

Budget 2011: Enterprise Zones: Right Diagnosis, Wrong Treatment?

<http://blogs.lse.ac.uk/politicsandpolicy/2011/03/23/budget-2011-enterprise-zones/?pfstyle=w p>

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In our continuing series of commentary on the 2011 Budget, [Henry Overman](#), Director of the LSE's Spatial Economics Research Centre, examines plans to create 'Enterprise Zones' across the country, and finds that they may do little to promote real growth.

As was widely expected, the budget announced the creation of 21 Enterprise Zones. The location of specific zones will be a matter for Local Enterprise Partnerships, but we are told that the Government wants the zones to support real growth opportunities, not remedy local dereliction. It is hard to reconcile this objective with the available evidence.

To summarise: Enterprise Zones will offer firms five year rebates on business rates, planning regulations will be simplified, Local Authorities will be able to keep business rate growth and government will ensure superfast broadband is available. To understand the impact it's useful to distinguish between the effect on "UK plc" (i.e. national employment and growth) and what happens in the Enterprise Zone.

In areas with strong economies, planning certainly acts as a break on business expansion and development and Local Authorities often have few incentives to allow more development. EZ type reforms would help encourage growth in these areas. Some of this growth would come at the expense of other areas in the UK, but much of it would be additional. Overall, we might reasonably expect both local and national employment and growth to increase.

But EZ's make these changes in areas with weak economies. Misguided local planning policies may not be helping in these areas but the fundamental problem is that these are unproductive places for business investment. Five year rebates on business rates and relaxed planning regimes can attempt to offset these disadvantages for businesses but they don't address the fundamental problems such as the educational level of the local labour force. The evidence on whether this has any effect on local employment is, at best, mixed. Even if it does, it is highly likely that much of this growth would come at the expense of other areas in the UK. Overall, we might hope for some small impact on local employment but should expect little, if any, impact on national employment and growth.

There are many reasons to think that the current planning system acts as a break on growth. Unfortunately, reform in local zones does little to treat this problem and it is hard to see this having much, if any, impact on growth. In the current climate, spending money (or equivalently forgoing taxes) to shuffle employment around the country may not be the wisest use of funds.

This post first appeared on the [LSE's Spatial Economics Research Centre blog](#) on 23 March.