Regions in Competition: Institutional Autonomy, Inward Investment and Regional Variation in the Use Of Incentives

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Regional and Industrial Research Paper Series

Number 29

September 1998

Published by:

European Policies Research Centre
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40 George Street
Glasgow G1 1QE
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ISBN: 1-871130-07-7

ACKNOWLEDGEMENTS

This paper has been prepared for the Regional Science Association International (British & Irish Section) conference held in York on 3-4 September 1998.

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1. INTRODUCTION

The issue of sub-national governance in regional economic development has long been a focus for debate among academics and policy-makers in the UK. While this has revolved around a number of issues - ranging from the extent to which economies can be defined at regional level to the appropriate policy instruments for influencing localized economic activity - there has been a crystallization of research around the 'institutional capacity' of regions in economic matters. Returning frequently to the cases of Wales and Scotland,[1] research literature has examined how the density, autonomy and strength of governance institutions influence trajectories of regional economic development (see, for example, Cooke, Price and Morgan, 1995, on Wales, Macleod, 1997, on Scotland and Teague, 1994, on Northern Ireland). While there has been no clear conclusion on the relationship between regional governance and economic performance, the continuing research interest in institutions such as the Welsh Development Agency and Scottish Enterprise highlights a persistent academic fascination with the role of strong development bodies at local level. This is mirrored in public policy circles by a degree of consensus on the principle of regionalizing economic development powers in devolved institutions - if not necessarily on the right balance between central and local spheres of responsibility - that has endured across recent Conservative and Labour governments.

With the Labour government's heightened interest in such regionalization - most visibly demonstrated by the creation of devolved Assemblies in Scotland, Wales and Northern Ireland and the establishment of Regional Development Agencies in the English regions - the issue of regional governance has been given particular impetus in the last two years. At the heart of the new government's approach, it seems to be a given that enhancing the capacity of institutions at economic level to articulate and achieve economic development goals should be viewed as a positive-sum game. Reinforcing or increasing governance institutions in one region is not regarded as having a significant influence on the ability of other regions to pursue their economic objectives. Their activities are seen as having impacts which are largely limited within the regional economy - a reflection of the view that with the exception of the South-East, these regional economies are substantially self-contained.

Within the debate over regionalization of economic development powers, little consideration seems to have been given to whether increasing governance among different regions could lead to competition for what might be termed 'development resources', especially where they are external to the region. In this context, such resources can be defined as those available within the total governance system of the UK for regional economic development (ie. a region's share of total government expenditure) and those that can be generated from the private sector and directed to development of the local economy, particularly through external resources such as incoming investment and income from regional exports. Increasing regional governance can have the effect of increasing competition for these resources: strengthened regional institutions may apply their new powers to capturing larger shares of public policy expenditure, attracting greater extra-regional investment and boosting the export competitiveness of local firms. In the case of government expenditure and inward investment, while these are not limited resources, their relative scarcity in the short-term could mean that competition for them would translate into rivalry between different regions. In some areas, the close relationship between both sets of

[1] In this paper, Wales and Scotland are discussed as 'regions'.

resources could exacerbate regional competitive tensions, as when public policy resources - mainly distributed at a national level - are used to attract inward investment. A region's capacity to secure a large slice of the former can be closely related to its capacity to the latter.

In the UK, such a situation has already surfaced in the dispute over competition for large, mobile inward investment projects (of both foreign and UK companies) among the different regions. It has been widely argued that there is a strong connection between the success of investment promotion activity and increasing sub-national governance (see, for example, Phelps, 1997). This can be seen in the increase in promotional activity at regional level throughout the UK, as in Western Europe as a whole, over the past two decades. New regional agencies continue to appear: for example, the last two English regions not to have promotional bodies (the so-called Regional Development Organizations) - the South-East and Eastern region - gained theirs in the last two years. At the same time, existing agencies - such as Locate in Scotland and the Welsh Development Agency - have been growing in size, especially in terms of their overseas representation.

Increasing regional interest in developing inward investment promotion capabilities has been linked to greater competition for investment between UK regions. Examining the institutions for promoting inward investment in the northern English regions, Dicken and Tickell concluded that "the promotion of inward investment is an intensely competitive process at national, regional and local scales" (Dicken and Tickell, 1992, p. 105). Moreover, success in securing investment projects has been increasingly related to the differing levels of resources and organizational autonomy of the agencies in different regions. For example, Evans and Harding (1997) argued that the strength and degree of coordination among development bodies in Scotland and Wales had been instrumental in their notable performance in attracting inward investment. Differing institutional capacities between Scotland and Wales on the one hand and the English regions on the other has long been an issue of controversy. English promotional bodies have consistently drawn attention to the 'unfair' advantages of Scotland and Wales, and have repeatedly made their cases in public.[2] Moreover, if UK regions are using extensive resources to attract investment - especially through promotion - and remain unsuccessful, there is a cost in terms of public resources. Where the regions competing for investment projects are drawing from the same pool of public resources, it raises questions about the relationship of the regionalized goals of sub-national institutions to national welfare and whether the two can come into conflict.

In contributing to this debate, the following paper examines the competition for inward investment in terms of the institutional autonomy of different British regions and their ability to mobilize national public policy resources as part of their promotion activity. It will assess their capacity to compete for significant investment projects by analyzing regional variation in the use of financial assistance to attract investment, particularly the main component of assistance packages: regional incentives. Lastly, it will consider institutional explanations for variation in incentive usage and consider how the proposed changes of the Labour government to different aspects of regional governance are likely to affect competition for inward investment.

[2] See, for example, the memoranda submitted to two House of Commons Select Committee investigations nearly a decade apart - the Welsh Affairs Committee (1989) report on inward investment policy in Wales and the Trade and Industry Committee (1997) inquiry into inward investment coordination in the UK.

2. COMPETITION FOR INWARD INVESTMENT WITHIN COUNTRIES

While this paper is focusing on the national context for inward investment promotion, it should be stressed that competition for investment takes place on a European level. For large, footloose investment projects, UK regions are rarely competing with each other exclusively, but with an ever-growing number of locations and promotional bodies in Western Europe, and increasingly, Central and Eastern Europe. This European perspective emphasizes the importance of competition occurring principally between *nations* (or rather, regions in different nations) rather than regions. Regional inward investment agencies will regard the promotion of the UK - as well as their region - as one of their key functions. Companies share a similar attitude, as research on project location has repeatedly underlined the dominance of national over regional factors in influencing decisions. In a European Commission survey of investment location decisions in Western Europe, the principal determinants were found to be access to national markets, physical and business infrastructure, and the cost of labour, factors which tend to be dominated by factors at national rather than regional level and where international differences are more significant than inter-regional ones (CEC, 1993).

In practice, while national factors may prevail, the combination of different factors will tend to produce a range of potential, region-specific sites for location, often within the same country. In recent years, large, mobile investment projects have been concentrated in particular industries - notably electronics and automotive - and the requirements of these projects tend to embrace a number of potential sites (Dicken, 1998). At least in terms of original equipment manufacturers, these projects are often not tied to national markets or require close proximity to particular production inputs, serving and being supplied by international (if not global) markets. Site requirements can be so project-specific that it is not necessarily the existing location specifications that determine decisions, but the willingness and capacity of regional bodies (with national support) to modify sites to meet investor needs (eg. providing special infrastructure and training to local workforces). In consequence, regions do not face a fixed list of factors determining their investment chances, but can affect both these factors as well as investor perception of these factors through the activity of regional investment bodies.

