

**LIBERATING
FREE ENTERPRISE:
A NEW EXPERIMENT**

**Speech by Rt Hon Sir Geoffrey Howe QC MP
Opposition Spokesman on
Treasury and Economic Affairs
to
The Bow Group
at the "Waterman's Arms"
Glenaffric Avenue
Isle of Dogs, London E14
on
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Almost ten years ago I was walking with a Labour Councillor, whom I knew well, down a road in Poplar, only a short distance away from here. As we passed beside a terrace of decaying houses, two up and two down and about a hundred years old, he observed: "Are those not a dreadful monument to private landlordism?" "Absolutely not," I replied. "The fact that they are here in such numbers is a remarkable tribute to the speed with which nineteenth century private enterprise housed the newly-urbanised working people of our country, to standards much higher than they had previously enjoyed. The fact that they are now in decay is a testimony to the impact of rent control, municipalisation and other manifestations of political folly". My Councillor friend was not convinced; but I think I did open a window in his mind.

Since then, the site has been cleared and still sits vacant. And the urban wilderness, which does so little credit to the effectiveness of well-intended political initiatives, has spread still further. London's docklands is far from being the only example of this. But since it is the birthplace of the Bow Group, it is as good a place as any to discuss a possible new approach to this problem.

Anything that can be seen beside the Thames can be matched by examples of dereliction on almost as large a scale beside the Mersey and the Clyde. Manchester, Leeds, the West Midlands – in almost every city of the same size one can see similar devastation. Even where some replacement has taken place, the results are often less than satisfactory. Some of the families will have been rehoused, but many businesses and most of the jobs will have disappeared. So too will far too many of the younger and more energetic inhabitants.

All this is part of Britain's wider problem. For some years now, our economy has been sliding into decline. Our living standards have been falling relative to those of the rest of the world. Seediness is the order of the day. While whole communities have been virtually blitzed by "planning" and stagnation, whole industries (in which Britain should still have a stake) have fallen off the edge of our economic table. And the businesses and industries of the future have not sprung up in their place.

Look out of the window on a train journey to any corner of Britain, and you can literally see the dangerous extent to which we have been living off the industrial and social capital that was accumulated by earlier generations – and failing to amass our own. Resources have been diverted to maintain consumer living standards today. But no seedcorn has been saved for tomorrow.

This is the key to understanding the developing sickness of our society. The consequent lack of economic success is breeding social tensions and threatening to destroy the framework of civilised existence. And in many areas, the burgeoning of State activity now positively frustrates healthy private initiative, widely dispersed and properly rewarded. Over-regulation is a major part of Britain's present disease.

In Liverpool in December 1976, 1100 acres of inner city land (15% of the total) lay vacant; but only 150 of these were included in any firm programme for development. A third of all this vacant land was allocated to highways, none of which were likely to be implemented; half of this land had been vacant for five years. The same story can be told of many other of our major cities.

Large parts of the London Borough of Lambeth, in which I live, continue to crumble in the name of "housing action areas", and the like. At the very gateway of Lambeth, the southern end of Vauxhall Bridge, stands a huge site that has been vacant for years. When Peter Shore recently asked Councils to provide a list of derelict land, this was duly reported to him by the Stockwell and Vauxhall neighbourhood council. It is owned by the Department of the Environment!

This is the background against which successive governments have introduced Bill after Bill and shuffled much the same amount of money from one new fashionably-named urban programme to another. But all attempts at reform seem only to multiply the bureaucracy.

As Judy Hillman wrote in the *Guardian* the other day, the docklands are "sinking under the weight of the planners' grand design". The local MP, Ian Mikardo, apostle of an entirely planned Socialist society, has rightly defined the effect of planning on his constituency: "One does nothing until one is absolutely sure that it is right. Since it takes many years to ensure that one is doing the right thing, one does not do anything at all for many years."

Tacitus put it more crisply (he was describing the Roman scorched earth policy in 1st Century Germany): "Faciunt solitudinem, pacem appellant."

There are said to be 5,000 acres of empty land in London's East End, more than half of them in public ownership. And, of course, this area is only one example. The frustrating domination of more and more of our urban communities by a combination of widespread public land ownership and public intervention into virtually all private activities, has produced a form of municipal mortmain which will not be shifted without a huge effort of will.

