PREM 19/1116

Review of Regional Policy
Creation of Enterprise Zones

REGIONAL POLICY

PART 1 MAY 1979
PART 5 FEB 1983

PREM 19/1116

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~11.2.83~~		~~8.9.83~~					
~~21.2.83~~		~~13.9.83~~					
~~8.3.83~~		~~7.10.83~~					
~~9.3.83~~		~~24.10.83~~					
~~14.3.83~~		~~26.10.83~~					
~~18.3.83~~		~~27.10.83~~					
~~24.3.83~~		~~28.10.83~~					
~~29.3.83~~		~~31.10.83~~					
~~11.5.83~~		~~2.11.83~~					
~~17.6.83~~		31.10.83					
~~2.7.83~~		- Pt Endt					
~~11.7.83~~							
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~~26.7.83~~							
~~11.8.83~~							
16.8.83							
~~26.8.83~~							
~~7.10.83~~							

PART 5 ends:-

AT to PM 31/10

PART 6 begins:-

S/S Scottish Office to S/S DTI
2/11

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
MISC 14(83)5	15.2.83
MISC 14(83)6	16.2.83
MISC 14(83)7	17.2.83
LCA to MISC 14(83) 1st Meeting, Minutes	21.2.83
MISC 14(83)9	21.3.83
LCA to MISC 14(83) 2nd Meeting, Minutes	24.3.83
E(A)(83)11	29.9.83
E(A)(83)12	30.9.83
E(A)(83) 5th Meeting, Minutes	6.10.83

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed O Wayland Date 23 April 2013

PREM Records Team

10 DOWNING STREET

(2)

Prime Minister

You have agreed announcement of a White Paper on 2 November at NEDC and either

(i) White Paper and Nov plus legislation immediately afterwards or

(ii) White Paper in December and legislation as soon as possible thereafter.

Mr Jenkin prefers (ii), though it does not add much to the time for considering contents of White Paper.

None of this helps with the map which cannot be ready until summer/autumn 1984.

AT 31/10

CC NO

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref: J/PSO/16115/83
Your ref:

CONFIDENTIAL

31 October 1983

Dear Norman,

REGIONAL POLICY

Thank you for sending me a copy of your minute to the Prime Minister, dated 26 October, setting out your proposals for the timing of the White Paper and associated legislation on Regional Industrial Policy.

While I can appreciate your concern to get the necessary Bill introduced as quickly as possible, I am also concerned about the uncertainty which will be created by the long period between the proposed publication of the White Paper and the redrawing of the Assisted Area map. This is reinforced by my doubts about how meaningful the proposed consultation could be when decisions on TTWA boundaries and levels of grant etc have yet to be made. Of course we do not wish to put both the RDG and CDA legislation at risk through late introduction - something on which John Biffen will no doubt advise. But, subject to his views the timetable set out in paragraph 5 of your minute might be preferable as it would allow us time to consider the details of what the White Paper is going to say.

I have no objection to your announcing at the NEDC meeting that the Government plan to publish a White Paper in the near future and I assume that you would not wish to be any more specific than at the meeting.

I am copying this letter to the recipients of yours.

Yours ever
Patrick

PATRICK JENKIN

The Rt Hon Norman Tebbit MP

CONFIDENTIAL

CONFIDENTIAL

~~Prime Minister~~ ②

~~The announcement of Government intention to produce a White Paper has been made.~~

PRIVY COUNCIL OFFICE

WHITEHALL, LONDON SW1A 2AT

NBPM

Mr Biffen has withdrawn his objections AT 3/11

recd 3/11

31 October 1983

Dear Norman,

REGIONAL POLICY: LEGISLATION AND WHITE PAPER - TIMING

Your minute of 26 October to the Prime Minister asked for my views on the timing of legislation and the publication of a White Paper.