In addition to the opportunity to gain investment projects, inter-regional competition also derives from the long-term benefits which large projects can bring to regional economies (as well as the publicity effect of such decisions in enhancing the reputation of local governance institutions). In terms of its effects on the economy, large projects can not only result in income and employment gains, but in some cases, the transfer of business practices and production approaches which can raise the competitiveness of local companies (for a review of the effects, see Young, Hood and Peters, 1994). In some regions, foreign investment attraction can become a central strut in a development strategy, particularly where sources of regional growth are anticipated to emerge from the creation of industrial clusters. While regions would be wary of the damaging effects of inter-regional competition within the same country, the fact remains that one region’s gain of a project is another’s loss. These considerations are likely to make all regions sensitive to the factors giving their rivals an advantage, particularly if they are factors they can gain themselves.

Whether acting for their own region or the country as a whole, there is little argument that the ability of governmental institutions to attract investment is strongly circumscribed, a point that inward investment agencies repeatedly point out, emphasizing instead the relevance of the characteristics of their local economy. Indeed, it has been argued that the most effective policies available to governmental institutions are not direct promotion policies - whether marketing campaigns or the use of incentives - but improvements in the level of infrastructure and economic environment, not just to attract investment but to embed and retain it as well (Amin *et al*, 1994). However, in the debate over the efficacy of government policy in attracting investment, the focus has usually been on the most visible instrument available to governments: financial assistance.[3]

In reviewing the spectrum of location factors, research on investment decisions has established a relatively robust consensus that financial assistance - whether grants or tax incentives - are relatively minor (CEC, 1993; PACEC, 1989). Nevertheless, if the role of financial incentives in influencing decisions appears delimited, they remain sufficiently effective to guarantee their widespread and persistent use. Some commentators have argued that the significance of financial incentives can be 'activated' in certain circumstances (Bachtler and Clement, 1991). When a set of regional locations equally satisfy the criteria for an investment and governmental institutions aim to further discount the establishment or operating costs of investment. Hill and Munday (1992) have shown a strong regional correlation between the use of incentives and the level of employment in foreign-owned employment (as a proxy for foreign investment) in the UK, particularly in Scotland and Wales. Research on Japanese manufacturing investment has shown that it has tended to locate in Assisted Areas, where they are eligible for financial assistance (Taylor, 1993).

The trends in expenditure on financial incentives suggest that it is becoming a more active instrument in attracting large investment projects. Overall expenditure levels on regional incentives have remained relatively constant, if not declining, in large part as a result of pressures on government budgets and the role of the competition authorities in the European Commission in reducing incentive coverage (Raines and Wishlade, 1997). For *individual* cases though, the sums employed in attracting particular projects continue to rise substantially. For example, in 1996 and 1997, record incentives were offered for inward investment - £69 million for the LG investment in Wales, £55 million for the greenfield investment by Chungwha in Scotland and £40 million to the Jaguar expansion in the West Midlands, all considerably higher than the previous highest figures (£35 million for Nissan to expand its investment in Sunderland in 1987) (*Labour Market Trends*, various years)..

Perhaps the most telling evidence for rising internal competition for inward investment has been the need for government to address the problem. In recent years, there is a growing belief at different levels of government that incentive offers by regions have resulted in competitive bidding and a potential waste of public resources. In particular, two sets of accusations have appeared most commonly, both focusing on English regions' grievances that Scotland and Wales possess 'unfair' institutional and public resource advantages in the attraction of investment projects: 'gazumping' and 'poaching'.

First, it has been argued that the greater resources and institutional autonomy of the Scottish and Welsh investment promotion systems give them stronger advantages over their English

[3] An indication of the importance of financial incentives can be seen in the expenditure on direct assistance to overseas-owned companies in Scotland: in 1997-98, 60 percent of attributable expenditure consisted of the main financial incentive, Regional Selective Assistance (Scottish Affairs Committee, 1998).

counterparts in attracting *new* projects. In some cases, it has been alleged that this amounts to a capacity to out-bid - if not, actually gazump - projects in which the English regions have devoted resources to attracting. In a memorandum submitted by the English Forum of Regional Development Organizations to the House of Commons Trade and Industry Committee's examination of the issue in 1997, the problem was defined as follows: "Competitive bidding occurs where a region which feels that it has secured a project, based on a known financial package, finds that this package is raised by a *Territorial Agency*" (emphasis added) (Trade and Industry Committee, 1997, p. 2).

Examples of this surfaced in the media and the Trade and Industry Committee's investigations. Complaints were made against the Welsh for 'raising the ante' on a North-East England bid for Acer, a Taiwanese computer company (Groom and Buxton, 1997). On the day that Chungwha - another Taiwanese company - had decided to locate a project worth 3,300 jobs in Scotland, Welsh promotion officials were still actively trying to persuade the company to reconsider its decision (Young, 1997). Nevertheless, in securing this investment, Yorkshire and Humberside Development Agency argued that the Scottish authorities had access to greater resources, enabling them to go substantially beyond the offer the Agency was able to make (Trade and Industry Committee, 1997).

In addition, allegations were made that the Territorial Agencies (Scotland and Wales) occasionally encouraged firms to locate in Intermediate Areas within their territory in preference to Development Areas - which, according to national designation are areas of greatest need - in English regions. Such allegations have not been substantiated, but there are other cases where regions have been able to redesignate their areas in competition for specific investments - for example, Welsh authorities were able to re-classify an Intermediate to a Development Area in order to secure the LG investment (Jowit, 1998).

The second accusation levelled against the Territorial Agencies was that they often 'poached' *existing* projects from the English regions (Trade and Industry Committee, 1997). The remit of inward investment organizations is not limited to internationally-mobile investment projects but those considering relocation or expansion within the UK; however, it appears that this has led to pro-active efforts to persuade companies to shift from their existing locations. In 1997, Inward, the investment body for the North-West of England, complained that organizations closely linked to the Welsh Development Agency were cold-calling companies in the English regions to induce them to relocate (Jowit, 1997). At the same time, Locate in Scotland was being accused of offering incentives to the electronics firm, ISL, to relocate from Tyneside (*The Economist*, 1997). In its own memorandum to the Trade and Industry Committee investigations, Devon and Cornwall Development International - the promotion agency for the South-West region - produced statements from companies already located in the region and without plans for relocating or expanding of courting efforts by other regional agencies (Trade and Industry Committee, 1997).

It is difficult to separate scuttlebutt from genuine evidence of sharp practice, and more generally, of the extent of competition between different promotion agencies. In specific cases, it is clear that the accusations are partial distortions. For example, responding to allegations that the Welsh Office had breached cost-per-job limits in its assistance offer to LG, the National Audit Office did not find any evidence of wrongdoing (Jowit, 1998). Similarly, in the ISL case, the company initiated the contact rather than Locate in Scotland (Young, 1997).