Henry VIII may or may not have had good reason to dissolve the monasteries. Many medieval communities certainly gained a new lease of life from the dispersal of monastic property to freebooting individuals. And long before the monasteries were dissolved, it had proved necessary to pass Statutes of Mortmain, specifically to prevent land being held idle in moribund monastic ownership.

Today's prelates, at once the leaders and the prisoners of municipal monasticism, are in town and county halls or the head offices of nationalised industries and public corporations. I do not question their goodwill and sense of commitment to the "the public interest". Just as zealously as the monks and abbots strove to do the will of God, today's chief executives and planning officers seek to serve the will of democracy – but alas, with less fruitful results.

In the outcome, tens of thousands of people are unwillingly involved in frustrating each other's efforts, as well as those of their fellow citizens. I sadly echo the comment of one frustrated planner, John Burrows, when he recently said that:

"One is forced to question the current priorities of a system of planning which spends so much time and energy exercising strict controls over the extensions of individual houses and minor changes of use, while allowing whole areas to be demolished and laid to waste for years, even decades, at the heart of the most populous cities in the country."

This dismal story of disappointed expectations surely represents the high water mark of our general case for a fundamental change of approach. It is essential to restore the competitive diversity of our economy, as quickly as possible. Inventiveness, marketing and development – all must be properly rewarded. New, small enterprises have a vital rôle to play. So too do established companies, with the experience which will enable them to respond to rapidly-changing world trading conditions. The much-maligned multinationals have done, and can still do, more for economic progress than all the meditations of Karl Marx.

This return to economic vitality crucially depends upon the fundamental reform of our tax system. Post-tax differentials in Britain are now even narrower, according to a recent statement by a Treasury Minister, than they are in China or in Poland. It is often said that the prescription of tax reform has already been tried and failed. Sadly, even under the last Conservative Government, that was not really the case. We must restore the legitimacy of becoming rich by taking risks: *that* is the way to promote the creation of real new jobs.

The other almost equally urgent need is to set about the sensible deregulation of our economy. By this I do not mean anything resembling a wholesale abandonment of those laws (for consumer protection or against racial discrimination, for example) which are an acceptable feature of most modern prosperous economies. I refer more specifically to economic interventionism – price and dividend control, for example; and to the consequences of our planning system, which I have already tried to spell out.

That is our general case for transforming the tax system, so as to restore incentives, and for liberalising the entire planning system, for challenging the effectiveness of Industrial Development Certificates, Office Development Permits and all the other paraphernalia.

But one must be very doubtful whether these general changes will bring speedy or sufficient relief to the worst-afflicted areas with which we are concerned. Some might even argue that these areas are beyond help, and would abandon them as inner city ghost-towns – a doleful monument to our collective incompetence. That would be a feckless and inhumane conclusion.

These areas are our biggest challenge. Can we, if we have the courage and imagination, transform them into our greatest opportunities? Are we perhaps driven to the conclusion that the remedies that need to be applied generally should be even more dramatically applied in the worst afflicted areas?

They still have, after all, some very real advantages. They are often close to other thriving commercial centres, almost as often close to rivers that have been great harbours. Much of the land is already cleared: the dereliction is itself an opportunity. And they still house communities who cherish a sense of civic pride but yearn for jobs, real jobs – who are looking for a window of hope for the future.

“Public enterprise”, which has been making more and more of the running for the last thirty years, has certainly not delivered the goods. Isn't it time to consider an alternative approach? The original prosperity of our cities was founded on the pursuit of profit. Why should we not again seek a solution that is based primarily on the view that those who help to restore prosperity are entitled to expect financial reward – and on a substantial scale?

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Against this background, I was delighted last year to discover that a distinguished Socialist, Professor Peter Hall, was beginning to reach for the same prescription as myself – and I emphasise that I am now offering a purely personal view.

Why not, he argued (and so do I) consider highly unorthodox methods? Why not, he suggested to the RTPI Conference at Chester last year, aim to recreate the Hong Kong of the 1950s inside Inner Liverpool or Inner Glasgow? Small selected areas of inner cities, he argued, should be simply thrown open to all kinds of initiatives, with minimal control – based on the idea of “fairly shameless free enterprise”.

The germ of this revolutionary idea springs from the experience of other communities where something like a ‘freeport’ solution has laid the foundations of economic liberation. Independent countries like Hong Kong and Singapore have been entirely free to make themselves magnets for enterprise, with generally benevolent tax and customs regimes, freedom from exchange control and an absence of unnecessary regulations and of heavy social or other obligations on commerce and industry. Special tax and other concessions for pioneer businesses have been guaranteed for a substantial period of time.

