corporate tax depreciation allowances, and freedom from local property taxes), coupled with removal of most zoning restrictions. The danger is that they will chiefly encourage a fixed stock of industry to move from outside the zones to points inside them, without any net creation of new industry. And that by definition would be failure; for the acid test of an Enterprise Zone must be whether it encourages new enterprise where otherwise none would have arisen.

Policy Lessons: How to Establish Enterprise Zones in the United States

From this story, I believe that certain clear policy lessons can be derived.

First, Enterprise Zones must be visibly special. They must offer a really different combination of tax inducements and lack of regulation.

There is considerable evidence that for small firms -- the creation and growth of which must be the central objective of the policy -- tax remissions are not that important; but freedom from regulations is almost certainly vital.

Secondly, because this is a radical experiment, no one should be compelled to join it. People who start businesses here, and people who will work here, will give something up in order to get the benefits; they must have the freedom to make their own cost-benefit calculations. Therefore Enterprise Zones must start with a blank slate; they should contain no (or virtually no) existing people or industry. They should be located in almost or completely derelict areas. It follows that they cannot be large; perhaps, at most, one square mile in extent.

Yet, thirdly, if the experiment is to achieve benefits for the people it is specifically supposed to benefit, then Enterprise Zones must be very close to concentrations of disadvantaged people: the low-income, low-skill, predominantly minority populations of the inner city. This may seem difficult to combine with the blank slate approach, but in reality it is not; most older American cities now have such derelict areas close to their central business districts and close also to their low-income areas.

Fourthly, it follows that Enterprise Zones must be well served by transportation. This is necessary not merely for the daily commuter journeys of their workforce, but also for the goods-handling requirements of their entrepreneurs. They need good access both by highway -- preferably, directly to the Interstate system -- and by public transportation, which for most of these low-income workers will mean the bus. Good

highway access, as well as being important on purely economic grounds, will also enhance the visibility of the Enterprise Zone which will be one precondition for its success.

Above all, though, the Enterprise Zone must attract enterprise. This means an intensive campaign to develop local entrepreneurial talent, and to attract talent from outside. The first may involve all kinds of experimental schemes in association with local universities and polytechnic institutions. The second will almost certainly entail a world-wide advertising campaign, focussed especially on those nations that today exhibit the strongest entrepreneurial traditions. Americans, like Britons, will need to abandon all prejudices against "takeover" of local industry by Japanese, Koreans or whatever other group; what will matter is the capacity to create new jobs and new wage packets, not the nationality of the boss.

All this, finally, must go hand in hand with a determined attempt to cut some of the costs of entrepreneurial entry that have been discussed already in this conference. Small-scale workshop space, with provision for easy expansion, can be provided on flexible leases at low rents in converted factories or warehouses. Within these, capital equipment can be shared; so can specialized services like accountancy. Information services can show potential entrepreneurs how to take the plunge. To provide the all-important seed capital, new forms of small-scale bank loans need to be developed to suit the needs of these infant industries. New, perhaps limited, forms of insurance guarantee need to be devised for older property that may be a poorer fire or theft risk than the average. Physical security may be provided by new forms of communally-

based patrolling and overseeing.

Most of this could and should be done through ordinary commercial mechanisms, supplemented by communal or voluntaristic services; it isn't a bureaucrat's job. At most, a very modest degree of leveraging is suggested -- on the model of the UDAG schemes. How much this will be needed might be one of the most important questions still to resolve.

I believe that such an approach will accord well with the leaner economic philosophy that will guide American policy for at least the next four years. If welfare is to be concentrated on the neediest, then it will be even more important to find ways out of welfare for the young and the able-bodied -- and to do so without the need for further Federal or State programs and their attendant bureaucracies. Enterprise Zones could represent just the program to fill that particular spot.

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THE BRITISH ENTERPRISE ZONES
Peter Hall

The Theoretical Origins

The precise origins of the Enterprise Zone are a rich subject for historical, even metaphysical, inquiry. Stuart Butler, in a book which introduced the notion to the American public, stated that

In the formal sense, the term "Enterprise Zone" was publicly unveiled in a speech by Sir Geoffrey Howe, M.P., in June 1978, when he was economics spokesman for the then opposition British Conservative Party. But as Sir Geoffrey freely admitted in his speech, the germ of the concept came chiefly from Peter Hall, an urban planning expert at Reading University and a former chairman of the Fabian Society, the intellectual centre of democratic socialism in Britain.

