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Mr J Dixon
Cabinet du President

Dear Mr Dixon

Please find attached the Executive Summary of the paper on Strathclyde Regional Policy.

Yours sincerely

A handwritten signature in cursive script, appearing to read 'James McGilvray'.

J W McGilvray

REGIONAL POLICY WITHIN A MONETARY UNION: A CASE STUDY OF STRATHCLYDE

Executive Summary

1. Spatial disequilibrium within an economic system can be resolved by a variety of mechanisms, including changes in relative prices, movements of factors of production, accommodating financial transfers, and a variety of interventionist policies designed to reallocate productive resources.
2. These adjustment mechanisms apply whether or not the regions concerned constitute independent monetary authorities. When separate monetary jurisdictions exist, changes in exchange rates are an obvious macro-economic adjustment mechanism for effecting changes in relative factor prices, but are usually accompanied by other measures, designed to both reinforce (monetary and fiscal policy, incomes policies, etc) and ameliorate (trade restrictions, borrowing) the impact of exchange rate changes.
3. Within a monetary union the traditional macro-economic instruments for inter-regional adjustment are not available, and alternative instruments must be deployed which are consistent with fixed exchange rates (monetary union), and a harmonised, if not fully integrated fiscal system (monetary union implies fiscal harmonisation). The purpose of this paper is to examine and evaluate the operation of regional policy within a region of the UK, as an illustration of spatial adjustment within a monetary union. The region selected is Strathclyde, both because it is an archetype of industrial structural decline within a mature economy, and because in recent years the region has witnessed a wide range of innovative policies and schemes of adjustment and development.
4. The regional policy measures deployed in Strathclyde are summarised in Section 3.2 of the paper, and additional data are included in appendices. The taxonomy of measures tries to reflect, as far as is possible, different approaches in regional policy theory, namely
 - (a) policies which are designed to compensate for institutional rigidities in factor prices or mobility (these could perhaps be termed "neo-classical" policies);
 - (b) policies designed to improve the resource base of the region ("supply-side" policies);
 - (c) policies largely governed by non-market criteria, including both accommodating financial transfers, and administrative intervention in resource allocation ("Keynesian" policies).
5. Rigorous evaluation of contemporary policy measures in Strathclyde cannot be attempted within this paper. Instead the concluding sections (4.1 and 4.2) attempt to identify the most significant features of the Strathclyde experience, and to view these within the context of regional policy in a monetary union.
6. Six important features of contemporary regional policy in Strathclyde are identified:
 - (i) the greatly-increased emphasis on "supply-side" measures,

- particularly with respect to labour training and the encouragement of entrepreneurship;
- (ii) the importance given to environmental improvement in the older urban areas, not simply as a social measure but as a dynamic element in economic regeneration;
 - (iii) the critical role of institutional changes and development in both policy innovation and implementation.
 - (iv) less emphasis on large-scale inward investment projects as the pump-priming element in development, in favour of a more comprehensive and integrated programme of development;
 - (v) greater selectivity in targeting industries or sectors, implying a longer-term view of structural change;
 - (vi) greater emphasis on private sector involvement in redevelopment and on innovative joint venture schemes to tap a wider range of entrepreneurial and financial resources.

7. Although regional policy in the UK has not been strikingly successful, it is concluded that this is not due to constraints imposed by monetary union.

Paradoxically, although the present Government are not viewed as strongly sympathetic to regional policy, the emphasis on supply-side policies, and the emergence of regional institutions with powers and responsibilities for development, have been beneficial, leading to more innovative and sui generis approaches to regional adjustment, and involving wider sections of the community. This contrasts with earlier phases of regional policy, in which policy measures were devised by, and largely implemented by central government agencies, and in which the regions themselves played a largely passive or supplicant role. Nevertheless, it is too early to evaluate the success of this new phase of regional policy.