On a more modest scale, places like West Berlin (for special reasons) and Shannon in the Irish Republic, have developed a similar approach. Even within our own Kingdom, the Channel Islands and the Isle of Man offer some instructive lessons.

It is important to distinguish between three possible concepts: the freeport idea (a 'free trade zone', generally near a sea or air-port), the 'Crown Colony' idea (a largely independent community exempt from most legislation and indeed from the welfare state as well), and the 'enterprise zone' concept - the approach which I personally believe to be well worth studying.

An 'enterprise-zone' initiative would be designed to go further and more swiftly than the general policy changes that we have been proposing to liberate enterprise throughout the country. It would *not* be based on considerations of regional policy (which is an entirely distinct subject, with its own complexities and counter-arguments). Rather the idea would be to set up test market areas or laboratories in which to enable fresh policies to prime the pump of prosperity, and to establish their potential for doing so elsewhere.

We could designate, in four or five places for a start - Clydeside, Merseyside, the West Midlands and East London, say - substantial areas of land with the intention that most of them could be developed with as much freedom as possible - to make profits and to create jobs. The key elements of these enterprise zones might be as follows:

First, planning control of any detailed kind would cease to apply. Any building that complied with very basic anti-pollution, health and safety standards and that was not over a stated maximum height would be permissible, for any lawful purpose.

Second, the Community Land Act would be put effectively into reverse. Public authorities which owned land would be required, within a specified time, to dispose of it to private bidders, by auction in the open market. New developments in the area would be free from rent control.

Third, entrepreneurs who moved into this land would be granted exemption from Development Land Tax, and perhaps exemption from rates, in whole or in part.

Fourth, businesses in the areas in question should be given a guarantee that tax law (affecting investment, depreciation and so on) would *not* be changed to their disadvantage. And they should be entitled to an undertaking from the Crown that they would not be liable to any future proposal for nationalisation.

Fifth, certain other legal obligations or threats should be declared not to operate within the area: price control and pay policy, for example. There are other pieces of legislation that could be stated not to apply - such as some or all of the provisions of the Employment Protection Act.

Sixth, all these conditions would be guaranteed for a stated and substantial number of years.

How, finally, would this kind of scheme be administered? It would be agreeable to believe that it could be managed by or through the existing framework of local government. Certainly it would be necessary to ensure an effective rôle for elected representatives of local people. But quite a lot of today's problems arise from the difficulty in securing a common view between overlapping or adjacent local authorities.

So, although I can sympathise with those who would hope to avoid this need, it would, I believe, be necessary to establish a new model of authority, as others have suggested, with some of the qualities of a new town corporation. As long ago as 1961, Godfrey Hodgson argued the case in *Crossbow* for the establishment of this kind of "Old Town Renewal Agency" – to be available as a kind of standard kit for those communities that wished to apply for it.

There are many who would like to see many of the elements which I suggest applied throughout the economy, forthwith. I can see their point. But in the present state of political argument, is it not suitable to carve out an opportunity for demonstrating, on our own doorstep, that they will work?

If that happens, I hope we shall find communities queuing up to apply for enterprise-zone status. We shall have gone a long way towards winning the debate. Meanwhile my proposals are not intended to be a politically exclusive idea, but an experiment that could fire the imagination of people in all parties or in none.

No-one surely can doubt the need for dramatic change from the present position? In present circumstances, the enterprise – be it large or small – that wishes to move into these areas all too often feels reluctant even to start the bureaucratic battle of finding a way through. Despite the best intentions of many people, the prospect for the entrepreneur seems to be one of depressing hostility. Is it not worth taking some risks, departing from precedent, to replace this with an environment that is positively hospitable and inviting to enterprise? Why not try to make "all systems go", for a change.

If the stormy waters of the North Sea can expect to attract £25,000 million of investment over the next ten years, because of the prospect of profit that is there, it should surely be possible for the same prospect to attract the same kind of skill and capital to work in partnership with the people of our great cities?

Of course, the grey men whose job it is to consider the "administrative difficulties" of any new idea would be ready enough to start manufacturing the small print that could stop the initiative in its tracks. It might be argued, for example, that proposals of this kind would conflict with Treaty obligations to the European Community or in other directions. I suspect that these authorities would give a tolerant response if the model that I have in mind looked like offering a positive breakthrough to a more dynamic future for our society, and theirs as well. For it is high time for somebody, somewhere, to adopt a more dramatic and hopeful approach. It is about time we were prepared to make some fresh starts.