Specifically, Butler referred to a paper given by the present author to the annual conference of the Royal Town Planning Institute in Chester, England, in June 1977. But this harks indirectly back to an earlier statement: the highly iconoclastic Nonplan: An Experiment in Freedom, published by four authors in the magazine New Society as early as 1969. The authors of that manifesto, which included Hall himself, New Society's editor Paul Barker, the architectural historian Reyner Banham and the architect Cedric Price, argued that "The whole concept of planning has gone cockeyed":

Somehow, everything must be watched; nothing must be allowed simply to "happen." No house can be allowed to be commonplace in the way that things just are commonplace: each project must be weighed, and planned, and approved, and only then built, and only after that discovered to be commonplace after all".

The authors therefore proposed

a precise and carefully controlled experiment in non-planning... to seize on a few appropriate zones of the country, which are subject to a characteristic range of pressures, and use them as launchpads for Non-Plan. At the least, one would find out what people want; at the most, one might discover the hidden style of mid-20th century Britain.

The article proposed three such experimental zones in southern and midland England. It was received in embarrassed silence, and was undoubtedly premature. The context, it should be noted, was growth: Britain at that point was at the end of a long period of economic expansion, and the emphasis -- as again in 1990 -- was on the way in which planning controls inhibited and distorted the physical manifestations of that growth.

By 1977, the background was quite changed: the Chester Conference focussed on what was then seen as the crucial issue of the day, the dramatic decline of the economies of the inner cities, which had been a major theme of three major consultants' reports published a few months earlier. Hall addressed this problem: "The biggest urban areas have seen their growth slow down, stop and then reverse. They are losing people and jobs". Reviewing the conventional strategies to rebuild their economies, he concluded that for some, none might work. Here, he suggested,

the best may be the enemy of the good. If we really want to help inner cities, and cities generally, we may have to use a final possible remedy, which I would call the Freeport solution.

Small, selected areas of inner cities would be simply thrown open to all kinds of initiative, with minimal control. In other words, we would aim to recreate the Hong Kong of the 1950s and 1960s inside inner Liverpool or inner Glasgow.

This radical solution would include three elements. First, each area would be completely open to immigration of entrepreneurs and capital - meaning no immigration controls. Second, it "would be based on fairly shameless free enterprise"; "Bureaucracy would be kept to the absolute minimum". Third, residence would be based on choice, since the area would effectively be outside the United Kingdom's normal legislation and controls. Hall concluded: "Such an area would not conform at all to modern British conventions of the welfare state. But it could be economically vigorous on the Hong Kong model. Since it would represent an extremely drastic last-ditch solution to urban problems, it could be tried only on a very small scale". He ended with a disclaimer, that in the event proved ironic:

I do not expect the British government to act on this solution immediately, and I want to emphasise that I am not recommending it as a solution for our urban ills. I am saying that it is a model, and an extreme one, of a possible solution.

As Hall later admitted, his appeal to Hong Kong was in part based on a misapprehension: he had then visited the colony only once, and had not studied it in depth. He had failed, in particular, to appreciate the huge scale of its subsidized public housing program, which -- as commentators were later to emphasize -- played a vital role in allowing employers to

resist demands for higher wages. But Hall could defend his basic point: however subsidized, Hong Kong had proved an outstanding example of successful transfer into new products in response to world market demands.

Hall later produced a reformulation and a defense of his original argument for a debate with academic critics in the International Journal of Urban and Regional Research. Here, he asked,

...authorship of the idea has been widely ascribed to me -- and this seems to have puzzled a large number of people who have heard me described as a socialist or [perhaps more accurately] as a social democrat. How, it is asked, does a person of that persuasion defend an idea based on a return to the principles of laissez-faire... Has he abandoned his principles, or his mental balance, or both?.

He went on to argue that the global restructuring of the economy demands that advanced industrial nations keep one step ahead, through constant innovation; but that

a short-run -- and even medium-run -- anomaly will remain... a large pool of structurally unemployed people, consisting of two elements: first, older workers, especially male, displaced from contracting industries in which they formerly had special skills, and now forced to choose between unemployment and low-skill occupations; secondly, young workers, both male and female [but especially male], lacking educational and industrial qualifications. The latter group, in particular, tend to form a marginal group in declining inner cities.

Enterprise zones might provide some jobs for this group: "They might do so in two ways, one not so good [but better than nothing], one much better [in fact positively good". The first way would be through in-migration of large corporations seeking cheap labor, the second would be through indigenous innovation and trading up the skill curve. Both Singapore and Hong Kong have proved that this is possible, Hall argues : "Unlike Liverpool and Glasgow, these economies never seem to have had the problem of mismatch between the supply of labour and the demand for it. The argument is that by switching on to their development path, we can emulate it -- and take the workers up".

