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Filling the jobs gap:
Why enterprise-based regeneration is not working

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nef (the new economics foundation) is a registered charity founded in 1986 by the leaders of The Other Economic Summit (TOES), which forced issues such as international debt onto the agenda of the G8 summit meetings. It has taken a lead in helping establish new coalitions and organisations such as the Jubilee 2000 debt campaign; the Ethical Trading Initiative; the UK Social Investment Forum; and new ways to measure social and economic well-being.

Contents

Glossary of terms

All claimants is a term used here to refer to all those receiving out-of-work benefits, including Job Seekers' Allowance (JSA) and Incapacity Benefit.

Churn is the sum of all establishments that have opened or closed. It is used to measure how much change is taking place in the enterprise population.

De-formation refers to the closure of an enterprise or branch. Deformation dates are attributed to the last quarter in which an enterprise was seen on the BETA Model database before its demise.

The **enterprise population** is the collection of all firms, including branches.

An **enterprise** is a whole business, which may be anything from one sole trader through to a chain of multiple outlets.

A **firm/establishment** is the trading location of a firm, which may be anything from a sole trader to the branch of a chain.

A **formation** is what occurs when a new enterprise is started or a new branch of an existing enterprise is opened.

The **Index of Multiple Deprivation** is a composite scoring system based on social characteristics in each Lower Super Output Area (LSOA). The factors it encompasses include: typical levels of income; employment; education and skills; health and disability; home ownership; living environment; and crime. The score for each LSOA becomes a 'proxy' of the level of deprivation, as an amalgam of multiple deprivations, in each area. The index is ranked by level of deprivation. For statistical comparison it is frequently grouped into deprivation quintiles, which are 20 per cent blocks of LSOAs with common levels of deprivation. In this work we often compare the 20 per cent most deprived group of LSOAs with the 20 per cent of LSOAs that are best off.

Job Seekers' Allowance (JSA) is a cash benefit available to those out of work and actively looking for a job.

LSOAs are Lower Super Output Areas: small areas typically containing a population of 1,500 residents. There are over 32,000 LSOAs in England, and the extent of deprivation at this level can be measured by using the Index of Multiple Deprivation.

Net is the sum of all establishments that remain opened or closed. It is used to measure the outcome from change in the enterprise population.

The **recession** refers to the period of economic downturn since 2008. This study takes January 2008 as the start of the recession, as after this date the benefit claimant count began to increase. The latest benefits data we could retrieve were for the third quarter of 2009.

The **survival rate** is calculated as the percentage of firms that were formed over a specific period of time and are still operating after a given duration.

The **Value Added Tax (VAT) threshold** is the point at which a company must register officially with HM Revenue and Customs. The threshold is currently set at £70,000 per 12 months.

Executive summary

The lynchpin of government efforts to offset public spending cuts and grow the economy is to encourage private sector growth. Low-performing regions (those outside London, the South East and East of England) in particular have been targeted with an employers' National Insurance contributions (NICs) waiver designed to encourage new enterprise and increase jobs.

The evidence in this report, however, suggests that this measure will barely begin to tackle the 'jobs gap' – that is, the difference between the size of the working age population and the number of employment positions – which was already over five million in England in 2008, before the recession had made its full mark and before public sector spending cuts.

The NICs waiver comes on top of initiatives operating in deprived areas across England trying to tackle low enterprise and employment levels. While deprived neighbourhoods contain less than a fifth of the population they have almost a quarter of those claiming benefits. In the past ten years these areas in particular have been propped up by a growing public sector and through regeneration spending. In this new era of public sector spending cuts, it follows that these areas will be hardest hit. This will undoubtedly result in a widening of spatial inequalities at a time when the government claims that it wishes to 'rebalance' the economy away from London and the South East to other regions.

The big task for enterprise initiatives operating in deprived areas is thus threefold:

1. Create jobs to absorb those already out of work and claiming benefits;
2. Create additional jobs to plug the hole which will be created by public sector job cuts;
3. Generate enough new jobs and income to reorient economic prosperity towards low performing regions.

To assess whether new enterprise will be able to fulfil this task, this report analyses trends in enterprise dynamics in England between 2002 and 2009. It finds that:

- While the stock of enterprise was highest in the most deprived areas, only one additional enterprise was established in the most deprived areas for every four in the least deprived areas.
- This trend towards higher concentrations of businesses in the better off areas is primarily the result of lower enterprise survival rates in the most deprived areas;
- The most profitable and innovative enterprises – small service-sector companies – are growing fastest in the least deprived areas. To make matters worse, the most deprived areas are suffering disproportionately in terms of manufacturing decline and the loss of retail enterprises;
- Partly as a consequence of the shift toward micro businesses, strong enterprise growth is not necessarily coupled with a decline in the claimant counts in an area. This runs contrary to current expectations that new enterprise will be able to create a large number of jobs;

- The most recent enterprise initiative embarked on under the previous Labour government – the Local Economy Growth Initiative (LEGI) – is shown to have made some difference, although small in scale.

In conclusion, the combination of the shift in business dynamics towards smaller units and high enterprise churn has contributed to the share of enterprise declining in the most deprived areas. In this context, the NICs waiver is unlikely to be sufficient to overturn the trend. This is not to say that enterprise initiatives should be abandoned. The analysis of LEGI areas shows that targeted intervention can work. But it is also essential to tackle the wider barriers to enterprise such as access to finance and low levels of consumer demand. Even then, we should be realistic about the number of jobs new enterprise can be expected to provide.

To truly address the jobs gap and rebalance the economy spatially and across sectors we propose the Coalition Government:

1. *Consider the spatial impacts of public spending cuts.* In deciding where and how public spending will be cut there is a need to understand the potential of private enterprise to take its place. This may mean that there is a greater need to protect public sector jobs in the most deprived areas, at least in the short term. If large numbers of public-sector jobs are lost in these areas then there is a very real danger that local economies will be drained of income and left unable to sustain existing enterprise, let alone new businesses.

2. *Extend the employers' National Insurance Contributions waiver to existing enterprises in London and the South East that want to set up a site or office in the Midlands and the North of England.* Given the difficulty in sustaining new enterprise in low-performing regions, it is more likely that existing firms will make use of a NICs waiver than that entirely new businesses would. Extending the waiver to companies in other regions should provide an incentive to existing companies to set up new offices in the Midlands or the North rather than to expand in the South East.

3. *Address low enterprise sustainability in deprived areas.* New enterprise initiatives must be designed to reflect changing business dynamics as well as high churn in deprived areas. Stemming the tide of business exits requires focused programmes providing business support and access to finance. One way this could be done is through introducing a Community Reinvestment Act which ensures that finance institutions are required to lend to those in deprived areas. More broadly, other prerequisites to business success, such as education and skill levels, must be adequately addressed.

4. *Develop an industrial policy with the specific aim to create large numbers of jobs in low performing areas.* The Government must accept that rebalancing the economy will require strong state action. Industrial policy, whereby specific sectors are encouraged to grow in jobless areas, is a way to create demand. One clear opportunity is green-collar jobs. This will not only help to stimulate jobs where they are most needed, but also help the introduction of renewable energy, retrofitting and other green technologies.

Introduction

This new economic era, characterised by austerity, holds little promise for the most deprived areas. As these areas attempt to pick themselves up after suffering disproportionately from the recession, they face significant public sector spending cuts that threaten jobs and regeneration efforts.

In addition, the new Coalition Government has signalled its intention to shift a significant proportion of the five million people receiving benefits into work[1] – work that is currently non-existent in deprived areas and poor performing cities. Filling this 'jobs gap' during a public sector spending squeeze will be a major challenge for the new government. This report asks if and how enterprise policy can be used to meet this challenge.

Enterprise is the backbone of the economy. New enterprises generate jobs, provide goods and services, and can bring welcome innovations. The most deprived 20 percent of areas in the UK have more businesses per resident, but this balance is shifting. Between 2002 and 2009, only one additional enterprise was established in the most deprived areas for every four in the least deprived areas. It is also about the size and type of enterprise and the revenue generated. Deprived areas score poorly on these fronts. Given that the Government has signalled a wish to 'rebalance' the economy towards deprived regions,[2] these trends suggests it faces an uphill struggle.

Recognition of the need to encourage local enterprise in deprived areas has resulted in a number of government initiatives in the past 30 years, ranging from tax breaks and rent subsidies to work with young people to encourage entrepreneurship. Most recently the Chancellor, George Osborne, has announced a National Insurance Contributions (NICs) waiver for one year for new businesses in regions outside London, the South East and East of England.