Moreover, in its conclusions to its report, the House of Commons Trade and Industry Committee concluded by stating that:

> "none of the agencies have a policy of actively seeking to persuade individual firms already settled in the UK to relocate. If a firm announces its intention of expanding and suggests that it wishes to shift or concentrate its activities, however, a region is free to seek to attract new investment to its area and to use public funds to that end." (Trade and Industry Committee, 1997, p. xiii)

Nevertheless, the report did not entirely dismiss the accusations noting the existence of "excessive activity by some agencies" in pursuing relocation investment. On the issue of competitive bidding, while the Committee found "little substantive evidence" of bidding up, it did state "the fact remains that there is a pervasive sense that there is an unhelpful degree of internal UK competition for inward investment" (Trade and Industry Committee, p. xv). Within national government, it was feared - particularly by the Treasury - that the institutional autonomy of regions had generated a level of competition which was ultimately wasting public resources by driving up the cost of incentives to investors (*The Economist*, 1996).

3. REGIONAL VARIATION IN THE USE OF INCENTIVES TO ATTRACT INVESTMENT

Evidence of competition between regions for inward investment has generally been examined from an anecdotal perspective. The most in-depth investigation into the issue - the Trade and Industry Committee report - relied on statements submitted by different organizations and questions of key witnesses; contradictions in the various accounts could not be systematically explored given the limited remit of the Committee. The difficulties in studying inward investment competition are compounded by the lack of information surrounding incentive packages and their negotiations, for both commercially necessary as well as arguably more self-serving motives. Commercial secrecy about financial incentive offers and total subsidy packages is often essential as part of the activity of promotion. Not only must agencies respect company sensitivity to declaration of the full scale of public assistance for inward investment locations and expansions, but it can be in the public interest to restrict publicity of the value of offers, out of concern that it might set standards for other companies with significant investments 'shopping' between different agencies. This is compounded by a degree of institutional obfuscation on behalf of the regions, in which the practices and promotional traces of different agencies are deliberately obscured. The accusations made by Inward about the marketing campaigns of organizations linked to the Welsh Development Agency suggest that promotion organizations can operate through arms-length bodies to maintain some separation of responsibility from activities which may be difficult to defend publicly. Hence, the extent to which other regional agencies are perceived as investment rivals - and more importantly, how agencies respond strategically to such a perception - is unlikely to be transparent.

Ultimately, arguments about whether gazumping and poaching have been incorporated tacitly into regional strategies for attracting inward investment are perhaps less important than the capacity which these regions have for pursuing such strategies in the first place. Hence, while the level of competition cannot be easily investigated, what matters more is the ability of different regions to use assistance to attract projects. Here, statistics on offers of Regional Selective Assistance (RSA) can be employed as proxy for the success of different regional governance systems for mobilizing resources to attract inward investment.[4]

Figures on RSA offers are readily available in the UK, perhaps in unique detail among all European countries. Overall RSA expenditure statistics are supplied in the Industrial Development Act 1982 annual reports for the different regions. In addition, details on individual case RSA awards - listing the size of all awards over £75,000, the name of the recipient and the location of the investment - are published on a quarterly basis, formerly in Employment Gazette and more recently, *Labour Market Trends*. Such a methodology does mean Northern Ireland cannot be included in the analysis as different incentives are available there.[5] In consequence, the following tables compare regional variation in the *British* regions in terms of overall expenditure, average awards, cost-per-job, award rates, the type of project attracted and the characteristics of large grants.

In the use of RSA, regions are not equal in their ability to attract inward investment projects. As the incentive can only be offered in designated areas of need, where regions have a large share of Assisted Areas, they have a wider range of locations in which financial assistance is available to investors. Regions such as the Eastern region, the East Midlands, the South-West and the South-East are arguably at a disadvantage in this respect (though it could be also argued that this is made up by the absence of the location disadvantages that characterize Assisted Areas) (Table 1). According to figures from 1993 (the last time the Assisted Areas map was revised), in terms of population coverage, there would seem to be two 'tiers' of regions with significant Assisted Areas: Scotland, the West Midlands and the North-West have the largest coverage, followed by a group broadly containing the North-East, Yorkshire & Humberside and Wales.

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[4] It should be noted that these are not the same as full assistance offers, which remain confidential for the most part. Indeed, the differential between the incentive offer and the full package - which can include significant employment grants, subsidized properties and support for developing required infrastructure - can be great. For example, while it has been publicly announced that LG received a RSA grant of £69 million to locate in Wales, the full value of assistance apparently amounted to £247 million (Jowit, 1998).

[5] The Province's Selective Assistance scheme is sufficiently different in award levels to undermine comparison with RSA - but the issue of competition for investment in its case is already complicated by distinctive development problems and investment promotion challenges (most notably, the terrorist-related violence).

Table 1: Population, employment and investment in Assisted Areas						
	Population (1993)		Employment in foreign RSA projects (1986-96)		Investment in foreign RSA projects (1986-96)	
	Total (mn)	*% of GB*	*Total (,000)*	*% of GB*	*Total (£m)*	*% of GB*
Great Britain	19.478	100.0	182.5	100.0	12,426.6	100.0
Scotland	3.121	16.0	57.8	31.7	4,228.7	34.0
Wales	2.049	10.5	45.1	24.7	2,613.2	21.0
North East	2.623	13.5	22.3	12.2	2,955.8	23.8
North West	3.056	15.7	18.8	10.3	972.8	7.8
Yorkshire/Humberside	2.344	12.0	6.8	3.7	397.6	3.2
East Midlands	0.700	3.6	1.5	0.8	61.4	0.5
West Midlands	3.323	17.1	22.6	12.4	929.7	7.5
Eastern	0.146	0.7	n.a	n.a.	n.a.	n.a.
South West	1.013	5.2	7.1	3.9	256.0	2.1
South East	1.100	5.6	n.a	n.a.	n.a.	n.a.

Source: Industrial Development Act 1982, *Annual Report*.
Note that it has not been possible to include the South-East and Eastern regions for parts of the table, because they did not contain designated areas throughout the whole period.

However, the distribution of Assisted Areas according to region does not appear to have a determining influence on the ability to use incentives to attract investment projects. Examining foreign-owned projects between 1986 and 1996 in Table 1, investment has been concentrated in a handful of regions, to a large extent, irrespective of their share of Assisted Areas, especially Scotland, Wales and the North-East (though the latter only really in terms of the value of foreign investment, rather than associated employment). While the distribution of Assisted Areas between regions has changed over the same ten-year period (especially in the cases of the South-East and the Eastern region, which have only recently had designation), their relative *share* of the country as a whole has remained relatively constant over the decade.

As well as differences in investment related to RSA, overall RSA expenditure shows notable regional variation (Table 2). The differential between Scotland and Wales on the one hand and the English regions on the other is significant: expenditure per head of working population in the Assisted Areas shows that the former two regions are significantly higher than British averages. Indeed, the averages for expenditure in Scottish and Welsh Intermediate Areas are higher than the averages in several Development Areas in England. This gives some weight to the accusations made by some English regions that the Territorial Agencies might be encouraging firms located in their Development Areas to relocate to their Intermediate Areas (especially from the North-West and the North-East).