**ENTERPRISE ZONES
AND THE
ENTERPRISE CULTURE:
TEN YEARS ON**

Speech by the Rt. Hon Sir Geoffrey Howe QC MP

to

The Bow Group

on board the "Celtic Surveyor",

South Quay,

Isle of Dogs, London E14

on

26th June 1988

THE GENESIS OF ENTERPRISE ZONES

London's docklands were the birthplace of the Bow Group. Ten years ago today they were the birthplace of Enterprise Zones too.

We are meeting in the very heart of the Isle of Dogs enterprise zone, about a mile from the Waterman's Arms pub, where on 26th June 1978 I introduced the Bow Group to a new concept in British political discourse. It was an idea which set the ball rolling for an exciting experiment in economic policy that has, I believe, done much to prove the benefits of deregulation and promote what we now call the "enterprise culture".

Ten years ago today I suggested that the economic vitality of low-tax, high-growth trading states like Hong Kong or Singapore might be used as a model to revive Britain's derelict inner cities, where the worst vestiges of industrial slumdom were being perpetuated by a debilitating combination of excessive regulation, high rates and local authorities unwilling or unable to bear the costs of urban renewal.

In essence the idea was to revive certain decaying local economies – what I called the "urban wilderness", of which the Isle of Dogs was a particularly striking example – by suspending a whole range of obligations on the part of business to government. By drawing on the benefits of a kind of 'government-free zone', I hoped that these urban wastelands might be revived in ways that all existing policies had failed to achieve.

The situation in many places, it has to be said, not least here, was pretty desperate. Land lay empty and unused. Buildings were deteriorating and the money, like the people, were moving out. The local authority could not attract investment. The docks had come to a halt and the economic cycle was regressing fast.

And as I remarked at the Waterman's Arms:

"Anything that can be seen beside the Thames can be matched by examples of dereliction on almost as large a scale beside the Mersey and the Clyde. Manchester, Leeds, the West Midlands – in almost every city of the same size one can see similar devastation. Even where some replacement has taken place, the results are often less than satisfactory. Some of the families will have been rehoused, but many businesses and most of the jobs will have disappeared. So too will far too many of the younger and more energetic inhabitants."

The imagination required even to start reversing the economic disintegration of such areas needed to be on the same scale as the very desperation of this wilderness.

And as well as Conservatives, one or two Socialists were beginning to realise the calamity of the situation and the need for radical solutions.

Professor Peter Hall, for example, had spoken of the need to turn some of the inner cities over to what he described, with appropriate Fabian reserve, as "fairly shameless free enterprise". His ideas provided an encouraging parallel to my own thinking on the subject. Very few on the left, however, shared Professor Hall's insight.

The enterprise-zone concept, which I put forward as one solution to these problems, was not (as I explained then and as the 1979 Government subsequently made clear) based on considerations of regional policy.

"Rather", as I put it at the time, "the idea would be to set up test market areas or laboratories in which to enable fresh policies to prime the pump of prosperity, and to establish their potential for doing so elsewhere."

Even if a whole region might benefit from the spin-off, it was particular localities with no other hope that were meant to be the central target of such an initiative.

I listed a range of exemptions which might be accorded to a series of zones where "substantial areas of land . . . could be developed with as much freedom as possible", mentioning specifically, possible freedom from planning control, the Development Land Tax, rates, rent control, future nationalisation, pay and price controls and some of the provisions of the Employment Protection Act. (See p.11)

The initial reaction to these ideas was one of keen interest mixed with wry amusement or disbelief. The Financial Times styled my speech "kite-flying", with its columnist Peter Riddell speculating that in these zones streets might be named after "heroes of the cause". "Hayek Boulevard" and "Thatcher Plaza" were his initial suggestions.

Most Socialists saw in enterprise zones the threat of "capitalist Valhallas", although few I suspect ever thought much would come of the idea.

Like many others, the professional commentators and Socialist opponents little suspected how quickly Bow Group "kite-flying" in the Isle of Dogs was to become established political reality.

ENTERPRISE ZONES INTO ACTION

The good news for docklands and the rest of the country was, of course, that ten months after that speech the Conservative Party came to power, and we soon set about making the whole of Britain into one massive "enterprise zone".

Within the first Thatcher term, a large number of the restrictions I listed at the Waterman's Arms were abolished: we got rid of the barriers to enterprise which weighed so heavily on industry in Labour Britain.