To date many evaluations have been critical of government enterprise initiatives. Several suggest that the design and implementation of these programmes have overlooked the underlying causes of poor enterprise growth, such as low levels of demand, local skill levels and poor credit availability, and have too often underestimated the barriers facing those trying to establish or re-locate businesses in deprived areas.[3]

As the Government considers ways to boost employment in deprived areas, the idea of directly encouraging new enterprise and entrepreneurship has again become popular. As such, it is sensible to ask if and how enterprise can be used to plug the employment hole left by the recession and public sector job cuts. To answer these questions this report:

- sets out the trends in spatial inequality and discusses regeneration and enterprise initiatives to date;
- calculates the size of the jobs gap and considers the likely growth;
- explores the dynamics of enterprise growth since 2002, analysing trends in the formation and failure of new enterprises in areas with differing levels of deprivation;
- analyses the relationship between enterprise growth and employment growth;

- notes the characteristics of deprived areas where enterprise has begun to flourish;
- considers the impact of the most recent government enterprise programme, the Local Economic Growth Initiative (LEGI), on enterprise growth and churn in the most deprived areas;

The report ends with a discussion of the findings and implications for policy.

Box 1. Methodology and the BETA Model

This study's main source of evidence is the Business and Employment Trends Analysis (BETA) Model. This is a UK-wide quantitative analytical model that uses listings from the Yellow Pages and Thomson Local business directories. It contains details of births, deaths, growth, migration and the survival of enterprises – as well as the size and primary activity of each enterprise. The model contains approximately 2.6 million 'live' listings of firms in the UK at April 2010 and over 5.4 million firms in total since April 1999. Updates are released every quarter.

There is no significant barrier to entry into the directory system. A firm is only required to open a business-tariff telephone line or self-register on the Yell.com website to be listed. Because of this the BETA Model provides access to a large number of firms that operate below the VAT threshold. This is especially useful in measuring economic development initiatives that focus on enterprise births because the average time to VAT registrations has been found to be three years.

Not all firms register for inclusion in the directory system, however. Some firms operate in small localised networks using word of mouth or serving small neighbourhoods, while others are more firmly established in specialised business-to-business supply networks. Due to the paucity of evidence, we make the assumption that the rates of self-exclusion should not be significantly different from one location to another.

In this study the Lower Super Output Area (LSOA) was chosen as the smallest level of spatial aggregation. Records are matched to geographic definitions based on the full postcode, using the National Statistics Postcode Directory.

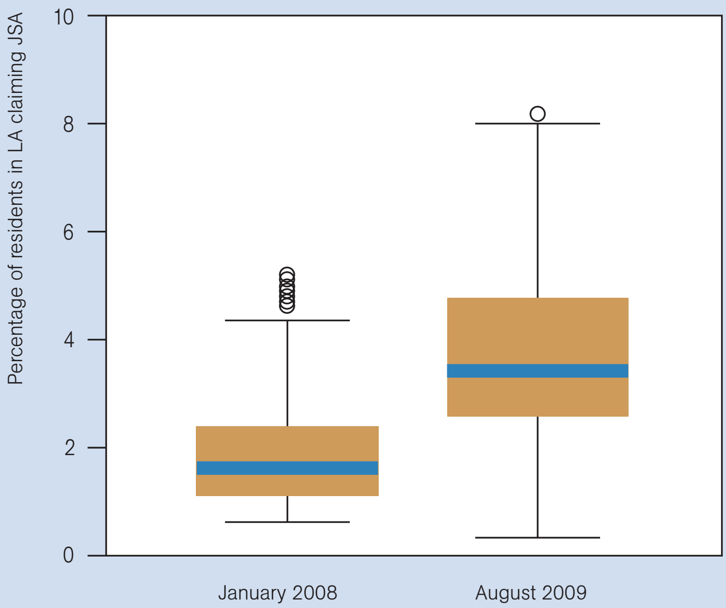
The need for regeneration and jobs in deprived areas

The Prime Minister, David Cameron, acknowledged the uneven spread of economic prosperity in one of his first speeches after election, noting that "our economy has become more and more unbalanced, with our fortunes hitched to a few industries in one corner of the country".[4] This sentiment has been echoed by others in the Coalition Government,[5] suggesting that tackling regional disparities remains on the political agenda.

The economic divide can be severe within regions as well as between them, particularly in big cities such as London and Manchester. For example, 22.6 per cent of residents receive out-of-work benefits in Hackney compared to 8.1 per cent in Richmond.[6] Overall, while deprived neighbourhoods contain less than a fifth of the population, they have almost a quarter of those claiming benefits. These spatial inequalities can have serious consequences for the economic and social prospects of those living in deprived neighbourhoods, as well as for the economy and society as a whole (see Box 2).

The recession has further widened differences between the most and least wealthy areas.[7] Unemployment has increased most in those areas that already had the highest levels of joblessness. Among the places hardest hit are those where there is a reliance on low-value manufacturing – that is, the Midlands and the North of England – areas that have also received the greatest proportion of regeneration funding. Tunstall (2009) found that the ten per cent of neighbourhoods with the highest unemployment rates had seen an increase between 2005 and 2009 from

Figure 1: Change in the difference between the local authorities with the highest and lowest percentage of the working age population claiming JSA (January 2008-August 2009)



Source: Nomis 2010, JSA Claimant Count data for January 2008 & August 2009.

Table 1: Quantity of establishments on the Beta model (000s)

	England	*Quintile 1*	*Quintile 2*	*Quintile 3*	*Quintile 4*	*Quintile 5*
Overall						
Apr-02	1,884	426	393	395	368	303
Dec-08	2,189	446	442	463	449	389
Net Change	304	20	49	68	81	86
Percent Change	16.1 percent	4.7 percent	12.5 percent	17.2 percent	22.0 percent	28.5 percent
Percent Share of change	100.0 percent	6.6 percent	16.2 percent	22.4 percent	26.6 percent	28.3 percent

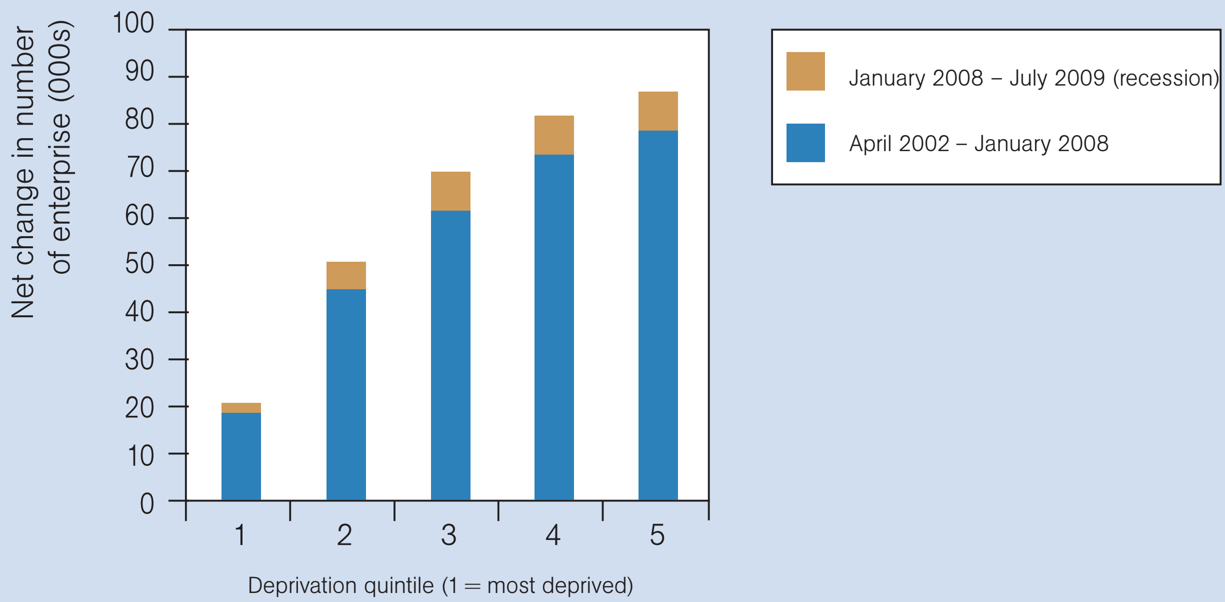
Source: The Beta Model authors' own calculations

seven to nine per cent, whereas the ten per cent with the lowest unemployment rates had seen an increase from one to two per cent.[8]

Figure 1 shows change in the dispersion of unemployment between the start of the recession and August 2009. The thick blue line represents the mean, which has, as would be predicted during a recession, increased. In addition, the inter-quartile range (the brown shaded boxes) and full range (shown with the thin black lines) have widened considerably. In fact, the gap between the local authorities with the highest and lowest levels of residents claiming Job Seekers' Allowance (JSA) doubled between the start of the recession and August 2009.