I note that you hope to be able to coordinate the publication of the White Paper and the legislation, but in the circumstances my advice would be to treat the two quite separately. First Parliamentary Counsel has advised that your projected timetable for the legislation (ie to Legislation Committee by 23 November) may not be achievable. His office has only just received instructions on both elements in the Bill and it is not clear how straightforward the drafting will be. If only for this reason, therefore, I suggest that you proceed with your announcement to NEDC and the publication of the White Paper without tying yourself to a timetable for the legislation which must, as yet, be uncertain.

More fundamentally, I retain the doubts I expressed when this subject was discussed in E(A) about the wisdom of introducing RDG legislation in advance of the revised assisted areas map being available. I believe that to do so will be likely to make the combined CDA/RDG Bill extremely contentious and considerably complicate its handling in the Commons. I fully appreciate, of course, the reasons for your anxiety to press on with the Bill with all speed; but I believe that we need to consider all aspects of the problem before making an irrevocable decision to proceed in the way you have in mind.

I am copying this letter to the Prime Minister, other members of E(A) the Chief Whip, First Parliamentary Counsel and Sir Robert Armstrong.

John Biffen

JOHN BIFFEN

The Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry

CONFIDENTIAL

Regional Policy : Review A5

c NO

NBPM

AT 31/10

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

28 October 1983

The Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry
1 Victoria Street
LONDON SW1H QET

Dear Norman

REGIONAL ECONOMIC POLICY

WHAT?

You copied to me your minutes of 21 and 26 October to the Prime Minister about timing of regional policy developments.

I am content with what you propose. It is clearly important to maintain the momentum on this subject, and for that reason I share your hope that it will be possible to publish the White Paper and Bill in November, or failing that, as soon as possible thereafter.

I am copying this letter to members of E(A), John Biffen and Sir Robert Armstrong.

Yours ever
Nigel

NIGEL LAWSON

CONFIDENTIAL

FILE

cc: LPSO
CO
CS & O HMT
MAFF DoE
CDLO WO
D/Transp. SO
D/Energy D/Em.
NIO
HMT
Parl. Counsel's Office

10 DOWNING STREET

From the Private Secretary

27 October, 1983

Regional Policy : Legislation and White Paper - Timing

The Prime Minister was grateful for your Secretary of State's minute bringing together the timetable for announcing the White Paper, publishing it and for the tabling of legislation.

She is content with the timetable he has proposed, i.e. to announce the intention to publish the White Paper at the NEDC meeting on 2 November; to publish the White Paper at the end of November with the legislation to be published the following day. She has also noted that if legislation is delayed until the New Year, the White Paper would be published in December, but your Secretary of State would still make the initial announcement on 2 November.

I am copying this letter to the Private Secretaries of members of E(A), to David Heyhoe (Lord Privy Seal's Office), the First Parliamentary Counsel and to Richard Hatfield (Cabinet Office).

ANDREW TURNBULL

M. C. McCarthy, Esq.,
Department of Trade and Industry

CONFIDENTIAL

PRIME MINISTER

You expressed the view that the gaps between the announcement of the Regional Policy White paper, its publication and tabling of legislation should be kept short.

Mr. Tebbit's minute suggests:

(i) announcing intention to have a White Paper on 2 November at NEDC;

(ii) White Paper at end of November with legislation the next day;

(iii) But if legislation is delayed until New Year, he proposes White Paper in December and legislation as soon as possible but still with announcement on 2 November.

Agree?

Yes

AT

26 October 1983

JF4642

CONFIDENTIAL

PRIME MINISTER

REGIONAL POLICY : LEGISLATION AND WHITE PAPER - TIMING

Your Private Secretary's letter of 24 October records your agreement to my announcing at NEDC on 2 November our intention to publish a White Paper provided that publication will follow soon thereafter. It also asked for a note bringing together the timetable for announcing the White Paper, publishing it and the tabling of legislation.

2 The background is unchanged. At present there is considerable speculation and uncertainty over the future of regional policy which the White Paper should do much to end. I think we have to recognize, however, that some continued uncertainty is inevitable until such time as we announce precise changes to the Assisted Area map and the rates at which the new-style Regional Development Grants (RDGs) will be payable. Since the legislation to change the structure of RDGs does not pre-empt decisions on the map and rates of grant, it has been our intention to introduce legislation at the same time as we publish the White Paper.