Out went the Community Land Act, Development Land Tax, pay controls and price controls. The Employment Protection Act was substantially repealed and the nationalisation process was reversed: we began to privatise.

More quickly perhaps than we expected we succeeded in getting rid of many of the restrictions that blighted entrepreneurship. Even so, that took time, and the case for concentrated pilot zones of freedom still stood. So as Chancellor I set up a series of those "test market areas or laboratories" in which to see how capitalism in undiluted form could revive our derelict industrial landscape.

In the 1980 Budget I announced that the enterprise-zone concept would be incorporated in that year's Finance Act. On this basis, ten zones were designated in 1981-82 for a ten-year period in "areas with problems of economic and physical decay" - the so-called 'first-round zones'. Thirteen more zones were subsequently designated on a similar basis in the years 1983-86 - so-called 'second-round zones'. (These figures relate to England, Scotland and Wales: two zones were also designated in Northern Ireland.)

Once the experiment took shape we found that it quickly enjoyed an increasingly favourable response from a wide range of (sometimes unexpected) quarters. I vividly remember, for example, only a few weeks after the 1980 Budget, being lobbied in Glasgow by the Socialist Mayor of Clydebank who wanted us to designate an enterprise zone in his area. In due course we did so, and Clydebank, like the Isle of Dogs, was to prove one of the most exciting of the first wave of zones.

The execution of the enterprise-zone policy fell to the Department of Environment, headed by Michael Heseltine, who committed himself with vigour to implementing the concept as a key part of his overall policies for reviving the inner cities.

The zones of course did not stand alone: they took their place in a broader strategy for urban renewal, which included a prominent rôle for the urban development corporation, also pioneered here in Docklands in 1981, and equally in Merseyside, with the LDDC (London Docklands Development Corporation) and the MDC (Merseyside Development Corporation).

The possible rôle of UDCs had in fact been explored in my 1978 Isle of Dogs speech, drawing on ideas contained in an article by Godfrey Hodgson in *Crossbow* in 1961, under the somewhat provocative title "Wigan Delenda Est". Michael Heseltine picked up the UDC idea and used it to great effect: the Government has designated five more UDCs since and has four more in the pipeline. In a number of areas, here in the Isle of Dogs and in Salford Quays, for example, enterprise zones operate in partnership with or alongside UDCs. This has proved to be a particularly fruitful marriage.

The 23 enterprise zones actually chosen ranged in size between about 120 and 1100 acres, and they were located in all parts of the country and in many

different types of urban setting. Most, however, illustrated very vividly the sort of dereliction and squalor which Socialist over-regulation and lack of incentives had wrought so painfully on this area, the Isle of Dogs. Most were marked by depopulation and industrial blight caused by a frustration of the natural processes of urban adjustment in the market-place.

The major zones – the Isle of Dogs, Salford/Trafford, Clydebank, Tyneside, Corby – tended to have big, disused factories, vacant sites and little if any retail or service activity of any kind.

The incentives offered to these zones were generous, although the list of necessary exemptions had grown shorter than the one I gave in the Waterman's Arms because by 1981 a number of the burdens I had referred to in that speech had already either disappeared or were being abolished.

The main concession we decided to extend to the zones was that all industrial and commercial property, including retail outlets, should automatically be exempt from local authority rates. The great bulk of companies located in the zones have since cited this as the main incentive which attracted them to invest.

The other principle concessions were:

- the provision of 100% tax allowances on investment in all industrial or commercial buildings;
- the simplification of planning permission. (Any application that corresponded to planning requirements agreed at the time of designation would automatically be approved, and all other applications would be dealt with by a special speedy procedure, usually lasting no more than 14 days);
- exemption for firms from the scope of most compulsory government statistical requirements;
- exemption for firms from the power of Industrial Training Boards to impose levies on employers and demand certain types of information from them;
- relaxation of criteria applying to the designation of private customs warehouses, and the chance for accelerated approval of applications to engage in 'inward-processing relief' (duty free import and re-export of unfinished goods originating outside the EC).

This package of measures, tailored to encourage industrial and commercial redevelopment in areas suffering urban blight, offered some powerful financial incentives to entrepreneurs. And that is an important point to note: one of the primary goals, if not *the* primary goal, of the zones was to counter dereliction and decay by getting otherwise-reluctant businesses into these areas, and "up and running". Beneficial side-effects – like the up-grading of local housing, or expanded employment in the hinterland of zones – would, we believed, follow logically if the zones themselves met this central goal. This was the reason given for the decision not to exempt the zones from domestic rent control.