Similarly, the recession has further concentrated new enterprise in the least deprived areas. Table 1 shows that over the period of this study, the enterprise population in England expanded by over 16 per cent, from 1.88 million establishments in April 2002 to 2.18 million by July 2009. Over 90 per cent of this gain was experienced between 2002 and the start of the recession in January 2008. Figure 2 highlights that while the most deprived areas have the highest stock of enterprise, they saw an increase of only 4.7 per cent. In the least deprived areas the increase was 28.5 per cent. This trend was further strengthened during the recession, with the most deprived areas gaining only a net of 2,000 enterprises – a quarter of the growth experienced in the least deprived areas.

Figure 2: Net change in enterprise among LSOAs with different deprivation levels, April 2002-July 2009



Source: The BETA Model, authors' own calculations

Box 2: The socio-economic outcomes of spatial inequality[9]

There is a long running debate about the impacts of spatial inequality on the economy, society and the individuals who live in relatively deprived neighbourhoods. Spatial inequality can certainly be seen as the natural outcome of wealth and wage disparities, with the clustering of the relatively poor and affluent on the basis of neighbourhoods. The more affluent increasingly live in the most expensive houses with the best access to public amenities such as schools and transport. Such clustering can lead to the 'ghettoisation' of the poor, with extreme levels of social exclusion resulting in social tensions, especially when coupled with the concentration of a particular minority group. As well as its negative impact on social cohesion, spatial inequality has been found to play a role in accentuating individual poverty because:

1 *Where you live affects your life outcomes*. Poverty has sometimes been attributed purely to individual characteristics, but many outcomes that define current and future incomes, such as access to decent schools, amenities and jobs, are heavily influenced by where you live.

2 *Place has an effect over and above individual poverty.* This idea draws on the 'neighbourhood effects' theory, which suggests that when an individual is living in an area with a concentration of relatively poor people, their individual poverty and social mobility tends to be undermined. This is because they are less likely to have working role models, as well as more likely to attend poor-performing schools that undermine their potential.

Together, these points highlight that the neighbourhood in which one lives can act as a trap – defining life outcomes and thus restricting social mobility. Allowing spatial inequalities to widen means further ensuring the poor remain poor.

In addition, there is an economic argument for tackling spatial inequalities. Just as there are losses to productivity and economic growth through individual under-achievement, the misuse or under-utilisation of space can also result in lost economic activity and social value.

For the purposes of this report we consider spatial inequalities to be undesirable – they contribute to lost productivity, and they have unwelcome social and economic implications for residents and communities in deprived areas. We should be aiming for a fairer spatial distribution of work and income. In short, because of the unwelcome social and economic implications of spatial inequality and its ability to damage the potential of those living there, there is a very strong argument that it must be addressed.

The combination of employment lost and poor enterprise growth in the most deprived areas will be difficult to recover from, especially as these areas are most likely to suffer from a public spending squeeze resulting in job cuts (see next section).[10] In the wake of the recession Dolphin (2009) correctly foresaw that deprived communities in Northern city regions would suffer from a 'triple whammy' – increasing unemployment, cutbacks in private housing-led regeneration programmes and cuts in public spending.[11] Now, as the Government seeks to strongly incentivise people to get back into work, the gap between the number of job seekers and vacancies will grow further in deprived areas. This will add to the economic and social burdens that these areas have to face and is likely to widen spatial inequality further.

The 'jobs gap'

How big is the difference between the size of the working age population and the number of jobs? Table 2 reports the jobs density at the regional level in 2008, defined as the number of jobs available divided by the resident working-age population. A figure of one would mean that for every resident of working age there is one job. London comes closest to this ratio, with the South East and South West following. The West Midlands is positioned in mid-table, but this is likely to have changed since the recession, as this region was particularly hard hit.[12] The jobs gap was biggest for the North East where there were barely enough jobs for three quarters of the population of working age.

The second column of the table highlights the size of the jobs gap. In total, at the end of 2008 over 5.3 million jobs would have been needed to fill the jobs gap. Because of the time lag between the onset of negative GDP growth and increase in unemployment this figure does not include the impact of the recession and is thus likely to have grown since. The regional breakdown highlights that the North West

Table 2: The jobs gap by region (2008)

Region	Job density	Jobs gap	Employment rate (2008)
London	0.94	305,688	70.4
South East	0.86	717,290	78.5
South West	0.86	436,128	78.3
West Midlands	0.81	662,340	71.7
East	0.81	625,822	77.2
North West	0.80	847,680	71.3
Yorkshire and The Humber	0.79	681,597	73.0
East Midlands	0.78	603,394	75.9
North East	0.72	447,300	70.8

Source: NOMIS 2010, Jobs Density data (2008); 2008 Mid- year Population Estimates; Annual Population Survey Jan 2008-Dec 2008.

was in need of the most jobs to fill its jobs gap. However, these figures do not take account of the size of the population, which partly explains why the South East has a relatively high figure. It is only by looking at the fourth column, the employment rate, that it becomes clearer which regions are most in need of employment growth.

The apparent mismatch between London's jobs density and employment rate is because as a city, rather that strictly a region, it is an anomaly. As with many large cities, it has significant levels of urban poverty (as touched on earlier in this section), and a growingly polarised labour market catering for mainly those with service sector skills. In addition it has lower rates of participation among women due to lower numbers of part time jobs and higher costs of childcare relative to wages.[13] Its high jobs density figure is because it provides jobs for many people who live outside the city – most notably for those in the South East, meaning that the South East jobs gap is in reality much smaller.

Noting these exceptions, employment rates relate well to job density figures, with the northern regions most in need of a boost to their employment rates.

In a recent report[14] the Centre for Cities calculated how many jobs were needed to increase employment rates to the national average for those cities with the worst

Table 3: Employment rates and jobs gaps in cities with lowest employment rates in England (2008)

City	Employment rate	Jobs needed to bring city to English average employment rate of 74.2% (2008)	Private sector jobs growth (1998-2008)
Hull	62.3%	19,800	-4.7%
Liverpool	62.8%	54,900	6.6%
Birmingham	65.3%	124,100	-7.7%
Blackburn	65.7%	7,300	-10.5
Cambridge*	66.9%	6,100	-4.0%
Middlesbrough	67.2%	20,200	-2.1%
Luton	67.8%	7,600	1.2%
Burnley	67.8%	7,000	-14.3%
Coventry	68.1%	11,900	3.1%
Barnsley	68.2%	8,300	-4.3%

Source: Webber & Swinney (2010) Figure 10, p16 – derived from the Annual Population Survey (2008 data) taken from NOMIS. Column four taken from Figures 16 (p25), 17 (p26) and 18 (p27).

* Cambridge has a low employment rate due to a higher share of students.

levels of unemployment (see Table 3). It found that Birmingham alone would need an increase of 124,100 jobs, without accounting for the jobs likely to be lost through public sector job cuts. The fourth column highlights the growth in private sector jobs between 1998 and 2008. The majority have seen a decrease in private sector jobs, suggesting that these cities have found it difficult to encourage enterprise growth during a period of economic prosperity.

How much worse is the jobs gap likely to get? Table 4 details the proportion of those in work who currently work in public administration, education and health by region. The North East has a particular high reliance with almost a third of those in work in public sector jobs. Larkin (2009) considers which cities are most vulnerable to public sector job cuts on the basis of the main activities of the public sector and share of professionals in that city. He finds that several already struggling cities highlighted in Table 3, such as Liverpool and Barnsley are at most risk to public sector job losses.[15]

The recently launched independent Office for Budget Responsibility forecast that the jobs gap would in fact decrease. They believe that employment will grow from 28.8 million in 2010 to 30.1 million by 2014. In total the forecast expects an additional 1.3 million jobs to be added to the labour market, even though 600,000 are expected to be lost in the public sector.[16] Recent trends would predict that one in three of the jobs created will be part-time.[17]

This figure falls far short of the five million currently claiming out of work benefits who are likely to face increased pressure to find work. Furthermore, as can be observed from previous trends discussed above, there is little evidence to suggest that the geographical location of these new jobs will correspond to the areas most in need of work: those outside London and the South East. In a recent study it was found that only six per cent of firms were responsible for half of all new jobs and these were "particularly abundant in London and the South East."[18]

Table 4: Regional reliance on public sector jobs (2008)

	% working age in employment who work in public admin. education and health
North East	32.3
South West	30.1
North West	30.0
Yorkshire and The Humber	29.8
West Midlands	29.4
England	28.8
East Midlands	28.8
South East	28.5
East	26.8
London	26.5

Source: NOMIS 2010, Annual Population Survey January 2008- December 2008.