Hall ended his plea: "It would be foolish to claim too much for the enterprise zone idea. It was conceived as a rather rare kind of social scientific laboratory experiment, on a small scale, with participants who would be willing because they would be self-selecting". His critics attacked the idea because they said it ignored economic realities. Doreen Massey found her "credulity strained" by the notion: "the gradual evolution from sweatshop to software consultancy is not -- so far as I am aware -- a widely recognized model of company growth". William Goldsmith recognized that "Enterprise zones would surely work in the short run" because firms would shift operations to them; but in the longer run, "the workers threaten to organize along Easy Street, and there is a new round of lay-offs and shut downs, so that

firms can move all the way to Hong Kong or Honduras or Haiti, from Easy Street to Ecstasy".

The Zones in Reality

Hall's disclaimer, that his plan was without practical significance, soon acquired an ironic ring. Sir Keith Joseph, a leading Conservative politician close to Margaret Thatcher, took up his idea in a conference arranged by the Adam Smith Institute, announcing that the next Conservative government would establish a number of "demonstration zones" on which "the Queen's writ shall not run". This idea was endorsed and elaborated in an even more significant speech by a colleague, Sir Geoffrey Howe, in the Isle of Dogs in London Docklands on 26 June 1978, when he "unravelled three different concepts to be found in Professor Hall's proposals": the "Crown Colony", exempt from most legislation and taxes and denied all state benefits; the "Freeport" where goods could be imported, processed and re-exported free of tariffs; and the Enterprize Zone, where substantial areas of land would be "given as much freedom as possible to make profits and create jobs"; he rejected the first but accepted two and three, which could be combined.

Firms would be freed of all planning control save "very basic anti-pollution, health and safety standards", plus some legal obligations including some Employment Protection legislation.

The zones would be managed through a "new model of authority...with some of the qualities of a New Town Corporation". He warned that "of course the grey men whose job it is to consider the 'administrative difficulties' of any new idea would be ready enough to start manufacturing the small print that could stop the initiative in its tracks".

"This", one commentator remarks, "according to many commentators, is precisely what the grey men did to it". The official scheme, which came out of the Local Government, Planning and Land Act 1980 and the Finance Act 1980, allowed Local Authorities, New Towns or Urban Development Corporations to prepare an Enterprise Zone scheme for a site in their area, within which there would be a mixture of fiscal benefits and administrative simplifications for ten years from designation. Specifically, these zones would enjoy a simplified land use planning regime with minimal conditions like health and safety; new and existing commercial and industrial enterprises would be exempt from rates [property tax] and from a tax [later rescinded everywhere] on development of land; they could also offset expenditure on buildings against Corporation Tax. There would be greatly reduced requirements for industrial training and for statistical reporting.

Clearly, many of the more radical elements of the original proposal - the free migration of labour, the encouragement of

immigrant entrepreneurs, the general freedom from mainstream legislation including removal of protection under the Employment Protection Acts - had disappeared, while had been transformed almost beyond recognition. The author of the notion was subsequently to comment that this was "a particularly poignant example of the way that, especially in Britain, radical ideas are taken on board by the establishment, only to be sanitized into something completely harmless". There were, admittedly, good reasons: EEC membership, Inward Processing Relief and customs warehousing greatly reduced the attraction of the Freeport status; tax havens were ruled out because they might be abused. The legislation did contain two fundamental elements of the original proposal: a reduction in planning and bureaucracy, and a big reduction in fiscal burdens. But the first of these, ironically, was further diluted in the course of implementation.

In this first round during 1980-81, eleven zones were eventually designated: Clydebank, Belfast, Swansea, Corby, Dudley, Speke, Salford/Trafford, Wakefield, Hartlepool, Tyneside and the Isle of Dogs. A further thirteen were designated in 1983/4: Allerdale, Glanford, Middlesbrough, North East Lancashire, North West Kent, Rotherham, Scunthorpe, Telford, Wellingborough, Delyn, Milford Haven, Invergordon and Tayside.

The original eleven varied in character, from inner cities [Isle of Dogs, Belfast, Salford], through peripheral conurbation areas [Speke, Clydebanks] and areas of industrial dereliction [Dudley, Salford, Swansea] to planned industrial areas with services in place [Team Valley in Gateshead]. But most, it is important to realize, were blighted urban areas with substantial areas of derelict or abandoned land; and few had any substantial residential populations. They therefore represented a kind of carte blanche for the experiment. Yet, ironically, as one commentator put it:

... development planning in the zones is as elaborate as planning elsewhere, if not more so. Instead of the most basic anti-pollution, health, and safety standards we have those applied nationally. Particular types of activity are reserved entirely or restricted to particular parts of the zones.