3 This timetable inevitably means that there will be a relatively long period before people know their Assisted Area fate but we can use this interval to receive representations on

the future map and it will be one of the purposes of the White Paper to invite views on this. If as I recommend in my minute of 21 October we announce our conclusions on the map in the Autumn of 1984 and if we allow a 12 months transitional period for downgradings we can bring the total new package into effect from the Autumn of 1985 and savings will accrue from that date.

4 In my minute to you of 21 October I accepted John Biffen's proposal that we should consider the timing of RDG legislation further once the Co-operative Development Agency (CDA) Bill was ready and once colleagues had considered my proposals on the basis for the map. In the light of your comment, and the clear advantage of linking as closely as possible the publication of our White Paper to the introduction of legislation, I have looked again at the possible timetable for introducing the legislation. My officials have sent instructions to Parliamentary Counsel in respect of both the CDA and RDG legislation. Timing for the drafting is clearly a matter for Parliamentary Counsel but in the view of my officials it should be possible for drafting to be completed in time for Legislation Committee to consider a combined CDA and RDG Bill at its meeting on 23 November. This would allow for introduction of the legislation before the end of November. If this timetable can be met, and I would be grateful for John Biffen's urgent advice on this, I would propose to lay the White Paper the day before introduction of the legislation, i.e 29 November at the latest.

5 If this timetable for legislation is not possible, and I very much hope that it is, and it were necessary to delay introduction of the combined CDA and RDG Bill until the New Year then we should need to reconsider whether the Bill and White Paper should be published together. In that event, I would propose that the White Paper be published in December, and the Bill as soon as possible thereafter.

6 If it is accepted that the White paper and introduction of legislation are linked in the way I have suggested above, I should announce the White paper on 2 November only if we accept that we shall be proceeding with legislation as soon as is practicable. I therefore hope that you and others will agree to my making the announcement on 2 November, with a view to legislation on either of the timetables set out in paras 4 and 5 of this minute.

7 I am copying this minute to John Biffen, all Members of E(A), First Parliamentary Counsel and Sir Robert Armstrong.

N T

26 October 1983

Department of Trade and Industry
1 Victoria Street

From: THE PRIVATE SECRETARY

NORTHERN IRELAND OFFICE
GREAT GEORGE STREET,
LONDON SW1P 3AJ

NBPM
25/10

M C McCarthy Esq
Private Secretary to Secretary
Of State for Trade and Industry
Department of Trade and Industry
1-19 Victoria Street
London SW1H OET

24 October 1983

Dear Callum

My Secretary of State has seen the paper attached for NEDC which you circulated with your letter of 20 October to John Kerr. Mr Prior had hoped to be able to attend the Council meeting himself, but is unfortunately not now able to do so. In these circumstances he has asked me to suggest two slight elaborations of the draft paper you circulated, to pick up points which he believes have already been raised in the earlier discussions. The two suggestions are;

- at the end of paragraph 13 add;

  "Conversely to have concentrated excessively on labour intensive schemes would have been to risk encouraging the development of industries which could not, in the long term, have been internationally competitive. A key objective of REP must be to attract viable industries which make full use of the new technologies".

- in place of the final sentence of paragraph 16 insert;

  "Unemployment is not, of course, the only criterion of need and areas should not be designated solely on grounds of unemployment rates which may be transient - consideration such as structural decline and peripherality are also particularly relevant".

I am copying this letter to John Kerr and those who received copies of your letter of 20 October.

Yours ever

Derek

D A HILL

P.S. As I told you over the phone these have not yet been cleared by Mr Butler, who will be the chairman at the NEDC meeting. I will let you know as soon as they are cleared.

CAM

File

DSG

cc: DES
NIO
D/N
SO
WO
DOE
D/M
WPS

10 DOWNING STREET

From the Private Secretary

24 October 1983

REGIONAL ECONOMIC POLICY: DRAFT NEDC PAPER

The Prime Minister is happy with the paper which your Secretary of State wishes to present to NEDC. She has commented, however, that he should announce the Government's intention to publish a White Paper only if the latter is likely to follow reasonably quickly. She has also noted your Secretary of State's minute of 21 October on the timetable for producing the Assisted Area map. When we spoke on the telephone, we agreed it would be helpful if you could produce a further note drawing together the timetable for announcing the White Paper, publishing it and the tabling of the legislation.