Stuart Butler, Director of the Heritage Foundation in Washington, noted this point in 1981 (in an interesting book arguing the case – successfully as it proved – for enterprise zones to be developed in the United States). He wrote:

“The British zones are not geared toward depressed residential neighbourhoods. The target is the old industrial slums and urban wastelands of the major cities: Victorian factories that closed down years ago, the empty warehouses and silent wharves of now-obsolete dockland districts, and the great expanses of government-owned land that are so common in Britain’s major cities. The assumption is that by encouraging companies to develop these sites, a boost will be given to the entire local economy, leading to jobs and opportunities for the nearby residents.”

That then was our goal. How far have we achieved it?

ENTERPRISE ZONES: THE RESULTS SO FAR

Looking around us here in the Isle of Dogs, you will immediately appreciate that we have indeed come some considerable way towards that goal.

In the Isle of Dogs enterprise zone, only 39% of land was developed in 1982. By the beginning of 1987 that figure had risen to 85%, and much of the original 39% has now been renewed. It is estimated that over £1 billion of private investment has been committed to this enterprise-zone area in the last seven years. When you think that Canary Wharf, opposite here and in the zone, is still to be built on with the largest single new office development anywhere in Europe, a £3 billion project to employ some 60,000 people, I think we can say that in this zone at least the development effect has been spectacular.

Employment in the Isle of Dogs zone rose from 641 people in 1982 to 3700 at the beginning of 1987 – an increase of 477%. That increase represents about half of the total new jobs created in the whole Docklands during the same period – an area more than five times the size of this enterprise zone. The number of firms located here in 1982 was 105, by the beginning of 1987 it had risen to 270 – a growth of 157%.

Striking figures like this are not unique to the Isle of Dogs. They characterise very many of the 23 zones designated in the first and second rounds.

By the beginning of last year, a total of 63,000 people were employed in enterprise zones, compared with 30,000 in 1982, with the pace of employment growth rising rapidly towards the end of that period.

By the beginning of 1987, 2800 business establishments were in place. That total was up from 1300 when the zones were designated. Of firms operating within the zones, only a quarter were present before designation.

Most of these firms are small businesses: three-quarters employ fewer than 20 staff.

In the same period from designation to 1986 the percentage of land in the zones that could be classified as "developed" rose from 27 to 63%. In some cases the change was truly staggering: in the Corby zone, for example, from 7% of land developed to 97%.

The overall increase in floorspace in the same period was 1.7 million square metres, or some 63%.

Just as the Isle of Dogs is a powerful example of what can be achieved, so too is the Salford Quays development near Manchester, which I had the opportunity of visiting earlier this year. Some of you may have read a profile of it in *The Times* two weeks ago.

The Quays occupy about 150 acres of derelict dockland at the end of the Manchester Ship Canal. Thirty years ago they handled 18 million tons of cargo – in 1984 they were closed. Then an ambitious joint public-private initiative was launched to redevelop them for commercial activity, leisure pursuits and even housing. This is now bearing fruit in a spectacular way.

In the Quays project, an enterprise zone, an urban development corporation, and a local-central government partnership in collaboration with the private sector, have combined to bring new hope to an area previously written off as economically useless.

All over Britain zones have been having effects like this – although the Isle of Dogs and Salford Quays are perhaps the two most dramatic examples to date. Zones have stimulated the clearing of land, the landscaping of land, and the building on land that private capital previously would not touch. They have brought economic activity and confidence into inner cities. In Middlesbrough, in Rotherham, in the lower Swansea Valley, in Corby, in Rochester: throughout the country they have helped secure the economic regeneration of the "urban wilderness" I described in 1978.

Not the least important element in this process has been what I call the "meat-counter effect". It is a well-known marketing trick to locate the meat counter in the middle or at the back of a supermarket so that shoppers who enter for meat end up buying a lot else besides. In the same way, enterprise zones act as magnets for economic activity that have multiplier effects throughout the local economy. This is not only because of the spill-over of prosperity from the zones to adjoining areas, but because confidence is raised, people's eyes are opened, and business comes to realise that it is possible to make profits where previously no money was being made at all.

Much of what has been achieved in the enterprise zones has of course involved real or notional costs borne by the Exchequer. But to be weighed against those costs are the economic benefits which prosperity has brought.