Regeneration and welfare-to-work policy

Getting people back into work in deprived areas is the centerpiece of the new Government's attempts to tackle spatial inequalities and poverty. The Minister for Work and Pensions, Iain Duncan Smith, has clearly indicated that the government's anti-poverty strategy will focus on routes to work for benefit claimants.[19] This approach is not entirely new; it echoes some of the reform advocated in the 2008 Green Paper *No One Written Off*.[20] In addition, regeneration spending was already becoming increasingly focused on getting people into work through the introduction of the Working Neighbourhoods Fund in 2007.

This focus on employment represents a significant shift from earlier approaches to tackling area deprivation. In the past, investment in physical re-construction formed a major part of regeneration strategies. Shiny new city centres emerged with new leisure, retail and office space, as well as hundreds of new flats aimed at attracting people back into the city. In addition, money was ploughed into a wide range of activities falling under the 'social exclusion' banner – from New Deal for Communities to enterprise initiatives with explicit aims to get those at the margins of society back into the mainstream.

Helped by economic growth, some cities did see a significant uplift in their overall economic prosperity. Manchester, Leeds and Birmingham all experienced growth. However, it is generally agreed that the poorest residents and their neighbourhoods failed to gain from this success relative to others.[21] Other cities, such as Barnsley and Hull, found it much harder to re-invent themselves and to throw off the heavy imprint of declining traditional industries on the local economy.[22]

Given these outcomes it is not surprising that there has been a shift in the focus of regeneration policy. There is, however, a major oversight in the new approach focused on work. The problem in deprived areas is not simply that people are not in work, rather that there are very few job vacancies (as discussed in the previous section). Increased restrictions on claiming benefits will not make up for the lack of jobs.

Box 3: National Insurance contributions relief for new businesses announced in the 2010 emergency Budget

In the 2010 Budget the Government proposed to waive employers' National Insurance contributions for new enterprises outside of London, the South East and East of England. While detailed criteria for the scheme remain to be set out, it was announced that new enterprises started in the three years after September 2010 will be eligible in the first year of their establishment to waive the first £5,000 of Class 1 employer National insurance contributions on the first ten employees hired. This policy is designed to contribute to employment growth in new firms in poorly performing regions. It excludes existing firms that may wish to place a new site/office in these regions.

Enterprise policy

The 2010 emergency Budget saw the announcement of a tax break for new business establishments in regions other than London, the South East and Eastern areas. These new businesses will be relieved of obligations to pay employers' National Insurance contributions for the first 10 employees in the first year of business (see Box 3). These tax breaks, at a time of significant cuts, highlight the need for a growing private sector to counteract the shedding of staff from the public sector as well as to create a surplus of openings to absorb those coming off benefits.

This is not the first time that the need for more enterprise in deprived areas has been acknowledged. Although the focus for enterprise policy since the 1970s has oscillated between encouraging higher rates of new start-ups and supporting established business,[23] there have been enterprise initiatives aimed at deprived areas since the Urban Programme in 1978.

The most recent enterprise intervention in deprived areas was the Local Enterprise Growth Initiative (LEGI). LEGI, a £300 million initiative running from 2006 to 2009, aimed "to release the productivity and economic potential of our most deprived local areas and their inhabitants through enterprise and investment – thereby boosting local incomes and employment opportunities". LEGI gave local institutions and communities the space and authority to design programmes that were in line with the specific needs of their local areas. While the LEGI initiative is still under evaluation,[24] the programme was dropped from policy in 2009.

Business Links, a universal programme of business support located all over the country that was initiated in 1992, is also in danger of being dropped. It has been argued that the programme has failed in the areas most in need, catering better for those areas and entrepreneurs who would have succeeded anyway.[25] Others who have been sceptical of enterprise policies in the most deprived areas have pointed out the lack of complementary policy on areas such as skills training.[26]

As well as more focused enterprise initiatives, there are wider business-related policies that can result in enterprise growth. For example, in the 1999 pre-Budget report, the then Chancellor Gordon Brown announced cuts in small business tax, corporation tax and capital gains tax to boost the rate of UK start-ups. These measures where designed to contribute to "a pro-investment, pro-competition, pro-enterprise Britain." This boosted the numbers of new starts across the UK. It helped that self-employment and small business operation became a tax efficient way of earning, especially in the service sector. Entrepreneurs were able to use a 'low income/high dividends' strategy where they are paid from profits rather than through salary as it reduce their total tax contribution.

The recently announced changes in business tax under the Coalition Government are designed to further boost business across the UK. The 'UK open for business' strategy involves a decrease in corporation taxes and an increase in the threshold for employers' National Insurance on top of the waiver targeted towards low-performing regions (see Box 3). While many businesses have welcomed these changes, but others believe that such short term holidays will not result in long-lasting change, and these measure will be offset by the VAT rise which is likely to lower consumption.[27] Whilst it is difficult to predict how these measures will translate into private sector growth, especially during a period of significant public sector budget cuts, this report should help to understand the likely outcomes in the most deprived neighbourhoods.

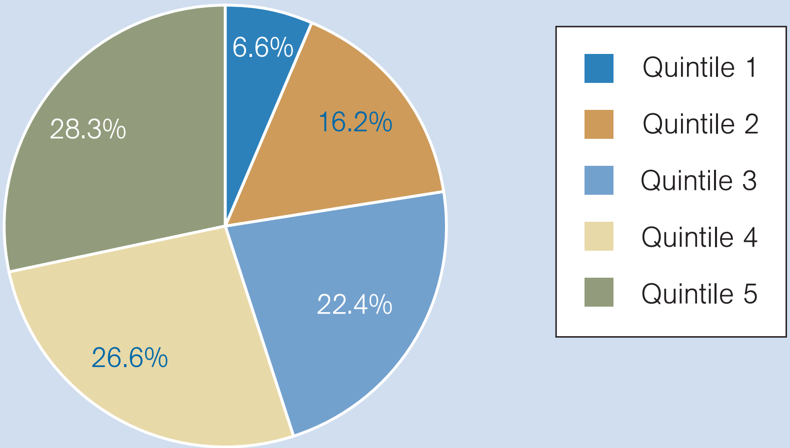
The dynamics of enterprise growth

Table 1 highlighted the overall growth in enterprise since 2002, showing that while there are more enterprises in the most deprived areas, the least deprived areas have shown far stronger growth.[28]

Figure 3 illustrates this uneven growth. Only 6.6 per cent of the net change in the quantity of enterprises was in the 20 per cent most deprived LSOAs, while 28.3 per cent was in the 20 per cent least deprived.

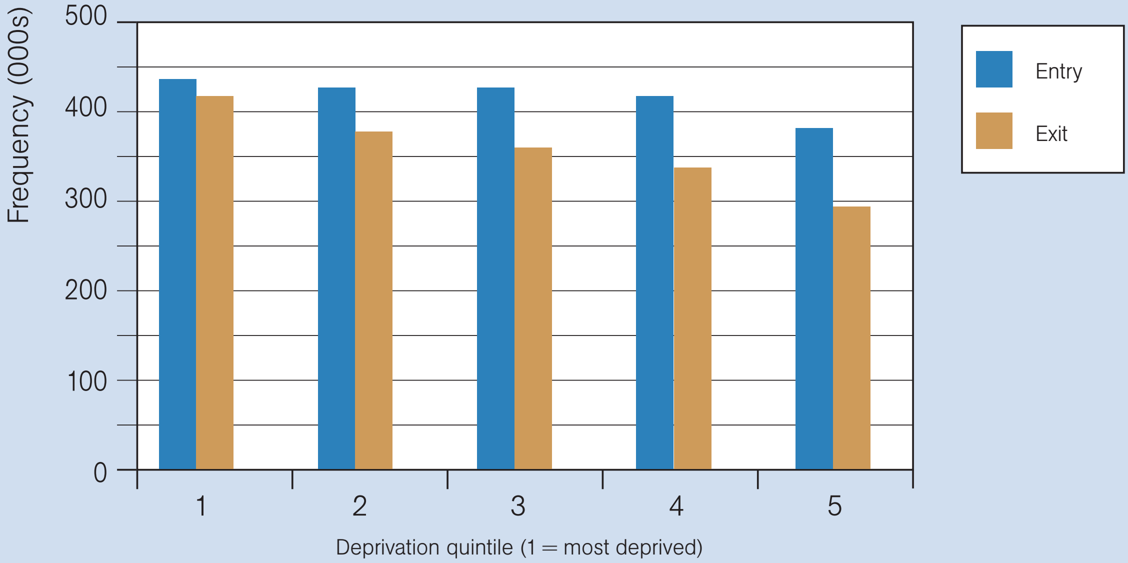
Figure 4 provides evidence about why deprived areas have experienced low net growth. While the 20 per cent most deprived areas have had the greatest quantity of new enterprises, they have also seen the biggest number of enterprises closing,