I am copying this letter to those who received yours of 20 October.

MR A TURNBULL

Callum McCarthy, Esq.,
Department of Trade and Industry.

NBPM
AT 24/10

cc NO

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

M C McCarthy Esq
Private Secretary
Department of Trade and Industry
1-19 Victoria Street
LONDON
SW1H OET

24 October 1983

Dear Calum,

NEDC DISCUSSION ON REGIONAL ECONOMIC POLICY

with AT.

Thank you for copying to me your letter of 20 October to John Kerr enclosing the final draft of your Secretary of State's paper for the NEDC discussion on 2 November.

My Secretary of State is generally content with the paper as a basis for discussion but would like to suggest three specific changes, as follows:-

1. In paragraph 3, last sentence, amend "minimal" to "reduced". It is accepted that the macro-economic argument is less persuasive at a time of general recession, but to describe it as minimal goes too far.

2. In paragraph 6, the penultimate sentence, "To the extent.....social benefit" seems an over-simplification of a complex issue and could be omitted without affecting the general line of reasoning in the paragraph.

3. In paragraph 17, the reference to a "single inner tier" may not convey much to those not involved in the recent discussions. "A single rate" would be simpler.

I am copying this letter to the recipients of yours.

Yours sincerely,

John Graham

J S GRAHAM
Private Secretary

NBPM
AT 24/10

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

24 October 1983

Callum McCarthy Esq
Private Secretary to
the Secretary of State for Trade & Industry
1-19 Victoria Street
LONDON SW1H OET

Dear Callum,

REGIONAL ECONOMIC POLICY: DRAFT NEDC PAPER

The Chancellor is quite content with the paper on regional policy which your Secretary of State is proposing to circulate for the NEDC meeting on 2 November, and he hopes that other colleagues will share his view. He feels it is important that the Government should be able to present a united front on this issue at NEDC.

The Chancellor also agrees that the Council meeting provides a good opportunity to make known the Government's intention of publishing a White Paper. It will of course be important to be clear before then about the timing of the revision of the assisted areas map and of legislation so that a clear indication can be given of when the White Paper is likely to issue.

I am copying this letter to those who received yours. with AT

Yours sincerely,

Margaret O'Mara

MISS M O'MARA
Private Secretary

PREVIOUS PAPERS ON PARLIAMENT, LEGISLATION, Pt 11

JH 905

(2)

Prime Minister

The map not ready until Autumn 1984. Work on CDA Bill to proceed. When drafted a decision to be taken on whether to wait for RDG provisions if nearly ready, or to proceed without them.

AT 21/10

PRIME MINISTER

You will have seen Cecil Parkinson's letter of 10 October to John Biffen and his reply of 17 October agreeing to the drafting of legislation to introduce changes to the RDG scheme. Because of doubts over when a revised Assisted Area map might be available, E(A) agreed that the date of the introduction of legislation should not be decided until the map options had been considered. We have now considered the options and it might be helpful if I set out the position on the timing of the map as we now see it.

2 The conclusion we have come to, for the reasons set out later in this note, is that we can not have a new Assisted Area map until Autumn 1984. The exact timing depends on how quickly we can get an agreed map. At present this is based on out-of-date Travel-to-Work-Areas (TTWAs). Information from the 1981 censuses of population and employment is expected to bring important changes in TTWA boundaries when they are revised next year, as they are bound to be, but all the necessary information will not be available until next July, and realistically that means that we shall not have an agreed new Assisted Area map based on the revised TTWAs until the Autumn.

3 I have considered all the options for bringing forward completion of the new map from Autumn next year. The least unattractive option was to drop TTWAs and instead use local

authority boundaries as the basis of the map. But I am convinced that this, like all the other options, would result in a map so unsatisfactory and so hard for us to defend that they should be discarded.