It is not easy to calculate the precise cost of the experiment, although PA Consultants last year, in a study, put the total expenditure by government – on acquiring or reclaiming land or providing basic infrastructure for zones – at a fairly modest figure: somewhere in the region of £60m over the 1981–86 period (in 1985/86 prices), with almost a quarter of that sum coming from European Community sources.

This figure does not include all government expenditure in any given zone: some redevelopment might eventually have taken place anyway. It has certainly happened here in Docklands outside the enterprise zone, although without the LDDC that process would have been slow indeed. As it is, development plans for the whole Docklands area have benefitted this enterprise zone to the tune of some £60–70 million, with the £77 million Docklands Light Railway providing a further substantial bonus.

A conscious decision was taken here, as in some other locations, to spend money as seed corn for urban renewal on sites which often previously had negative value, in order to promote the private-sector investment on which prosperity depends. In time much of that investment is likely to be recouped by the government: initially that process will occur more quickly outside the enterprise zone than within it. But inside it, it will of course automatically accelerate when tax concessions terminate with the ten-year life of the zone.

This brings us to the much bigger cost attributed to the Exchequer – the revenue foregone as a result of rates relief and capital allowances. Together these are said to have amounted to around £240m (in 1985/86 prices). Here, of course, precise calculations become very difficult indeed.

For, as everyone knows from our experience of income tax, high taxes do not necessarily generate high revenue. And lowering taxes does not always lower revenue. And offering tax exemptions can, if it generates new jobs and additional purchasing-power elsewhere in the economy, create additional tax revenues to be offset against the cost of the original concession.

The net growth of jobs in the zones has so far been at least 33,000. It is impossible to tell precisely how many of these jobs might have occurred somewhere else in the economy without enterprise zones. For every “real” new job generated, however, one thing is clear: real revenues accrue to the Exchequer. That progressively recoups some of the money foregone from other sources. When the zone experiment expires after ten years, those past costs will be recouped much quicker still.

And there are indeed encouraging pointers to suggest that many real new jobs (that wouldn't have been created elsewhere) have come about. Surveys show that only about a third of firms operating in enterprise zones have transferred into their zone from elsewhere in the economy, locally or nationally. In other words, two-thirds have not: they are either indigenous firms that have expanded, new branches of firms already operating elsewhere, or complete new start-ups. And among the transfers, over 40% came in from

outside the immediate locality. Either way, therefore, the effect on both the local and national economies can only be good.

Michael Heseltine, in the preface of a recent investment guide to enterprise zones, spoke of them being "imposed on a reluctant Whitehall which had armed itself with every manner of academic study to disprove the obvious". These were grey men I had foreseen in my 1978 speech. Fortunately, as the experiment has continued, what was then and remains today so "obvious" – namely the beneficial effect of the zones on investment and activity in formerly abandoned sites – has, I believe, become widely accepted among the former doubters in Whitehall and elsewhere.

The enterprise-zone experience is not, I might add, confined to Britain. But here, as so often in the 1980's, it is Conservative Britain which has acted as the world's leading export agency for free-market ideas. Tax cuts, privatisation, deregulation, financial liberalisation, abolition of pay, price and exchange controls – in all these ways, as in enterprise zones, we pioneered new solutions to the problems of political overload and low growth which marked the 1970's throughout the Western world.

The United States has proved to be the main importer of the enterprise-zone concept. There about three-quarters of the States now have enterprise-zone legislation of some kind on the statute book. Usually the State legislature extends certain concessions to a limited number of zones that correspond to particular indices of hardship, such as high poverty and unemployment levels. They are offered a variety of tax incentives, such as:

- refunds of taxes paid on construction materials, machinery and equipment;
- corporate tax credits for each new job created;
- selective exemption from local taxes;
- deductibility from State taxes of certain interest payments.

Some of the zones also benefit from investment subsidies and liberalised planning arrangements.

So far Ohio has 51 enterprise zones, Pennsylvania has 26, New York 19, New Jersey 10, Missouri 33, Indiana 10, Florida 30, and so on.

The US zones vary state-by-state. Few bear any direct resemblance to what we have seen here in Britain. All, however, including their very name, bear witness to the British Conservative belief that "setting the people free" is the best route to prosperity for all.