Table 2: Average annual RSA expenditure per head of working population, 1990-95 (£)		
	Development Areas	*Intermediate Areas*
Great Britain	35.2	13.0
Scotland	51.0	21.2
Wales	80.2	30.8
North-East	28.6	18.2
North-West	19.0	13.0
Yorkshire & Humberside	18.6	7.8
East Midlands	15.8	13.6
West Midlands	0.6	9.8
Eastern	n.a.	0.8
South-West	29.6	12.2
South-East	0.8	7.8

Source: Quoted in Regional Policy Commission, 1996.

Analyzing grants to foreign companies in more detail suggests that there is also consistent regional variation (Table 3). In terms of the share of RSA expenditure accounted for by foreign companies, Scotland and the North-East were the only regions where more than half of total RSA expenditure went to foreign company projects, suggesting that incentives were more strongly associated with attracting and retaining investment (though Wales was not far behind, while being considerably higher than nearly all English regions).

Table 3: Value of RSA offers by company origin, 1986-96 (%)		
	Foreign	*UK*
Scotland	54.4	45.6
Wales	48.1	51.9
North-East	51.4	48.6
North-West	33.5	66.5
Yorkshire & Humberside	22.3	77.7
East Midlands	20.8	79.1
West Midlands	38.9	61.1
South-West	45.4	54.6

Source: author's calculations based on Industrial Development Act 1982 annual reports.
Note that it has not been possible to include the South-East and Eastern regions in this table, because they did not contain designated areas throughout the whole period.

Policy-makers have argued that a few large projects can distort such figures. As a result, Table 4 presents expenditure data over the 1986-96 period, examining average grants, cost-per-job and the rates of award (ie. the ratio of the value of the incentive to the level of associated capital investment). RSA offers to secure inward investment projects cannot be easily separated out, though it is possible to examine awards to foreign companies (which tend to be more clearly linked to mobile investment) and domestic firms.

Table 4: Regional variation in RSA offers by company origin, 1986-96						
	Average grant (£mn)		*Cost-per-job (£)*		*Award rate (%)*	
	Foreign	UK	Foreign	UK	Foreign	UK
Great Britain	0.994	0.110	6,707	3,836	9.9	7.8
Scotland	1.261	0.236	7,927	5,079	9.2	7.1
Wales	1.023	0.220	6,711	4,757	8.6	6.4
North-East	1.176	0.087	8,111	3,865	16.3	8.9
North-West	0.839	0.061	5,733	3,046	10.3	8.2
Yorkshire/Humberside	0.555	0.102	5,232	3,541	11.2	10.0
East Midlands	0.289	0.061	3,584	2,189	11.8	11.1
West Midlands	0.564	0.051	4,120	2,312	10.0	9.5
South-West	0.775	0.073	4,822	4,030	7.5	6.0

Source: author's calculations based on Industrial Development Act 1982 annual reports.
Note that it has not been possible to include the South-East and Eastern regions in this table, because they did not contain designated areas throughout the whole period.

It has been noted elsewhere that foreign companies consistently tend to receive higher levels of assistance than domestic companies (Raines and Wishlade, 1997). This is particularly true when examining average awards and cost-per-job, which show that resources are targeted at attracting foreign investment (especially true in the case of the North-East, where the difference in average awards between foreign and UK companies is a factor of 13.5). The figures for award rates give some indication of the reasons for this: foreign investment projects tend to be larger than domestic ones, so award rates differ by a smaller factor than average grants. On average, grants to foreign projects yield five times the number of jobs as domestic investment cases. However, the consistently higher rates and significant differences in cost-per-job indicate that regions must be prepared to devote higher levels of resources to secure projects.

Table 4 suggests that the evidence for regional variation is mixed. In terms of average grants and cost-per-job, Scotland and the North-East again have averages higher than Great Britain as a whole, along with Wales. However, this does not demonstrate that there is a conscious effort to use RSA more intensively to attract investment projects: award rates in Scotland and Wales are *below* the British average, while several English regions (including the North-East) have higher figures. Similarly, a more detailed analysis of the foreign projects receiving assistance does not reveal entrenched variation (Table 5). The average value of projects in Scotland and the North-East are much higher than other regions, with Wales and the North-West as a 'second-tier' regions (partially explaining the higher average grants and cost-per-job figures applying in these regions). However, in employment terms, the regional differences in project size are smaller - Scotland, Wales, the North-East and North-West are broadly comparable, while projects in the South-West are significantly higher. The capital intensity of projects is also much higher in Scotland and the North-East; given the high award rates offered in the North-East, if anything, the implication of the statistical analysis is that it is the North-East which is making the most intensive use of resources to attract investment, running counter to the complaints made by its regional bodies about Scottish and Welsh practices.

Table 5: Regional variation in foreign company projects receiving RSA, 1986-96			
	Average project value (£mn)	*Jobs per project*	*Capital expenditure per job (£)*
Great Britain	10.095	149	67,751
Scotland	11.585	159	72,861
Wales	8.828	153	57,701
North-East	19.193	146	131,459
North-West	8.636	147	58,746
Yorkshire/Humberside	6.213	106	58,610
East Midlands	3.410	81	42,093
West Midlands	5.635	137	41,128
South-West	5.819	161	36,143

Source: author's calculations based on Industrial Development Act 1982 annual reports.
Note that it has not been possible to include the South-East and Eastern regions in this table, because they did not contain designated areas throughout the whole period.

In spite of the mixed picture, the initial analysis suggests that Scotland, Wales and the North-East exhibit a greater facility in devoting resources to attracting investment projects than other regions. A closer study of large grants reveals in more detail the extent to which these regions may be more active in competing for investment projects. In Table 6, the focus is on grants exceeding £2 million in three consecutive three-year periods between 1987 and 1996 (taken on a March-to-March basis, reflecting the government accounting periods, and with the full grant amount allocated to the point at which the first payment is made to the company). Grants for foreign and domestic companies are considered together, as it is more likely that there is greater competition for both foreign *and* UK company projects of this scale. Similarly, the £2 million cut-off point has been chosen because not only are larger grants more closely associated with bidding between regions, but it is the point at which national monitoring of grant awards is introduced. As described in more detail in the following section, all grant offers over £2 million in the *English* regions must be cleared through the Industrial Development Unit of the DTI; effectively, £2 million is the level at which central government believes that the resources committed by English regions have national implications. Table 6 only focuses on a few regions - Scotland, Wales and four English regions - as they are the only regions to have consistently offered grants of over £2 million in each period.

Overall trends show that the importance of such grants has been increasing over time, both in terms of number as well as value (as would be expected from the effect of inflation on the grants' impact). Among the regions, Scotland and Wales have consistently been able to devote more RSA resources to large grant offers than the English regions. By the recent period, expenditure was highest in Scotland by a significant margin, nearly twice the amount spent in Wales. In terms of the accumulated value of such grants, the two regions have constantly risen across the three periods, and along with the North-East, represent a higher share of total RSA expenditure than the other two English regions.