4 If we have legislation this Session we will be in a position to introduce the new scheme as soon as the map is available. We do not need to decide now the questions of rates of grant and number of tiers. Options for these will of course be covered in the White Paper and one of the advantages of the proposed timetable is that there will be time to consult on them and the map.

5 As to timing of the legislation, we are content to go along with John Biffen's proposal that we consider this further when the CDA Bill is ready. At that time, we will consider the options taking account of the views expressed in response to this letter.

6 I am copying this letter to all Members of E(A) and Sir Robert Armstrong.

NT

N T

21st October 1983

Department of Trade and Industry

Parliament: Leg Prog Pt 11

CBI

V/C NO

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

JF4599

PS/ Secretary of State for Trade and Industry

20 October 1983

Prime Minister (4)

To note this paper & which is a useful summary of the issues and to agree X. (No need to bother with Annex).

Yes - but I hope the White Paper is fairly well advanced. We do not want a long gap between announcement and publication. AT 20/10

John Kerr Esq
Private Secretary to the
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3AG

Dear John,

As you know, my Secretary of State is due to present a paper on Regional Policy at the NEDC meeting on 2 November. A draft has already been discussed inter-Departmentally at official level, and Mr Tebbit has now had an opportunity to consider this. I now enclose a final draft, which incorporates a number of amendments made by my Secretary of State in the interests of producing a crisper document. I should be grateful if you, and others to whom I am copying this letter and its attachment, could let me know whether your Ministers are content with it.

X 2 My Secretary of State believes the NEDC meeting would be an excellent opportunity to announce the Government's intention to publish a White Paper, and hopes that the Chancellor and colleagues will agree to this.

3 The NEDC Secretariat would ideally have liked the paper to have reached them this week. Clearly this will not be possible, but I should be grateful if you could me have any comments, written or telephoned, by lunchtime on Monday.

4 I am copying this letter and its attachment to Andrew Turnbull (No 10), Elizabeth Hodkinson (Department of Education and Science), John Lyon (Northern Ireland Office), Michael Reidy (Energy), John Graham (Scottish Office), Colin Jones (Welsh Office), John Ballard (Environment), Barnaby Shaw (Employment), and David Heyhoe (Lord Privy Seal).

Yours ever

Callum McCarthy

M C MCCARTHY
Private Secretary

Encl

JF4596

PAPER FOR NEDC BY THE SECRETARY OF STATE FOR TRADE AND INDUSTRY

REGIONAL ECONOMIC POLICY

As the Council will know, the Government are engaged in a review of regional economic policy. We shall publish the results of our review in due course.

2 Regional economic policy (REP) comprises a set of policies, listed in Annex A, designed to influence the geographical distribution of investment and employment. Many other policies are relevant to employment in the regions, but our review is concentrated on the policies identified in that Annex as "main stream REP".

3 The social case for aiming to reduce regional disparities in employment opportunities remains, and we said in our manifesto that we would continue to maintain an effective regional policy. The economic case however is now less clear-cut than ever before. During the 1960s and early 1970s the standard macro-economic argument for regional industrial policy at a time when labour was scarce in some areas but less so in others was that the encouragement of employment in the latter eased the pressure of demand ("overheating") in the former; and consequently that more employment and output could be achieved nationally for a given total demand and inflation level. The strength of this argument, however, is minimal at a time where there is higher unemployment in all regions.

4 There are other economic arguments for regional policy. One is that it is desirable to make regional economies more self-sufficient (and hence less dependent on public expenditure support) by improving their industries' capability to match the competition and to innovate. Another is the wish to encourage inward investment projects which are likely to strengthen the economy, by coming to the areas of high unemployment. Such projects may not only provide direct employment but may also help to spread managerial and technical skills, technological know-how and better industrial relations practices. EC rules limit more strictly the scope for offering financial incentives to attract such investments to other areas. If the UK had no regional policy, it would not qualify for Community payments from the ERDF, even on infrastructure projects. All the UK's major partners in the Community operate regional policies, and the European Parliament and the Commission attach great importance to regional policy as a means of knitting the Community together.