It is also interesting to note that the People's Republic of China is experimenting with a form of enterprise zone. Two "Special Economic Zones" behind Hong Kong (at Shenzhen and Zhuhai) were their first initiatives in this direction. Now they have been followed by the decision to offer SEZ status to virtually the whole of the coastal area of the country in

order to accelerate industrial development, particularly through foreign capital.

To me it is ironic that in 1978, here in the Isle of Dogs, I spoke of creating the conditions of Hong Kong in London or Glasgow. Today the Chinese are seeking to import our British experiment into their own country, or at least to replicate the lessons of Hong Kong on a wider basis. That is a powerful testimony to the success of the capitalist revolution in Britain and around the world!

ENTERPRISE ZONES AND THE ENTERPRISE CULTURE

When I spoke here in 1978 my speech did more than propose enterprise zones. I lamented the stagnant economic culture which had become the hallmark of the Wilson-Callaghan years, where tax differentials were less than those in China or Poland, where over-regulation stifled business, where there was an economic appetite unmatched by resources, and where we, as an economy, were "living off the industrial and social capital that was accumulated by earlier generations – and failing to amass our own. Resources have been diverted to maintain consumer living standards today. But no seed corn has been saved for tomorrow".

The concept of enterprise zones was a product of this era. An era lacking an enterprise culture – where the political consensus still needed to be moved radically in favour of the incentives, opportunities and rewards offered by the market economy.

Enterprise zones were meant to offer proof of what could be achieved in the very worst parts of our economy by sudden concentrated bursts of capitalism. They were a product, to a large degree, of our wish to show quickly that our overall economic policy of supply-side incentives would work.

Equally the enterprise-zone concept was about fostering and encouraging a general change in attitudes towards economic freedom in this country. We knew that if radical solutions were going to be popular, we had to make them interesting and attractive to the ordinary citizen. That would enable us to launch initiatives whose subsequent success would confirm those initial reactions. The zone concept was easily comprehensible, and would, we hoped, help win the political argument about the market at the same time as it cured the real problems of some inner-city sites.

As the years since 1979 have rolled on, so the enterprise culture we wanted has come into being. Now it is the established political wisdom of our time. And as the burden of taxation on business and the income-earner has fallen, as we have developed a range of policies to promote small business, as new sources of investment capital have emerged, as Labour councils have begun to take a more pragmatic approach to inner-city development, so the privileged position of enterprise zones has diminished.

Now that we are achieving such success in converting the entire country into one great "enterprise zone", the particular contribution of our successful zone experiment is bound to recede. We have drawn the lessons of that experiment and are applying them on a national scale.

As this policy of regenerating Britain through lower taxes and greater opportunities for all progresses, we are witnessing prosperity on a growing scale. Our GDP is now up a quarter on 1981, as a result of the longest continuous period of growth since the War. As we achieved that success, we are able to approach the problems of the inner cities on a more ambitious scale.

Over the last couple of years, we have decided to extend the urban development corporation concept, with nine new UDCs either designated or in the pipeline.

We have decided to extend the fast-track planning process pioneered in enterprise zones by designating certain areas as Simplified Planning Zones.

We are developing new forms of public-private partnership, with a range of new initiatives in our "Action for Cities" programme, like Local Enterprise Agencies, Managed Workshops, the Small Firms Service, the English Estates organisation, City Technology Colleges, Community Refurbishment Schemes, the Urban Programme, and so on. Together they show our continuing commitment to restore the economic health and social balance of the inner cities on the widest possible scale.

In these policies we are guided by the lessons we have learnt from enterprise zones. By the importance of trusting the people to revitalise their environment when freed from the dead hand of State control. By the inhibiting effect which over-strict planning controls, imposed in the name of safeguarding the environment, can actually have in condemning certain urban environments to stagnation and decline. By the high opportunity cost of restrictions of many kinds which can too easily dry up investment and make us all poorer as a result. Hopefully these lessons have been learnt for good.

Here in the Isle of Dogs, as in Salford Quays, we can take pride in the fact that proximity to water seems to have proved such an important trigger in the recovery of industrial wastelands. Like other old maritime ports around the world, such as Sydney and Halifax, these docklands carried the spirit of enterprise in their own resurrection.

The spirit of enterprise they represent is a symbol of the new Britain now emerging under the most radical, the most innovative, the most successful, and the most exciting government this century.

The Bow Group was there at the creation. Ten years ago today we set out together a future vision of economic revival which accepted as first base the beneficence of the capitalist system. Ten years later the sight we survey exceeds our wildest dreams. The future we saw then is successfully at work today.