Table 6: Regional variation in RSA offers of over £2 million, 1987-96				
	Value (£ mn)	*% total RSA expenditure*	*Number*	*% total RSA number*
Great Britain				
1987-90	190.077	35.3	41	0.8
1990-93	319.545	41.1	54	1.6
1993-96	419.880	43.5	84	1.8
Scotland				
1987-90	33.597	18.3	10	1.6
1990-93	144.325	47.7	21	3.8
1993-96	161.090	47.2	31	4.5
Wales				
1987-90	34.500	19.2	10	2.0
1990-93	87.550	38.0	17	2.9
1993-96	84.800	44.1	23	4.3
North-East				
1987-90	51.282	38.0	6	0.9
1990-93	51.950	85.0	6	1.3
1993-96	63.400	47.1	8	1.1
North-West				
1987-90	34.532	41.2	8	1.0
1990-93	17.610	22.3	5	0.7
1993-96	12.190	18.7	3	0.4
West Midlands				
1987-90	10.846	11.2	2	0.1
1990-93	7.750	23.0	2	0.4
1993-96	20.600	26.2	3	0.7

Source: author's calculations based on data in *Employment Gazette* and *Labour Market Trends.*

More revealing is the *number* of grants offered in each region. Overall, considerably more large grants have been offered in Scotland (especially) and Wales than the English regions. The numbers have also increased rapidly in Scotland and Wales - fastest in Scotland, where the number tripled across the three periods. By 1993-96, both regions had substantially higher shares of grants of over £2 million in their profiles of total incentive offers than the English regions. As a result, the two regions dominate the use of £2 million-plus grants in Britain as a whole. With respect to the value for of all such grants, Scotland and Wales have accounted for rising shares: from just over a third in 1987-90, peaking in the 1990-93 period at just under three-quarters, but by 1993-96, still responsible for over half of the value of all large British grants. In terms of the number of grants, the intensity of use by Scotland and Wales is even larger, accounting for two-thirds of the total number of all large British by the 1993-96 period.

What is particularly surprising is that the dominance of Scotland and Wales has developed across the decade rather than existed from the start. In terms of the total value and number of grants, Scotland and Wales were roughly equivalent to the North-West and North-East (indeed, the latter had the highest levels of expenditure on large grants). However, whereas the intensity of using £2 million grants increased in Scotland and Wales, it remain largely stagnant or declining in the English regions. It suggests that regions like the North-East have been able to make individually very large grants, but not a *consistently* large number of such grants. When examining the composition of the North-East's grants, this perception is reinforced, as it can be strongly argued that the individual grants have had an unusually distorting impact. While large incentive offers have been made in nearly all the regions shown here, their impact in the North-East is distinctive as a result of three particular cases: offers of incentives to Nissan in 1987 (£35 million), Fujitsu in 1991 (£30 million) and Siemens in 1996 (£30 million). These were all offers substantially above both regional and national averages (indeed, they remain three of the five largest grants offered - and three of only seven grants offered over £20 million - in this period as a whole). In the case of no other region does a small number of individual cases have comparable effects (at least in the period under review - a similar situation may arise more recently with the Welsh offer of £69 million to LG and the Scottish grant of £55 million to Chungwha). To the North-East, the impact in expenditure terms of these three grants is significant: expenditure on all grants of over £2 million fall from £51.282 million to £16.282 million for 1987-90, from £51.95 million to £21.95 million in 1990-93, and from £63.4 million to £33.4 million. Removing these three grants would reduce the ratio of average grants between 1986 and 1996 shown in Table 4 for foreign to domestic companies from 13.5 to 6.6.

4. REGIONAL GOVERNANCE AND COMPETITION FOR INVESTMENT

In summary then, it appears that Scotland and Wales (and the North-East in individual cases though not over the long term) have been better able to make use of public resources to attract and retain large investment projects, as reflected in the intensity, scale and number of incentive offers made to investment projects. The expenditure patterns do not so much reflect distinctive strategies of using regional incentive expenditure for inward investment promotion, but that Scotland and Wales appear to possess the governance mechanisms for securing the necessary resources to achieve these ends on a consistent basis. This is not to argue that Scottish and Welsh success is principally attributable to the financial muscle of their inward investment institutions. In examining RSA figures, it is not argued here that incentive offers are a major determinant of locations decisions. There are numerous (again anecdotal) cases where the regions offering largest packages of assistance did not succeed in attracting investment project. Yet it can be surmised that the ability to offer *consistently* large incentive packages suggests a more extensive or active governance system in particular regions, either in being able to access higher-than-average resources for making incentive offers or having the capacity to use the same level of resources as other regions more effectively in promotion.

The key to the ability of Scottish and Welsh authorities to make consistently larger awards than the English regions lies in the different relationships between inward investment promotion and RSA award-making in each region. It is worthwhile reviewing RSA decision procedures (described in detail in Yuill, Bachtler and Wishlade, 1998). A discretionary incentive, RSA is administered separately in different parts of the country - by the DTI and its regional arms in the Government Offices in the English regions, by the Scottish Education and Industry Office in Scotland and by the Industrial Finance Division of the Welsh Office Industry Department in Wales - according to common guidelines laid down by the DTI in consultation with the other administering bodies. In England, the regional Government Offices have decision responsibility for all grant offers up to £2 million, after which, decisions are referred to the Industrial Development Unit (IDU) of the DTI. In Scotland and Wales, all grants up to £7 million are made by the respective administering bodies (under the authority of their Ministers). Decisions under this limit are based on reports made by appraisals made by officials in the different departments - taking into account, *inter alia*, the feasibility of the project, its financing, the nature of the firm and the state of the sector - and recommendations based on these reports are made to an advisory board composed of unpaid members with relevant industrial experience.

All grants over £7 million require Treasury agreement (in England as in Scotland and Wales), though in practice, it has been very rare for a Treasury decision against a project to overturn a decision made 'lower' down. The controls over award offers rely principally on the guidelines laid down centrally, in which eligible projects must be:

- *viable*, so that assistance does not subsidize investment which will not be able to sustain itself;
- *additional*, so that assistance provides the minimum required to allow the investment to go ahead at the eligible location;
- *efficient*, so that assistance strengthens the regional *and* the national economy; and
- *job-creating or safeguarding*.

By themselves, these guidelines would not necessarily be sufficient to control competitive bidding between regions, as to a large extent, they are based on appraisals made by the individual regions. In particular, decisions over what constitutes additionality and efficiency, as they are the two criteria that are most open to interpretation. Nevertheless, other constraints exist on the capacity of regions to offer grants: what may be termed 'hard' average award limits and 'soft' budgetary limits.