Figure 3: Share of net growth of enterprises among deprivation quintiles (Quintile 1 = most deprived)



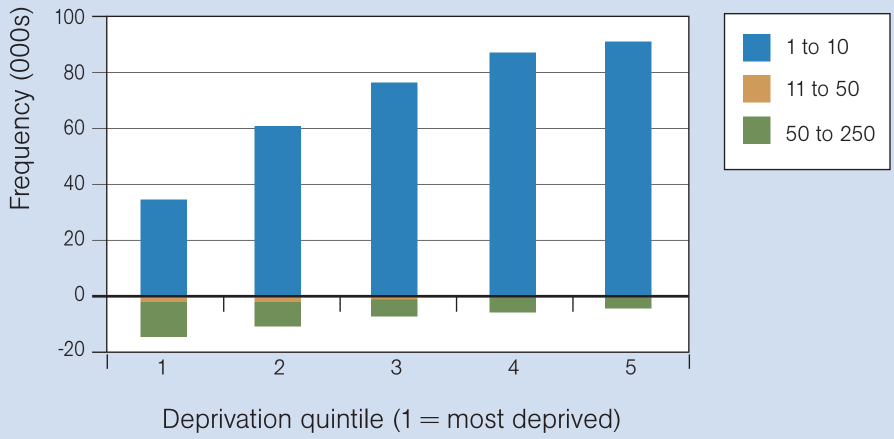
Source: The BETA Model, authors' own calculations

Figure 4: Enterprises entering and exiting the BETA model between April 2002 and July 2009



Source: The BETA Model, authors' own calculations

Figure 5: Net change of firms by employee size band



Source: The BETA Model, authors' own calculations

resulting in a low overall net gain. In contrast, the 20 per cent least deprived areas have had lower numbers of new starts but also fewer business failures, achieving larger overall net gains as a result.

This high churn highlights a major problem in economic development. It is common practice to focus activity on forming lots of new enterprises in a given area, measuring success in relation to rates of formation in other areas. Yet we know from Figure 4 that concluding that the 20 per cent most deprived LSOAs had been most successful at nurturing enterprise by adding new firms would be to overlook how poor their record has been in sustaining businesses.

The new enterprise generation: small and service-orientated

The slow growth of enterprise in deprived areas can be partly understood by changing business dynamics. It has been well documented that there is a change in the structure of the enterprise population.[29] This is best exemplified by observing the change in the average size of firms, based on the number of employees.

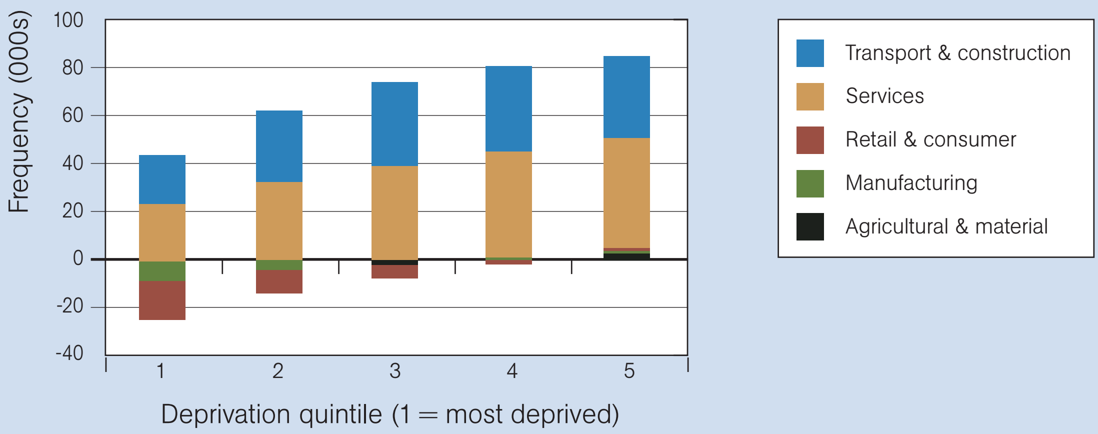
Among the 304,000 additional enterprises formed since 2002, there has been a distinct shift in the balance of the enterprise population towards smaller firms. In total there have been 345,000 enterprises added and 41,000 establishments lost since 2002. 'Micro businesses' – those employing fewer than ten people – were the source of this gain, while small and medium-sized businesses (SMEs), employing between 10 and 250 staff, account for the lost.

This shift towards smaller businesses reflects the new trend in internet start-ups and consultants offering professional services (see next section), especially in light of the tax cuts to promote new starts (see Part 1). SMEs now contribute over 50 per cent of UK GDP and employ over 12 million people.[30] There is growing evidence that most start-ups are merely "wage substitution businesses that have more in common with self-employment" than the accepted conception of an enterprise and have little employment growth prospects.[31]

In Figure 5 the net change is shown by employee size band of the establishment. The 20 per cent most deprived areas showed the lowest gain in terms of micro-enterprise (34,000 establishments) and had the largest decline in firms of other sizes (losing 12,000 small establishments employing between 11 and 50 employees and 2,000 medium-sized establishments, employing between 51 and 250 people).

Again the 20 per cent least deprived areas had a very different experience, gaining almost three times more micro-enterprises than the most deprived quintile and suffering a loss of only 3,000 small businesses and a thousand

Figure 6: Net change of firms by sector, April 2002 – July 2009



Source: The BETA Model, authors' own calculations

medium-sized businesses. Figure 6 shows that this growth of small businesses closely relates to the growth of the service sector.

The service sector has been a key driver of economic growth in the past 20 years. Of the 304,000 net additional firms, 185,000 were gained in 'Services', followed by 152,000 in 'Transport and Construction', a thousand in 'Agriculture and Materials' and 5,000 in unlisted sectors. The 'Retail and Consumer' sector lost 32,000 and the 'Manufacturing' sector lost 9,000.

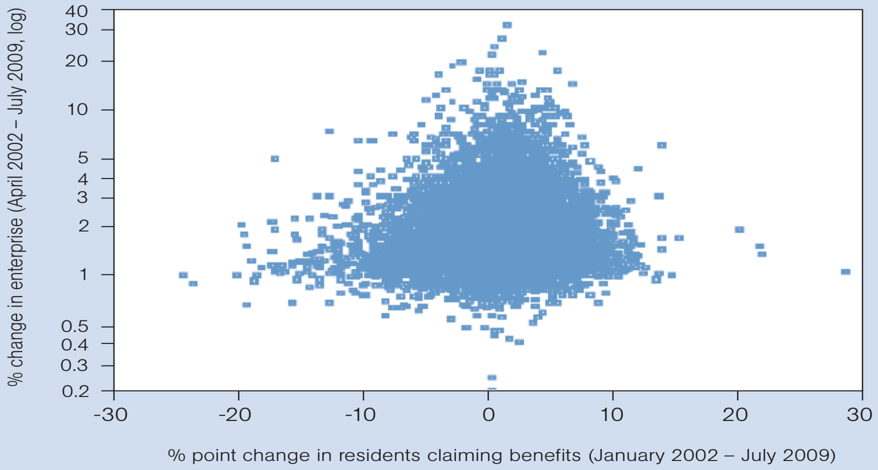
Figure 6 shows that retail and consumer businesses have suffered most in the most deprived areas, along with manufacturing. While businesses classified as 'Services' have grown in deprived areas, they have done so at only half the rate achieved in the least deprived areas. 'Retail and Consumer' and 'Manufacturing' have actually seen a net increase in the least deprived areas – against the national downward trend for these sectors.

In short, this dual-component structural shift in enterprises – towards an increase in smaller enterprises in the tertiary service sector and away from primary and secondary sectors such as manufacturing – has disporortionately benefited the least deprived areas at the expense of the most deprived areas.

This shift towards the service sector links back to Cameron's statement regarding the growing reliance on 'a few industries in one corner of the country'.[32] Growth in the service sector is biased towards more affluent areas because of the high level skills (defined as graduate level and above) required to perform these jobs. Furthermore, this shift has led to a so-called 'hour-glass' labour market where increased demand for the highly skilled in turn leads to increased demand for low-paid childcare workers, cleaners and retail workers to service the needs of the highly paid.[33] This trend alongside a decline of middle-rank job positions, is connected with the growth in wage inequality.