The most striking instance is retailing: because of the sensitivity of existing retail interests in each municipality, many imposed restrictions of their own. Corby excluded casinos, fun fairs, bingo halls and betting shops, Clydebanks banned Space Invader parlors. And this underlines the fact that there was no "new model of authority"; rather, there was a variety of arrangements, generally based on local authorities or other public sector bodies [the Scottish Development Authority at Clydebanks, the London Docklands Development Corporation at the Isle of Dogs].

However, the zone authorities did behave in a new and uncharacteristic way: even Labour-controlled authorities, hostile to the entire idea, competed vigorously for the few available places; having got them, they enthusiastically followed the precepts. True, there had been major changes of attitude at just the time that the legislation was introduced: public authorities were beginning to market themselves, and compete with each other to attract industry, dismantling bureaucratic obstacles in the process, and it could be said that the legislation simply catalyzed this process. Most importantly, because the speed of development proved to depend crucially on public ownership of land, public authorities were not required to dispose of their land to the private sector; and in practice, those zones with a high proportion of publicly-owned land were the ones with most development and employment creation in the first year of operation of the scheme.

Monitoring the Zones

One element survived from the original notion of the zones as experimental laboratories: there was vigorous independent year-by-year monitoring. This was conducted by two successive teams of consultants, whose detailed conclusions are substantially in agreement. So a fairly definitive verdict can be given on the performance of the zones in practice.

The first set of monitoring was conducted by Roger Tym and Partners over the first two years of the scheme. At the end of that period, the consultants found that 295 firms and 2884 jobs had been attracted to the zones in 1981-2, 474 firms and 5035 jobs in 1982-3: a total for the two years of 725 firms and 8065 jobs. Clydebank [1637], Swansea [1046] and Corby [1591] had all attracted more than 1000 jobs, thus accounting for over half the total. Just under half the firms and jobs were in manufacturing, nearly one third in transport and distribution. Wholly new firms accounted for some 60 per cent of incoming firms and half the jobs by 1982-3. 86 per cent of relocating firms came from the same county, 92 per cent from the same region. Thus, "The pattern of net effects attributable to the location of activity is similar to that in Year Two: probably three-quarters of the incoming firms would be operating in the same county and at least 85 per cent in the same region if there were no EZ".

The most important incentive by far, as quoted by the firms in the zones, was relief from property taxes : 71 per cent of firms listed this, while relaxed planning controls were mentioned by a mere one per cent.

The generation of jobs had not been done without cost. The consultants concluded:

The physical and economic circumstances of the EZs are such that heavy 'up-front' expenditure has been required to enable them to generate employment. The investment has had to precede the jobs. The total public cost of the EZs amounts to £132.9 million in the period 1981-83. This total comprises £16.8 million for the rates relief, £38.0 million for the IBAs [Initial Business Allowances - PH], £39.8 million for public sector development and £38.3 million for other public investment. Much of the latter two items would have been spent in the areas concerned anyway. The major additional cost is the £54.8 million attributable to the rates relief and the IBAs.

This suggested that each additional job had cost £54.8 million divided by 8065, or £6800 per job generated. The results were thus modest: at a total public cost of £132.9 million, the creation of about 8000 new jobs, of which about three-quarters would have located in the same area anyway, zone or no zone. More than one third of the new jobs had been generated in only three of the zones, among which, interestingly, the Isle of Dogs was not one.

In 1987 came another -- and possibly definitive -- official monitoring exercise, commissioned by the Department of the Environment [the British government department primarily responsible for urban policies] from PA Cambridge Economic Consultants. It evaluates the experiment against two criteria: first, "The extent to which zones have maintained and/or generated additional economic activity and employment, both on zone [sic] and in their local areas"; second, "The extent to which the zones have contributed to the physical regeneration of their local areas through the provision of

infrastructure, environmental improvement and the stimulation of local property markets". The evaluation was based on a survey of 760 firms face-to-face and over 1100 by postal questionnaire, with half all EZ firms responding.

The public costs of the experiment, the consultants pointed out, consist both of direct Exchequer costs in the form of rate relief and capital allowances for property development; and of public expenditures usually associated with infrastructure, which would not otherwise have occurred. Over the period 1981/2 to 1985/6, only part-way through the life of the experiment, the public cost was estimated at £396 million in 1985/6 prices, or £297 million net of infrastructure costs which would probably have been incurred anyway; 51 per cent represented capital allowances, 28 per cent rate relief and 21 per cent infrastructure and land acquisition.