Hard limits are in place as a result of cost-per-job restrictions on all public assistance provided to individual projects. Cost-per-job limits are made by two ceilings: EC and national. European subsidy rules ensure that assistance cannot exceed 40 percent 'net grant equivalent', or 5,500 ECU per job in designated Development Areas and 25 percent net grant equivalent, or 3,500 ECU per job, in Intermediate Areas. Internal limits have been placed by the Treasury within these EC restrictions: the confidential limits vary according to the status of the designated area. In the current debate over competitive bidding, accusations have been made that the Scottish and Welsh authorities have occasionally exceeded these national limits, notably in the case of the attraction of LG to Wales (*The Economist*, 1996). While the allegations have never been substantiated - and indeed, categorically denied by the overseeing body within the DTI, the IDU (as noted in memorandum submitted to the Trade and Industry Committee, 1997) - the capacity for Scotland and Wales to offer consistently higher awards in individual cases can still exist within the cost-per-job limits laid down nationally, especially given that the average cost-per-job figures are considerably lower than the national ceilings.

In addition, *soft* limits operate through budget constraints for the different regions. RSA budgets are contained in separate ministerial votes: the DTI (for the English regions) and the Scottish and Welsh Offices. Expenditure is 'demand'-led, based on forward estimates and past expenditure which are made by the individual departments and negotiated with the Treasury. England as a whole has received the largest budget allocation - £117 million for 1996-97, as compared to £81 million in Scotland and £55 million in Wales. While there is a strong element of need in setting the budgets, entrenched differences in past expenditure - such as those shown in Table 2 - can lead to certain regions having greater budgetary resources. Moreover, the budgets do not present firm limits and it is possible for money to be vired between expenditure areas in the different departments in very special cases.

Other forms of regulation exist on aspects of blatant competitive activities between the regions under the current arrangements. To avoid the overseas representatives of different regions undercutting each other's promotion efforts, the Committee on Overseas Promotion has set common guidelines to ensure a degree of coordination, including notifications of company visits and disputes procedures. For the use of incentives in promotion, a 'clearing-house' of offers partially exists with the IDU inside the DTI: where a company project receives an offer from more than one region, these must be reported to the IDU, which lays down the same cost-per-job limits to the competing regions. The effectiveness of these regulations is not clear, especially in the case of the IDU: the weight of anecdotal evidence about competing bids suggests that 'loopholes' allow regions to avoid the strictures of IDU rulings.

Consequently, the limits on RSA awards offer scope for more active regions to expand their use of resources above what might be regarded as national averages. Central to this is the strength of the regional promotion agencies and their relationships to their respective award-making institutions at regional level. The structure of inward investment in the UK reveals a system of bounded competition between different regions, with partial coordination at national level and a piecemeal division of responsibilities between regional and national levels.

At national level, it is the responsibility of the Invest in Britain Bureau (IBB) within the DTI to market the UK as a whole and to coordinate loosely the promotion activities of the different regions. Beyond this, promotional structures differ greatly between the regions. Historically, the most active and successful has been Locate in Scotland. Set up in 1981 in response to a report criticizing the arrangements for inward investment promotion by the Scottish Affairs Select Committee, it is a joint operation between the Scottish Office and Scottish Enterprise, drawing its staff from both organizations with policy set by a Supervisory Board chaired by the Scottish Office Industry Minister. It is the largest of the regional-based agencies with a staff of 100 (40 outside Scotland), and by reputation, one of the most sophisticated agencies in Europe (Brown, Raines and Bachtler, 1997).

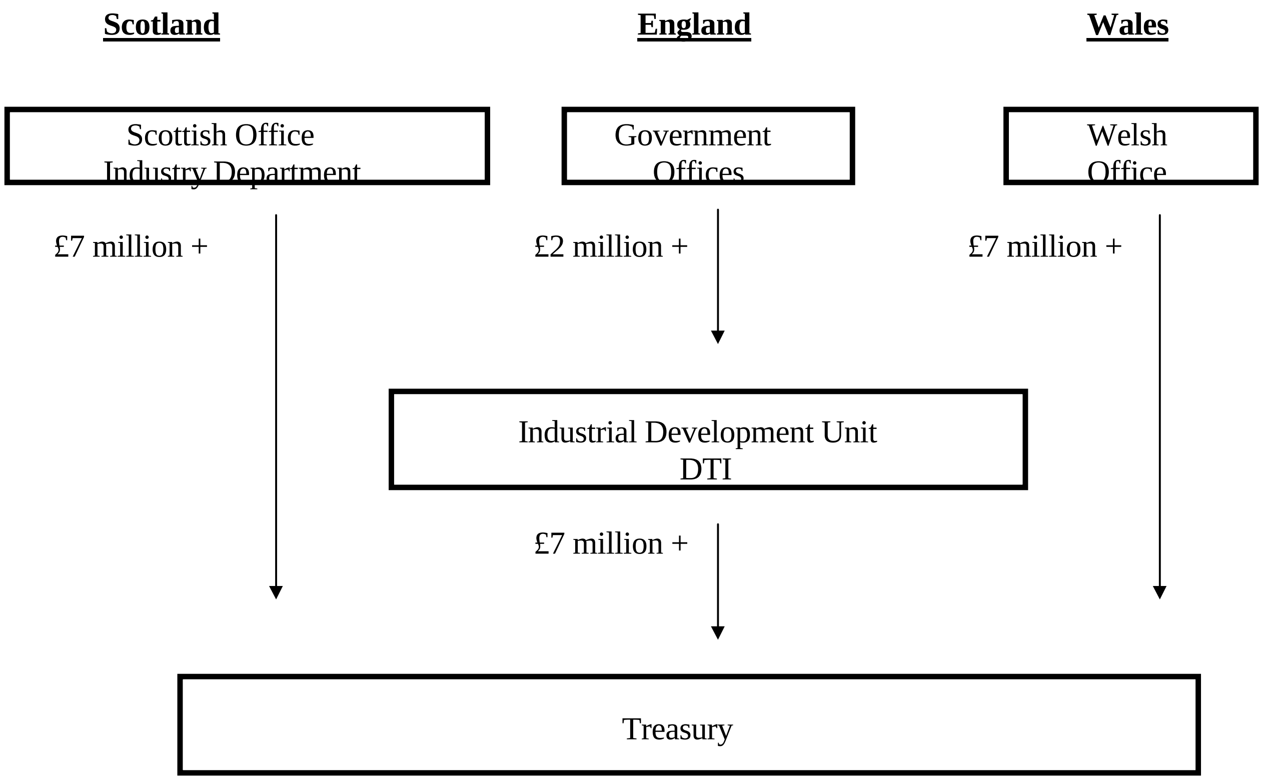
In Wales, investment activity is the sole responsibility of the territorial development body, the Welsh Development Agency. Inward investment activity is handled by its International Division, which works in close coordination with different parts of the agency as a whole. While broadly similar to Locate in Scotland in overall resources and possessing dedicated overseas offices, it differs in the distribution of some promotional activities - notably aftercare - through other parts of the development body.

However, the Scottish and Welsh set-ups show greater contrast with the ten English regions, which are served by regional bodies - Regional Development Organizations (RDOs) - and the IBB. The IBB has a key role in promoting the English regions abroad, as the latter lack the overseas representation of the Scottish and Welsh agencies. The RDOs vary in size, resources and experience, ranging from bodies that have only been set up in the last two years - such as the RDO for the Eastern region - to relatively sophisticated and long-standing organizations such as Inward for the North-West and the Northern Development Company for the North-East. They are partly funded by DTI, partly by local authorities.