A comprehensive report from the National Equality Panel found that the ratio of weekly earnings between the top and bottom decile had increase from less than 3 to 3.7 between 1980 and 2008.[34] Addressing the dominance of the service sector may be key to re-balancing the economy and lowering inter and intra spatial inequalities. This will be discussed in the final section of the report.

Figure 7: Relationship between enterprise growth and benefit claimant levels



Sources: NOMIS 2010, Department for Work and Pensions benefits data for January 2008 and August 2009, BETA Model, authors' own calculations

The impact of new business dynamics on employment

Alongside the impacts on wage inequalities, the growth of small service-related enterprise means that the number of employees per firm has declined, making enterprise growth a less plausible method of tackling mass unemployment.

Figure 7 models the relationship between change in benefit claimant levels and enterprise growth. Whilst the relationship is unclear, due to the clumping of LSOAs having no or small changes in residents claiming benefits (this challenge has been reduced by using a log scale on the y-axis), there are LSOAs that have had similar increases in enterprise but have seen their claimant levels alter in different directions. On the other hand, those LSOAs that have witnessed the highest increases in their enterprise are those that have experienced very little change in their claimant count.

There are two key conclusions to be drawn from these findings. First, enterprise growth does not have a positive linear correlation with a decline in benefit claimants. Thus enterprise growth does not necessarily result in higher employment in an area. This may be partly the outcome of employment lost through the change from a landscape dominated by small and medium businesses to one where micro-business is the main growth area. It could also be the result of new enterprise increasing employment in areas other than where it is located.

Second, while more in-depth analysis of area change is needed, findings here suggest that there is a link between no or little change in unemployment levels and enterprise growth. Whilst it is difficult to say what comes first, this may either mean that that enterprise growth between 2002 and 2009 only did enough to keep benefit levels stable (again because of the shift to micro enterprises), or that entrepreneaurs are more attracted to areas which offer a consistent consumer base or that are not going through considerable socio-economic change.

This section has demonstrated that a new generation of businesses have emerged with which deprived areas have found it difficult to keep up. Before discussing what makes deprived areas less able to produce dynamic enterprise, it is worth considering whether and why some deprived areas have been able to buck the trend.

Bucking the trend: Deprived areas with strong enterprise growth

Despite the overall bleak picture for enterprise in the most deprived areas, some have done better than others. For instance, a glance at Figure 8 shows that the North East has managed to achieve greater success than other regions in expanding its business stock relative to its population.

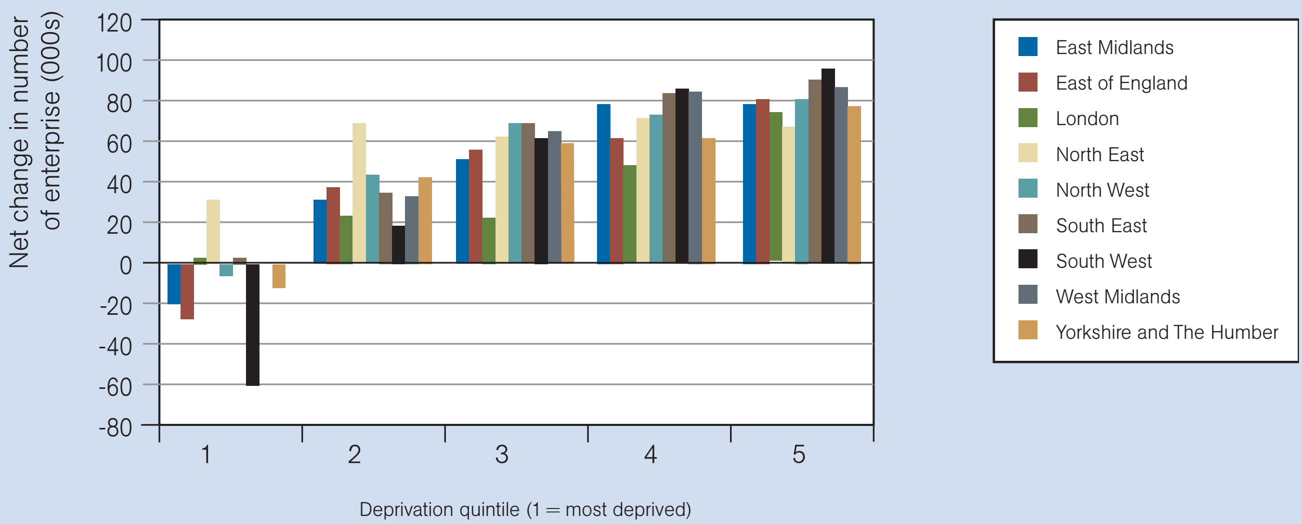
The 20 per cent most deprived areas of the North East increased from 457 firms per 10,000 adult residents to 488 firms, an increase of 7 per cent. However, this again can mask inter-regional disparities as even in the North East the least deprived areas succeeded in adding twice as many new firms as their most deprived counterparts.

The most deprived areas in London and the South East experienced very small net growth. The West Midlands experienced no significant change. All other regions, but most notably the South West, saw a decline in their business stock relative to the size of their populations.

From a review of the literature it is not clear why the North East experienced this growth. The Regional Development Agency (RDA), One North East, have an enterprise framework which specifically commits the region to trying to increase the new business formation rate,[35] but this is a policy derived from central government and is thus shared by all regions.

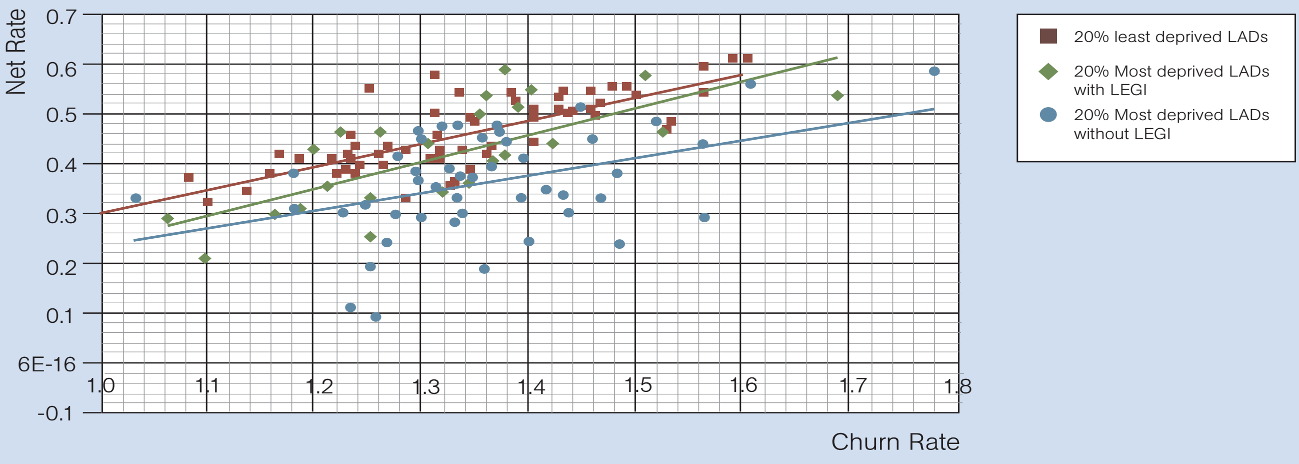
Literature that uses VAT statistics, rather than the BETA Model, indicates that the enterprise stock in the North East remains stubbornly low in comparison to the more prosperous regions. Thus, what the BETA Model data is picking up is that

Figure 8: Net change in firms per 10k adult residents by region (April 2002-July 2009)



Source: The BETA Model, authors' own calculations with ONS Population Estimates 2002-2008.

Figure 9: Churn and net rate for local authority districts



Source: The BETA Model, authors' own calculations

while the North East is capable of nurturing start-ups, many of the new firms created are below the VAT threshold and hence generate little income and by proxy will also generate little additional employment. In addition, despite this growth in enterprise, the North East ranked lowest on job density (see Table 2) suggesting that job creation has not been in line with employment.

Similar to the findings emerging here, Derbyshire and Haywood (2010) found that while numbers of businesses paying VAT had increased in the most deprived regions (although at a relatively slower rate than better off areas), the difference in enterprise registrations was not sufficient to blunt the cumulative effect of long periods of depressed growth. To emphasise the effect on overall stock levels Derbyshire and Haywood employ the Red Queen Race metaphor from Lewis Carroll's *Alice in Wonderland*: "It takes all the running you can just to stand still."[36]

LEGI areas

As discussed in The need for regeneration and jobs in deprived areas of this report, some local authorities with high levels of deprivation were awarded funds under the LEGI programme. The aim of this was to enhance the conditions for local enterprise growth through increasing the birth rate of enterprises and supporting them into sustainability. In Figure 9 the churn and net rates are shown for the local authorities with the least deprived areas along with the rates for the local authorities with the most deprived areas. The figures have been further separated to distinguish between authorities with LEGI funding and those without.