5 Regional policy, however, has a cost. Expenditure in Great Britain on the main measures totalled some £900 million in 1982/83 (Annex B). Most of these payments are simple transfers, but there are real costs as well. Expenditure on regional policy means that other candidates for expenditure lose out, or else

adds to the pressure for higher taxation or interest rates. Other economic distortions also impose costs: where regional policy has led in the past to the wrong choices of location by firms there has been damage to the national economy.

6 In this light we must question the overall cost effectiveness of such expenditure: What effect do regional incentives have on firms' investment decisions ? To what extent is regional policy successful in raising the level of investment and employment in the Assisted Areas (AAs)? It has been estimated that after full allowance for deadweight expenditure and displacement effects in the AAs themselves, regional industrial policy may have created about half a million jobs in the AAs during the 1970s at an average cost of around £34,000 per net job, taking account of regional multiplier effects. However, these estimates are currently being revised. Nor should the displacement effect of jobs created by regional policy on jobs elsewhere be underestimated. To the extent that regional policy simply transfers, at public expense, jobs from one part of the country to another, it is clearly of negative overall national economic benefit, as opposed to social benefit. Equally we must question whether regional policy instruments are aimed at the right targets, and whether they are focussed properly to give long-term help to the areas most in need, at a time when the nature of the regional problem has been changing in some respects. (See paragraph 10).

7 Nor can regional policies be viewed in isolation from national economic policies. If they are incompatible with national economic policies it is unlikely that they can be effective. It is necessary, therefore, to ensure that regional policies are based on analysis of regional disadvantage and identification of its underlying causes. Regional problems have usually arisen in areas highly dependent on contracting traditional industries. Industrial structure and the rate of new firm formation are clearly relevant, and the economies of the AAs seem weak in respect of both innovation and new firm formation. This does not provide the whole explanation and peripherality has its part too.

8 The persistence of large local disparities of unemployment rates indicates a poorly working labour market. Whilst migration and wage-flexibility should lead the labour market to correct this they have not done so. Migration happens to a considerable extent already but it has its dangers. Substantial outward migration over long periods can create its own problems, especially if the emigration is selective and leaves behind mainly a dependent population; or under-utilized infrastructure which is duplicated in receiving areas. Wage flexibility, on the other hand, could and should be increased. Real wage levels which are incompatible with the demand for labour create unemployment both regionally and nationally. Regional differentials in wage rates have in fact tended to narrow over

the past ten years and reverse differentials (e.g. wages high in areas of high unemployment) have been observed.

9 The current pattern of unemployment rates by standard region is set out in Annex C, which also shows how the relative positions of the regions have changed over the past ten years. This does not tell the whole story, since the standard regions have no particular economic validity, and "regional problems" may exist at sub-regional level.

10 Council noted, when they last discussed the subject, that the nature of the regional problem had changed in recent years. It is now seen more as a problem associated with certain conurbations. The interaction of regional industrial policy with urban policy therefore needs to be carefully integrated. The Urban Programme, administered in England by DoE and in Scotland and Wales by the respective Secretaries of State, comprises both social/environmental measures and economic measures which are directed at stimulating the local economy, chiefly by the provision of industrial sites and buildings. The problems of remote rural areas, sparse in population, require separate and different treatment.

11 Although the regional problem is now more closely associated with certain conurbations than hitherto, it is still striking that the main areas on which regional policy has been focussed for the last 50 years have not overcome their long-term problems of unemployment and adverse industrial structures. This emphasizes the need to ensure that the instruments of regional policy are effective in stimulating self-sustaining economic activity in those areas.

12 The current review of regional economic policy is made against this background.

13 The Regional Development Grant (RDG) scheme has been criticised in particular for not being job related and for over-concentration on manufacturing industry, a criticism which has force in cases in which large amounts of grant have been paid to highly capital intensive projects that have created few jobs and would probably have gone ahead in the same location without assistance.