As Dicken and Tickell (1992) noted, the main difference in structure between the territorial agencies and the English RDOs is that the former are part of larger development agencies while the latter are mainly promotional bodies. The inward investment bodies in Scotland and Wales are able to draw upon a variety of resources from a single institution - a development agency with wide-ranging powers - whether these are sectoral expertise or property development support as required by promotion activities. Close ties with institutions with direct political representation allow the inward investment agencies to make more intensive use of Ministers, particularly in marketing support in promotion (though Ministers will also support promotion efforts in the English regions, their involvement appears considerably less systematic than in Scotland and Wales, where the promotion bodies and Ministers are effectively part of the same institution). More importantly, inward investment agencies in Scotland and Wales are linked closely to related local bodies and organizations by the common goal of attracting investment. In other words, the strength of the territorial agency - especially in terms of the resources at its disposal - has allowed the attraction of inward investment to become a strategic objective that has seeped into the objectives of other organizations, including local authorities, Local Enterprise Companies as well as individual companies.

In a practical sense, this strategic uniformity is reflected in organizational terms by the close relationship between award-making powers and promotion activities in Scotland and Wales (as shown in Figure 1). In both cases, RSA case officers work closely with investment promotion officials - indeed, within the same organization in Locate in Scotland, as the Scottish Office officials responsible for case appraisal and recommendations work directly within the promotion body. This - and the wider latitude in award decision-making (through the lack of a supplementary cut-off point for investment decisions of £2 million) - allow Scotland and Wales greater speed in presenting offers (and counter-offers) to companies. The English RDOs cannot make indicative offers of RSA to prospective investors as they have no award-making powers, but must have recourse to the regional Government Office (and to the IDU for offers over £2 million). While it is not clear how important the ability to use speed can sway investment decisions, it clearly gives the Scottish and Welsh authorities greater negotiation flexibility. Speed of response may well be the crucial factor favouring the ability of Scottish and Welsh agencies to provide more resources for inward investment projects.

Figure 1: Decision-making structure for RSA



5. IMPLICATIONS IN FUTURE CHANGES IN REGIONAL GOVERNANCE

The nature of regional governance systems - in terms of their autonomy from national regulation and the resources which they command - determines the capacity of inward investment promotion at regional level. Yet if the relative institutional strengths of regional investment promotion have influenced inward investment patterns, this raises questions about changes in regional sub-governance. Current plans to redistribute policy-making authority between central government and the regions have been designed to increase the capacity of regions both to develop local economic strategies and to have access to the necessary policy resources for implementing these strategies. Given its importance in the existing strategies of regions, competition for inward investment is likely to be greatly affected by any alterations in the current balance of promotional effectiveness.

Before the Labour government, there had been an existing trend towards regionalization in both the award-making and promotional aspects of inward investment attraction, notably with the establishment of RDOs in all the English regions. However, the election of the new Labour government has amounted to a sharp break with earlier approaches, not so much in terms of the direction but the scale of changes, underpinned by a significantly different philosophy with regards to regional governance. The new government's approach was largely laid out in the 1996 investigation into regional policy made by the Regional Policy Commission, when Labour was in Opposition. In its report, *Renewing the Regions*, the Commission argued that regional policy should be based on (*inter alia*) the following principles:

> "*subsidiarity*... (which) means that policy should be devised as far as possible, at a *regional* level... it should be *inclusive*, that is, it should involve all social and economic groups working in the field of economic development in the regions... it should involve *partnerships* of the principal social and economic actors in the region... (and) those responsible for implementing the policy should be *democratically accountable*" (Regional Policy Commission, 1996, p.9).

These principles have been manifested in the legislative stream of activity since the election, consisting of the creation of assemblies with extended economic development powers in Scotland, Wales and Northern Ireland,[6] the creation of Regional Development Agencies in the English regions (partly based on the models of the territorial agencies) and their (albeit limited) democratic accountability to Regional Chambers made up of the representatives of local interests.

The most far-reaching changes are anticipated to be the introduction of devolved Assemblies in Scotland and Wales. Following the Government White Papers and their approval in local referenda, the necessary legislation has quickly been set in motion. The new Assemblies will have authority over a range of policy areas previously centralized through Parliament and which could only be delegated by central government. Among these are economic development and area regeneration, including control over "financial assistance to industry *subject to common UK guidelines and consultation arrangements to be set out in a published concordat*... (and) inward investment" (emphasis added) (as quoted in the White Papers for both Assemblies - the Scottish Office, 1997 and the Welsh Office, 1997). While it remains to be seen what limitations these guidelines and consultation arrangements will place on the new Assemblies' powers, in principle, it suggests that Scotland and Wales will be better able to determine how much significance should be given to inward investment attraction in their development strategies and the resources that should be devoted to the objective.

Devolution has significant implications for the use of RSA in inward investment promotion. It will not affect the areas in which assistance can be offered - as area designation is one of the reserved policy areas of central government - but it can alter both the overall resources available and the criteria upon which awards are made. First, the level of expenditure on regional assistance can be raised. Under the new arrangements, Scotland and Wales should be able to shift resources more easily between agreed expenditure blocks. While the present system allows flexibility by being demand-led, the Assembly would have the authority to raise budgets beyond the restrictions of the current formula. In Scotland, this can be supplemented by the Assembly's powers to boost revenue through its tax-raising powers (which the Welsh Assembly does not possess).

[6] The greater regionalization of economic development policy-making with the creation of the Northern Ireland Assembly has been principally shaped by factors arising more from the Province's politics rather than as part of a UK-wide strategy.

Second, in theory, the Assemblies will be able to alter the criteria on which incentive offers are made to companies. This could lead to a relaxation of the additionality criteria, particularly if it is no longer applied on a UK-wide basis, but more importantly, the Assemblies can allow regional bodies to offer higher levels of assistance by setting new cost-per-job limits. The Treasury will no longer be able to lay down limits to apply to the whole of the UK, though the Assemblies will have to abide by EC award ceilings. Overall, this might not lead to a change in average cost-per-jobs, but it does mean that in individual cases, Scottish and Welsh bodies could offer awards above English limits.

Whether Scotland and Wales will choose to exert these new powers to give greater precedence to inward investment attraction cannot be assumed. The two Assemblies may not choose to encourage an inward investment strategy, and may indeed, wish to restrain the current scope of actions of its inward investment agencies. As the Assemblies will have enhanced political authority for imposing economic development priorities across the existing development bodies in Scotland and Wales, it could be argued that in some ways, the new arrangements could restrict institutional autonomy, as inward investment agencies will be more directly accountable to democratic institutions controlling their budgets (Phelps, Morgan and Fuller, 1998). Given the recent experiences with the closure of Siemens, the collapse of the Hyundai investment and the delays to the construction of the LG factories, the Assemblies may be cautious out of fear of losing public policy resources through the non-recoverability of incentive payments already made.