Figure 10 confirms the general theory that an increase in churn, from a higher birth rate of new enterprises, results in greater net growth. It also shows that given similar levels of churn, higher net increases in enterprise are achieved in better-off areas than in the most deprived communities. This means that the better off or least deprived areas do not have to rely on as many business start-ups to maintain or grow their stock of enterprises overall as the most deprived areas need.

Local authorities with LEGI appear to have better net outcomes than than those without LEGI. This does provide a glimmer of hope that greater levels of intervention in deprived areas can result in higher levels of growth in the quantity of enterpise, however, the pace and scale of increase needs further examination. This will hopefully be answered with further evidence from the ongoing national evaluation of the LEGI programme.

Linking back to the type of business growth in the North East, it is again unclear what types of businesses are being created, and whether they generate enough income in these LEGI areas to truly tackle deprivation or are simply helping to prevent the area from declining further.

This short analysis of the impact of LEGI has generated many questions regarding what works when it comes to encouraging enterprise in deprived areas, and what types of business outputs such initiatives result in. Clearly, more in-depth qualitative and quantitative evidence is needed if a case is to be made for LEGI to be re-introduced. **nef**'s findings from eight years of delivering enterprise support in areas experiencing economic disadvantage (including as part of some LEGI programmes) is that appropriate, community-based support focused on the needs of the clients can radically improve business survival rates. If enterprise is to be supported in deprived areas then effective mechanisms to support those enterprises, both new start and existing businesses need to be in place (see Box 4).

Box 4: Community-based enterprise support: the BizFizz initiative

The BizFizz approach was developed jointly by **nef** and the Civic Trust in 2001 to provide business support to people in communities experiencing economic disadvantage, and to challenge the misconception that there is a lack of entrepreneurs and enterprising ideas in these communities. BizFizz places an enterprise Coach in a geographically relatively small community to support people wanting to start businesses and existing businesses in the area. The Coach gets to know local people (their business aspirations, skills, interests) and becomes the focus for business support in that community. They seek to provide flexible, informal, accessible support focused on removing the barriers that stand in the way of the entrepreneur taking their business idea forward.

Developing local networks of support is a key component of the approach. BizFizz draws on the skills and experience of the whole community through the Local Management Group (LMG), which is a group of five to six people including representatives from grass roots regeneration organisations, the local authority, and enterprise agencies as well as local entrepreneurs and residents. They not only manage the project but also act as strategic drivers for local change. There is also a panel of local people whose background, expertise and local know-how bring a second tier of support to local entrepreneurs in addition to the coach. This panel, which is focused on finding solutions to the problems presented by BizFizz clients, spreads the 'can do effect' beyond the lives of individual entrepreneurs and weaves it into the culture of the local community creating a longer term legacy and supporting the economic resilience of an area thorough making connections and encouraging new and growing businesses towards success.

The initiative has been working in urban, rural and coastal areas and has resulted in survival rates of over 90% for new starts. Since 2001 5000 clients have been supported and over 600 businesses have enjoyed longer than average survival rates as a result.

Addressing the jobs gap and rebalancing the economy

Overall, it can be concluded that while the need and desire for new enterprise in deprived regions and areas are increasing, the potential for new enterprise to succeed in such places is in decline.

More specifically, the analysis in this report has led to several key conclusions:

- The jobs gap – the difference between the size of the working age population and the number of jobs – was 5.3 million at the end of 2008, over four million of which in regions outside London and South East. This is likely to expand further as public sector jobs are cut heavily, especially in the North East where almost one in three people in work have jobs in the public sector.
- Enterprise is becoming increasingly concentrated in the better off or least deprived areas. This is primarily the result of high business exit rates and low levels of sustainability in the most deprived areas.
- It is likely that differences in business dynamics are contributing to the shorter business life spans and higher churn rates in the most deprived 20 per cent of local areas. The most profitable and innovative enterprises – small service-sector companies – are growing fastest in the least deprived areas. To make matters worse, the most deprived areas are suffering disproportionately in terms of manufacturing decline and the loss of retail enterprises.
- Enterprise growth does not necessarily result in a decline in claimant levels – indeed it is the very areas that have not seen any sizeable change in their benefit claimant levels that are gaining the most additional enterprises. This again may indicate that new enterprise is not generating a significant number of new jobs, or that some of the jobs created by enterprises in deprived areas are going to people outside the area.
- The North East region has done better than others in expanding its enterprise base, but the turnover of its newer companies remains low. Overall these companies have done little to alleviate spatial inequalities.
- Those areas receiving LEGI funding have done slightly better than those deprived areas not receiving any funding. This suggests that targeted intervention can work, albeit at a small scale. Further evidence is required to understand whether LEGI was the best use of funds allocated for deprived areas.

The future of enterprise in deprived areas

Our findings raise three key questions:

1 Why are enterprises failing to survive in deprived areas?

2 Why is the shift towards smaller service orientated enterprise not catching on significantly in the most deprived areas?

3 Given the difficulty in creating sustainable enterprise in deprived areas, is it worth investing in enterprise initivatives?

To answer the first two of these questions it is necessary to consider the basic fundamentals that create the fertile conditions for enterprise success.
These include:

- *Marketable ideas.* Having a product or service that fits with consumer demand is the obvious starting point for a new enterprise. A business idea may not be completely new, but it must have a sound business rationale. One reason for churn in deprived areas could be that there is a rush to push individuals to start businesses without the necessary ideas, plans, finance and business support in place.

- *Access to consumers.* Selling a product is dependent on (a) having access to consumers, for example through a retail store or the internet, and (b) consumers having sufficient income to afford your product. Those living in deprived areas tend to have less disposable income to spend on goods and services. This poor consumer base will undoubtedly shrink further with public spending cuts and measures such as the increase in VAT. Ways need to be found to stimulate demand in poor areas in order to create markets for local industries, such as through encouraging the use of local supply chains and considering local employment links to any new infrastructure projects.[37]

- *Access to finance.* New businesses often require lump-sum start-up costs and sufficient funds to get them through the first few years of business, when they may be operating at a loss. Credit availability is thus a lifeline for new business and entrepreneurs who do not have personal wealth. The Federation of Small Businesses reported recently that over a million small businesses were dissatisfied in some way with the services provided by their high-street banks.[38] Many found it difficult to get the support they needed during the recession. Those in deprived areas are most likely to be financially excluded, with less access to financial institutions and consequently higher costs of borrowing. Furthermore, it is safe to presume that entrepreneurs in deprived areas have lower levels of personal wealth (for example savings or equity in property) and possibilities of informal finance from family and friends than those in non-deprived areas.

- *A suitable workforce.* Having a suitable labour pool from which to recruit high-quality staff with appropriate skills is fundamental to the success of any business. Potential employees may not live in the immediate vicinity of the business, but must be able to hear about vacancies through wider employment networks and be willing and able to travel to the business site. The new types of enterprise discussed above require people with high-level skills and some technological understanding – training for which is not easily accessible. Those living in deprived areas where schools are underperforming may not develop the skills needed to set up this type of business or to work for one if located nearby. This links therefore to wider policy on educational inequality.

- *Networks.* Businesses do not operate alone. They depend on other businesses to supply goods that aid their operation, and in turn supply to other firms. Building networks with a supply-chain are thus necessary. In addition, networking with similar businesses help to generate opportunities to promote products and to discuss ideas. The catalytic potential that comes from developing strong business networks and achieving economies of scale when a number of new and established businesses are all closely clustered together have come to be known as 'agglomeration effects.'

- *Suitable infrastructure.* Appropriate premises, good transport links and fast broadband connection are all examples of factors that enable a business to function well and connect to its customers and employees. Areas lacking these assets are unlikely to attract new business.

The difficulty of creating the right conditions in the most deprived areas have led several to conclude that turning around deprived areas and struggling cities is a lost cause. Instead, it is sometimes argued that it would make more sense to expand prosperous parts of the country and manage the decline of struggling areas.[39] Those who support this argument point out that it can be far more challenging to form a business in a deprived area because you are less likely to be able to take advantage of agglomeration effects,[40] as described above.

While agglomeration effects are undoubtedly important, this position assumes that entirely new business clusters simply cannot be formed. This may not be the case. We have already shown earlier in this report that individual enterprise initiatives can make some difference; perhaps there is an important role for policy makers to play in helping new enterprises to work together and form effective clusters.