In return for this expenditure, by 1986 there were just over 2800 firms in the 23 British Enterprise Zones, about 70 per cent of them in the ten original first-round zones. [Belfast in Northern Ireland was excluded from the analysis]. Total employment was about 63,300. Just over 48 per cent of firms and 56 per cent of employees were in manufacturing, but there were wide differences between zones. The firms tended to be small: 88 per cent had 50 employees or less. About 23 per cent of them were previously on-site; 37 per cent were

transfers; 14 per cent were branches; and just over 25 per cent were new start-ups. 18 per cent of the branches and 58 per cent of the transfers originated in the local area immediately surrounding the zone, 31 and 80 per cent from the local region. Only 18 per cent of all firms were more than six years old and the majority, 66 per cent, were in the medium technology group.

Of the 63,300 jobs, the consultants found, only about 35,000 were a direct result of EZ policy; most of these additional jobs were local transfers, but some were new, and there were linkages. Subtracting the losses that had occurred to local areas immediately outside the zone, and adding indirect benefits to these areas [such as linkages and construction jobs], the consultants concluded that the total net job creation in the zone and in the local economy immediately around it totalled just under 13,000. The consultants found that the cost to the public purse of each additional job created in the zones themselves was some £8500; the cost of each additional in the wider local area [including the Enterprise Zones] was between £23,000 and £30,000, depending on whether construction jobs were included or not ; the lower estimate includes construction jobs, the higher excludes them but includes multiplier effects.

Over three quarters of companies in the zones thought that the effect of EZ status had been favorable, and the results

indicate that they had performed relatively better than firms elsewhere in their local areas. As in the earlier exercises, firms judged exemption from rates as the most important incentive; it was quoted by 94 per cent , though this may be in part illusory because there was evidence that part was appropriated by landlords. Capital allowances and the relaxed planning regime were also cited as important by a significant number , while between one quarter and one third of all firms regarded the public infrastructure on zones as critical or significant. The effect of relaxing planning controls was difficult to judge because in reality many zone authorities were principal landowners and had greater control powers than available under legislation. Most authorities had sought to maintain some broad pattern of land use while liberalizing where possible to conventional planning barriers to development.

The survey of developers showed that capital allowances in the zones had begun to attract private finance capital from the south of England into EZs in northern and north western Development Areas. In the south, these allowances could be regarded as "deadweight" because they were not necessary to stimulate development.

That is perhaps significant, because the most dramatic single development in the Enterprise Zones occurred in July 1987, almost simultaneously with that report: an agreement by the

Canadian developers Olympia and York to proceed with a huge office complex at Canary Wharf in the middle of the London Docklands area, taking advantage of the Enterprise Zone status and providing an estimated 43,000 office jobs. What was not clear was how far large-scale development on this valuable site might not have happened anyway. In the event, Canary Wharf soon proved to have exhausted the capacities of the relatively modest light rail scheme that was at that point under construction; late in 1989, agreement seemed to have been reached between the developers and London Regional Transport for a £900 million extension of the Jubilee underground line, but as late as March 1990 final details were still being hammered out.

Conclusion

Two firm conclusions, at least, can be drawn from the British experiment. The first is that there was a huge gap between the grand sweep of the original concept and the reality of what was actually achieved. Some commentators clearly found conspiracy in all this. Professor Denman of Cambridge University said that "the bureaucrats have succeeded in frustrating the government's original plan", Stan Taylor spoke of "policy drift"; but Morrison's impartial study concludes that these critics may have overemphasized the differences (Morrison 1987, 83). Whether the saga provides material for an episode of Yes Minister, as many undoubtedly

believe, or whether the original notion was in various ways not capable of implementation, remains for debate.

The second conclusion is that the experiment in practice produced relatively small numbers of really new jobs, and at appreciable -- but perhaps not excessive -- cost. This, doubtless, lay behind the decision of the Thatcher government not to extend the experiment. Since 1987, it has placed far greater weight on the Urban Development Corporation as a mechanism for rapid assembly, development and disposal of urban land; and on the simplified planning regime as a general tool of development throughout the country. It has also revived the Freeport notion from the original proposal, causing one commentator to conclude that "Whitehall perhaps stole the Emperor's clothes, but the Empire struck vigorously back" (Morison 1987, 83).

And, additionally, in parallel with the highly controversial Community Charge to replace household property taxes -- introduced in Scotland in April 1989, in England and Wales a year later -- the government has established a uniform business rate throughout the country, so that vagaries in local business property tax have been removed. In this respect, the British government appears to have demonstrated that it has learned from experience: the Enterprise Zone experiment is over, but the lessons are embodied into new policies which may yet achieve the same objectives.

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