14 We give due weight to those considerations, but the predictability of the present scheme has its advantages in influencing firms' investment decisions. In addition grants linked to capital investment can encourage improved competitiveness.

15 The argument that assistance should not be confined to manufacturing activities alone also has weight, and we recognise the importance of the service industry. But regional incentives have no relevance to service activities which compete mainly for local customers or whose location is determined predominantly by local factors.

16 The present AAs map is open to criticism on the grounds that many non-Assisted Areas have rates of unemployment above the

average for the present Development Areas. The present map certainly does not reflect the current distribution of unemployment - and its revision is under consideration. Unemployment is not of course the only criterion of need and areas should not be designated solely on grounds of unemployment rates which may be transient.

17 The extent of map coverage requires careful judgement. In the belief that a significant increase in map coverage would only dilute the effectiveness of assistance our policy has concentrated on the areas of most need. It may be argued that differential rates of automatic grant (in SDAs and DAs) help focus assistance on the areas of most need, but equally, a single inner tier would be both simpler and avoid overfine distinctions of degrees of need.

18 We do not consider that the creation of new agencies would improve the administration of regional policy although we recognise the need to improve the co-ordination of all those involved. In particular we have taken steps to minimise overlap or conflict between urban policy measures and regional industrial assistance.

19 The need is to develop a regional policy taking account of valid criticisms of the present instruments and map, and of developments over the decade since policy was last substantially revised. Regional policy must work to improve industrial competitiveness, and it must be cost-effective. Its main aim must be to reduce regional disparities in employment opportunities by improving the performance of the regional economies without causing net harm to that of the national economy, or merely transferring problems at taxpayers' expense.

20 This paper outlines some of the thinking in our approach to a future regional policy. We invite Council's views on that thinking. Council members might like to comment in particular on the following questions:

(1) <u>What action can be taken to encourage labour markets to adjust fully</u>?

How much might geographically pay variations help to increase employment in disadvantaged ares? How can the CBI and TUC help labour markets to adjust more fully?

(2) <u>What should be the characteristics of a system of regional investment incentives</u>?

Expenditure on regional development grants is currently some four times greater than that on regional selective assistance. Is this balance right or should the proportion spent on an automatic grants scheme be

smaller? Towards which sectors of industry should investment incentives be primarily directed? To what extent should the assistance be linked to the job effects of investment?

(3) To what extent should the impact of regional assistance be concentrated on areas most in need?

At present nearly 9 per cent of the working population live in Development Areas and another 13 per cent in Special Development Areas. Should the main instruments be focussed more on the areas of greatest need, or should a wide spread of assistance be considered?

N T

October 1983
Department of Trade and Industry

JF4600

ANNEX A

REGIONAL ECONOMIC POLICY INSTRUMENTS IN GREAT BRITAIN

The Assisted Areas

1 Regional aid is available in Assisted Areas - the Special Development (SDA), Development (DA) and Intermediate Areas (IA). In defining these areas the Secretary of State is required by the Industrial Development Act 1982 to "have regard to all the circumstances actual and expected; including the state of employment and unemployment, population changes, migration and the objectives of regional policies". The present Government have pursued a policy of concentrating aid on areas of greatest need and have had most regard to the balance between two criteria, unemployment and location. With a fex exceptions Assisted Areas are defined in terms of Travel to Work Areas. The present Assisted Area map is appended to this Annex.

Regional Development Grant (RDG)

2 RDG is an automatic grant payable at 22% in Special Development Areas (SDAs) and 15% in Development Areas (DAs) towards capital expenditure incurred in providing - :

(i) New buildings or works (other than mining works) and adaptations of existing buildings, on premises used wholly or mainly for qualifying activities in SDAs and DAs.

(ii) New machinery or plant for use in such premises.

3 The qualifying activities are the manufacturing activities described in Orders III - XIX of the Standard Industrial Classification (SIC) 1968, together with certain repair activities, the processing of scrap and waste materials and scientific research relating to any other qualifying activities. Grant is not paid on items of plant and machinery costing less than £1,000 (reduced to £500 for assets provided on small premises employing less than 100 people). Grant is not paid on schemes of buildings or works costing less than £5,000. In the case of buildings, grant may be paid to whoever provides the building, which may be the occupier or the developer, including local authorities and new town development corporations. In the case of plant and machinery, grant is paid to the provider including the provider of an asset for hire on qualifying premises.