This discussion links to the third key question drawn from findings in this report. The evidence we have considered here has demonstrated that it is improbable that new enterprises will generate enough employment opportunities to fill the jobs gap, but this does not mean it is no longer worth investing in enterprise programmes. As Kornblatt and Troni (2006) point out, given the extent of market failures, government has failed to intervene enough.[41] Much more clearly needs to be done to ensure that new enterprises in deprived areas are sustainable. This requires stronger business support, both through advice services and making availability of credit and other forms of early stage business finance. This must come coupled with attempts to address other barriers, most notably demand.

Local authorities can aid in generating the right conditions and environment to create enterprise through creating incubator space for new businesses, using underutilised assets such as empty shops, promoting skills and educational courses, as well as providing platforms for entrepreneurs to network with each other. The potential impacts this local approach can have has been demonstrated in this report through the better outcomes for LEGI areas (see Figure 10). However, local authorities need some direction from central government, and at the very least funds to fulfil this role. They can also do little to alleviate bottlenecks to enterprise formation at a bigger spatial scale, and it is here that state action is required.

One bottleneck which requires action at the national level is access to credit. Government legislation and banking regulation could help enormously in opening up channels of finance to deprived areas. In the wake of the financial crisis, **nef** called for the introduction of community development finance institutions (CDFIs) which would ensure that banks returned to the function they were originally conceived to do – that is, to serve the local community.[42] One example of a CDFI from the US is the Community Reinvestment Act (CRA) which was introduced in 1977. This forced banks to disclose their lending and investment in poor communities. During the 1990s the Clinton administration built on these reforms, creating a ratings system for banks' social performance.This ultimately led to the emergence of a community finance sector worth in excess of $8 billion, ensuring that finance institutions lent in areas that would have otherwise been neglected.[43]

There are also wider social reasons to continue to invest in enterprise programmes. Enterprise is not only about jobs created. For instance, small groceries where locals may interact are important for communities, and empowering individuals to start their own business is valuable in its own right. Enterprise is an important part of building a robust and resilient local community, alongside having a functional public sector and socially useful third sector. Despite this, in the context of this paper, it must be concluded that in the most deprived areas it is unrealistic to expect new enterprise to provide jobs on the scale required.

Enterprise and the labour market

Findings here have led to three key conclusions regarding changing business dynamics and the labour market:

1. Many more enterprises would have to be formed and sustained to counter the expanding jobs gap in the most deprived areas;

2. The growth of the service sector is contributing to the decline in the share of enterprise in the most deprived areas. This finding, coupled with existing evidence that demonstrates the causal links between the growth in the service sector and growth in wage inequalities, explains why growing concentrations of small service orientated companies are heightening levels of spatial inequality.

3. Because of the high churn of enterprise in deprived areas, those unemployed who are encouraged to start their own businesses are likely to return to

claiming benefits. The lack of long-term work available for those (re)entering the labour market is a major challenge to welfare-to-work policy.[44]

The first of these conclusions has major implications for enterprise policy, and in particular the new NICs waiver proposal. It is welcome in principle, given that it is designed to stimulate demand and tilts fiscal policy towards deprived areas, but our research suggests that it is likely to be insufficient for the task in hand. For example, low business survival rates and high churn mean policies encouraging new businesses in deprived areas may only result in further churn, what has been referred to as "uncreative destruction".[45] If the NIC waiver leads to a greater number of start-ups it will only facilitate a short-term competitive advantage, with first year firms losing their advantage to new entrants in the second and third years. In addition, given the trend towards micro-businesses, it is unlikely that many businesses will be in a position to hire ten employees or more, especially within the early stages of formation.

In short, the findings of this report cast doubt over the ability of a NICs waiver to produce a significant increase in employment openings in deprived areas. The private sector is unlikely to emerge and absorb either those pushed out of the public sector or those forced off benefits at anywhere near the rate the Government hopes for.

So, how can more jobs be created in more deprived areas? And, how can this be done in a way to lower the dependence of the economy on the service sector and insure sustainable employment? One popular approach that has been advocated by **nef** and others in the UK, as well as in the USA and around the world, is for the government to have a major investment programme to encourage the growth of the Green sector. In a recent report questioning the value of huge public spending cuts, **nef** calculated the potential environment and employment outcomes of a £10 billion investment. It found an investment of £10 billion could re-skill 1.5 million people, bringing 120,000 people back into the workforce, and increasing the earnings of those with a low income by a total of £15.4 billion.[46]

Given the employment potential of an industrial policy focused on the green and wider benefits to the environment, this is an attractive approach. Whilst some will argue that these levels of investment are inconceivable during this period of austerity, this £10 billion is only a fraction of the £550 billion that would be needed between now and 2020 to ensure the UK meets its climate change and renewable energy targets.[47] This is also the type of investment needed to truly rejuvenate low performing regions and cities, lower their dependence on public sector jobs and create enough decent and sustainable jobs for those out of work.

Beyond the more conventional ways to tackle the jobs gap, there are approaches that involve sharing work, such that more people work, but everyone works less. A recent report from **nef**, *21 hours*, considered the implications of a new way of working where the standard working hours were 21 hours, rather than the current 40 hours. It suggested that while such a shift would require changes in minimum wages and should be a matter of individual choice, this way of work would result in better outcomes for equality through the spread of paid work; for the climate through lower consumption; and, for individual well-being as people find more time to invest in their relationships and hobbies.

Creating such a labour market may seem out of reach, but there are examples of where hours have been reduced with considerable positive outcomes, for instance in France with the 35 hour week, and the four day working week used in the public sector in Utah to lower carbon emissions and cut energy costs.[48]

Ultimately, to tackle the wider drivers of spatial inequality and rebalance the economy, other inequalities, such as those in wages, health, education and wealth must be addressed. Although this subject is beyond the remit of this report, it is worth remembering that the Gini coefficient, a popular measure of inequality, has grown by more than 40 per cent since 1979.[49] If this trend continues it is inevitable the spatial clustering of the rich and poor will intensify.

Recommendations

We recognise that given the discussion above our recommendations could encompass a wide ranging number of options for targeting each of the fundamental barriers hindering enterprise growth. However, we focus our recommendations below on those actions that would result in more jobs in deprived areas and which would therefore contribute to lowering spatial inequalities.

1. *Consider the spatial impacts of public spending cuts.* In deciding where and how public spending will be cut there is a need to understand the potential of private enterprise to take its place. Evidence in this report shows that there is a greater need to protect public sector jobs in the most deprived areas, at least in the short term. If large numbers of public-sector jobs are lost in these areas then there is a very real danger that local economies will be drained of income and left unable to sustain existing enterprise, let alone new businesses.

2. *Extend the employers' National Insurance contributions waiver to existing enterprises in London and the South East that want to set up a site or office in the Midlands and the North of England.* Given the difficulty in sustaining new enterprise in low-performing regions, it is more likely that existing firms will make use of a NICs waiver than that entirely new businesses would do so. Extending the waiver to companies in other regions should provide an incentive to existing companies to set up new offices in the Midlands or the North rather than to expand in the South East.

3. *Address low enterprise sustainability in deprived areas.* New enterprise initiatives must be designed to reflect changing business dynamics as well as high churn in deprived areas. In the shorter term stemming the tide of business exits requires focused programmes providing business support and access to finance. One way this could be done is through introducing a Community Reinvestment Act which ensures that finance institutions are required to lend to those in deprived areas. In the longer term there is a need to address other prerequisites to business success, such as education and skill levels.

4. *Develop an industrial policy with the specific aim to create large numbers of jobs in low performing areas.* The Government must accept that rebalancing the economy will require strong state action. Industrial policy, whereby specific sectors are encouraged to grow in jobless areas, is a way to create demand. One clear opportunity is green-collar jobs. This will not only help to stimulate jobs where they are most needed, but also help the introduction of renewable energy, retrofitting and other green technologies.

In addition to the specific recommendations above, the Coalition Government must work to tackle the fundamental factors which are giving rise to structural inequalities in our economy and continuing to place already economically disadvantaged areas under increasing strain. This requires concerted efforts to bring about a rebalancing in overall wealth and income as detailed in The Great Transition.[50]

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Thanks to: Eilis Lawlor, Nicola Steuer (**nef**), Elizabeth Cox (**nef**), Helen Kersley (**nef**), Rafael Lopez (**nef**), Natalia Fernandez (**nef**), Tony Greenham (**nef**), Chris Webber (Centre for Cities), Paul Swinney (Centre for Cities) and Jeremy Nicholls (The Beta Model/The SROI Network).

Edited by: Martin Cottingham

Design by: the Argument by Design – www.tabd.co.uk

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ISBN 978 1 904882 80 0