

What would Maggie do?

A report by the Centre for Cities on the effectiveness of Enterprise Zones and future policy options

What can we learn from the past Enterprise Zone experience?

- **EZs were expensive:** The cost per job of the 1980s EZs was £17,000 (1994–95 prices) or £26,000 (2010–11 prices).¹ Most studies conclude EZs are expensive.
- **EZs generated few additional jobs:** The first two rounds of zones only generated 58,000 additional jobs, including intra-regional and national transfers.
- **Mismatch of goals and incentives:** While the objectives of EZs were regeneration and employment growth, incentives may have encouraged capital/labour substitution.
- **Land and property owners absorbed many benefits:** Emphasis on capital subsidies meant that landowners accrued many of the benefits of EZs.
- **EZs were created in areas with limited chance of success:** Some zones were created in areas with limited economic potential, thus zones failed after benefits were withdrawn.
- **EZs pushed demand around the economy:** Area-based initiatives shift demand to less productive areas of the economy, likely reducing benefit of agglomeration economies.

In response to the desire for new Enterprise Zones, we advocate Local Growth Zones.

LGZs should:

- **Have a menu of policy options:** Use different policy mechanisms in different places to fit with local economies' needs.
- **Reduce cost:** Shift focus from capital-based rebates and allowances to incentives that focus on skills, people and intellectual property.
- **Reduce deadweight of incentives:** Ensure rebates are emphasised over grants to reduce unproductive spending and bureaucratic costs. Only provide incentives for additional benefits.
- **Target buoyant and struggling areas with potential for growth:** EZs have a bigger impact in places that have some economic potential.

A menu of options for Local Growth Zones would include:

- **Rapid planning zones:** Radically slimmed-down development controls with all development permitted, provided that it meets a basic set of environmental criteria.
- **Access to Corporation Tax uplift:** Will act as an incentive for local authorities to put in place difficult policies that improve the business environment.
- **Skills support:** Tax rebates on accredited skills support programmes, with emphasis on training for new employees.
- **Labour market coordinator:** Would assist firms with marketing vacancies and working with labour market programmes to match skilled workers to new jobs.
- **NICs rebates for additional jobs created:** Subsidies should incentivise hiring new employees, but only reward firms for new hires, not jobs transferred from other areas.
- **Priority processing of Business Growth Fund applications:** The access to other zone benefits means each BGF pound goes further.
- **Free patent processing assistance:** Provide financial and technical assistance for firms filing for patent protection.
- **Create a single point of contact:** A single point of contact reduces transaction costs of coordinating efforts between firms, government and a zone's management.

1. PA Cambridge Economic Consultants (1995) *Final Evaluation of Enterprise Zones*. HMSO