Current trends in investment may also mean that changes in the institutional capacity of regions may not affect competition. Existing decline in greenfield investments has been reinforced by the Asian crisis, leading to a greater reliance on expansion investment. In this case, it could be argued that competition may be reduced, though clearly the opportunity to poach from other regions remains. At same time, the new Assemblies will be sensitive to the risk of investment 'saturation', as a continuing influx of new large projects could lead to shortages in key inputs, such as labour skills.

Nonetheless, the institutional capacity to augment their inward investment promotion remains, and without suitable controls, could lead to more intensive competition. As underlined in the quote above, the aim is to introduce new guidelines to contain competition, especially for large investment projects. Recognizing the potential problems of the institutional changes, there have been efforts to negotiate a concordat between different ministries in advance of devolution. The negotiations have not been completed so details of any arrangements have not made public, though wide and common rumours have spread about its main outlines. No institution will be given an overall right of veto on promotion activities - it was originally feared by Scottish and Welsh authorities that such authority might be located in the DTI. Rather, it is likely that a special committee would be established - possibly based in the Cabinet Office - with representatives from the DTI and the Scottish, Welsh and Northern Ireland Offices (Groom and Buxton, 1998). A region would be required to notify its intention of offering incentives to all investment projects of over 500 jobs to the committee and where more than one region displays interest in the same project, a meeting would be called and common levels of aid would be set: effectively, the committee would operate as a beefed-up version of the existing IDU. While it is too early to estimate the committee's ability to contain inter-regional competition, doubts can be expressed about the emerging framework. As a form of self-governance, the system would remain open to political pressure, especially as its authority is only vested by participating bodies. It might arrest the current level of competition, but if the committee's activity was to result in increasing investment into the English regions, the English and Welsh authorities might be expected to show some resistance.

At same time, regionalization of economic development powers has been taking place in the English regions with the establishment of the Regional Development Agencies. Although the original aim of the RDAs may have been to set up the English equivalents of the territorial development agencies (at least as expressed by Regional Policy Commission, 1996), the White Paper suggests that the powers granted to these new institutions - at least, at the outset - will not be as extensive (Department of Trade and Industry, 1997). When they are formally introduced by April 1999, the RDAs will have control over some forms of expenditure - notably the Single Regeneration Budget - but their main responsibility appears to be making regionalized development strategies. While the strategies are meant to guide public policy across the region, submission is voluntary by other authorities. The retention of many of the powers operated by the territorial development agencies in the Government Offices and other bodies in England - such as skills training responsibilities - is likely to hinder the ability of the RDAs to match their Scottish and Welsh counterparts.

Moreover, control over RSA award decisions remains with the Government Offices. The current institutional division between award-offering and award-making in the English regions will continue in the English regions, a point of caution made by the House of Commons Select Committee on Environment, Transport and Regional Affairs in its inquiry into the government's RDA plans (Environment, Transport and Regional Affairs Committee, 1998). Similarly, decisions for grants of over £2 million will continue to pass to the DTI. Hence, while the creation of the Scottish and Welsh Assemblies increases their institutional capacity, regionalization in the English regions does not greatly alter the current arrangements in England.

6. CONCLUDING REMARKS

Competition for inward investment within the UK provides an interesting case-study of the problems associated with coordinating the activities and ambitions of regional governance systems. It has demonstrated that an uneven distribution of power between different regions - as reflected in the differing autonomy of their promotion bodies in attracting inward investment projects - can result in the varying ability of each region to capture public policy resources. Although the resources in question - regional incentive expenditure - are not limited (in that the ability of one region to make more incentive offers to inward investment projects does not impinge on the ability of another by reducing a fixed common budget), it has raised inter-regional tensions and sharpened awareness of how more independent promotion bodies can make more active use of government resources to attract projects.

Under the existing arrangements, it has been seen how the strength of promotion institutions in Scotland and Wales has enabled their regions to attract an above-average share of inward investment through an above-average use of regional incentives. While such a capacity has been manifested in the English regions on occasion (particularly the North-East), the consistency of the Scottish and Welsh approach has been reflected in their above-average grant awards and cost-per-job figures to foreign projects. More revealing has been the evidence of large awards, where not only have Scotland and Wales demonstrated the same dominance (especially in terms of the number of large grants they have been able to offer), but that dominance has increased relative to the English regions over the years.

The new arrangements - arising from the Labour government's commitment to regionalizing economic development policy further - seem likely to fortify the Scottish and Welsh position. Although it has been argued that changes regional *governance* are less important than changes in regional autonomy (Evans and Harding, 1997), it seems clear that the new Assemblies will augment the autonomy of inward investment policy. Whether that autonomy will be acted upon remains to be seen, the changes should lead to a greater facility to increase the public policy resources available for promotion (especially in Scotland, through its additional revenue-raising powers). Changes in the English regions with the creation of the Regional Development Agencies are unlikely to produce anything like an equivalent impact.

As inward investment is widely regarded at regional level as one of the chief 'development resources' available to a regional economy, the enhanced ability of the Scottish and Welsh authorities has implications for the type of development strategies that the English regions can pursue. In an environment of declining greenfield projects (at least for the near-future), Scotland and Wales will be better positioned to capture investment projects, possibly to the detriment of the English regions. Hitherto, competition between regions has been contained within national regulatory frameworks governing (however weakly) the distribution of public policy resources and setting guidelines for common approaches to investment competition, but the new arrangements will weaken these controls. While a new system is currently being designed, early indications of its outline do not show how it will address the fundamental problems arising from the weaker position of the English regions.

One result of this situation is that pressure will increase from the English regions to limit the other mechanisms by which Scotland and Wales secure national public policy resources. This has already been attempted with respect to the 'Barnett Formula', one of the key mechanisms by which the Treasury distributes expenditure between the main countries within the UK. Named after the then-Chief Secretary, the Barnett Formula was devised in the late-1970s in preparation for the possible devolution of Scotland at that time. Using a population-based formula, it shares out changes in the levels of expenditure between the different countries, so that changes in expenditure in Scotland and Wales are linked to changes in analogous programmes in England. Although updated at regular intervals with Census data, the Formula has come under recent criticism for its reinforcement of existing expenditure differences across the UK (Treasury Committee, 1997). According to Treasury figures for 1995-96, overall government expenditure in Scotland and Wales was 19 percent and 12 percent (respectively) above the UK average. While there is wide debate over whether such differences are necessary to allow the equal provision of common services throughout the country, the idea of preserving preferential expenditure has been weakened in the case of Scotland by its significant improvements in income levels relative to the national average (considerably above some English regions, such as the North-East and North-West). In the wake of devolution, there is likely to be increasing pressure from the English regions for the development of a more 'equitable' distribution of public policy resources across the UK. The newly-appointed chairmen of the RDAs have already announced that their priority once the RDAs have been set up will be to push for a review of the Barnett Formula (Jones, 1998).

As a result, it would seem that the current process of 'differential' regionalization (in which regions gain governance at different rates) may have the overall effect of accelerating the pace of regionalization in general. Unless robust systems for pre-empting and resolving disputes over the competition for public policy resources emerge, the English regions - most probably through the newly-created voice of the RDAs - may clamour for greater institutional powers. At the least, it is unlikely to diminish a perception of rising economic competition between regions within the UK.

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