4 RDG is claimed retrospectively on empenditure incurred or defrayed and it is tax-free. The scheme is administered through the Regional Development Grant Offices of the Department of Trade and Industry.

Regional Selective Financial Assistance (RSA)

5 RSA can be made available under Section 7 of the Industrial Development Act 1982 to encourage industrial and commercial projects which have good prospects of viability and which will improve employment prospects in the Assisted Areas (including the Intermediate Areas). RSA is available in addition to RDG in DAs and SDAs. To qualify for assistance towards capital expenditure (normally for manufacturing projects) the applicant must show that there is an employment benefit, and that it seems likely to strengthen the regional and national economies, (the efficiency criterion) and that assistance is necessary for the project to go ahead (either at all or in the form or on the timescale proposed) i.e. that the project is "additional".

6 Manufacturing projects initially fall into two broad categories.

A - new projects and expansions which create additional employment

B - projects, e.g. for modernisation or rationalisation, which maintain or safeguard existing jobs.

Assistance is normally provided in the form of a grant towards fixed capital expenditure, paid in (normally annual) instalments related to the defrayal of the expenditure. Very exceptionally assistance may be given to meet cash flow requirements. Grants are discretionary and are negotiated as the minimum necessary to bring about the benefits associated with the project. While working capital costs do not attract assistance they are taken into account in deciding what is the "minimum necessary". RSA is administered by the Department of Trade and Industry and the Scottish and Welsh Offices for their respective areas.

7 Exchange Risk Cover on medium term foreign currency loans at favourable fixed interest rates from the European Investment Bank or the European Coal and Steel Community. Under this scheme the borrower takes on only a sterling liability; the Government carries the exchange risk in return for a premium calculated as a percentage of the outstanding principal of the loan.

8 The In-Plant Training Scheme is operated as a self-contained scheme under Section 7. Under the scheme assistance is available where training is an essential part of a project which qualifies for S7 support. The grant covers 40% of eligible costs - the wages of trainees and instructors plus the net cost of materials - and attracts a matching 40% assistance from the European Social Fund (ESF).

9 The Office and Service Industries Scheme (OSIS) is a discrete scheme operated under Section 7, offering selective grants to encourage office an service industry projects which would not otherwise go ahead in the Assisted Areas. Primarily the eligible industries are those in Orders XXII to XXVII of the SIC, which includes transport and communications; distributive trades; insurance, banking, finance and business services; professional and scientific services; and others. The normal Section 7 criteria (paragraph 5 above) must be met, except that, it is not normally necessary to demonstrate that projects will strengthen the nationaleconomy. Until the mainstream S7 scheme grant is not related to capital expenditure but simply to the number of jobs created. Assistance cannot be given for job preservation. It is further restricted to projects which serve wider than local markets or which serve manufacturing industry.

10 Forms of OSIS Assistance:-

(i) a negotiable grant to the employer for each job created subject to maxima of £8,000 per job in SDA, £5,000 in DA's and £2,500 in IA's.

(ii) a fixed grant of £2,000 tax-free for essential employees moving with their work for not more than 30% of the jobs created at the new location.

11 RSA can take just one of the forms outlined above, or it can be negotiated as a package (although OSIS and mainstream project grant cannot normally be combined). The total package must amount to no more than the minimum necessary, and is contained by internal and EC limits.

Advance Factories

12 Advance factories are provided in Assisted Areas in England and in Rural Special Investment and other areas (on behalf of the Development Commission) by English Industrial Estates (EIE), in Scotland by the SDA and HIDB and in Wales by the WDA and DBRW. Letting policies follow normal commercial practice and, except in special circumstances, investments are expected to show minimum rate of return on gross rental. Rent-free periods are available at discretion; such assistance will be taken into account in any associated RSA.

Contracts Preference Scheme

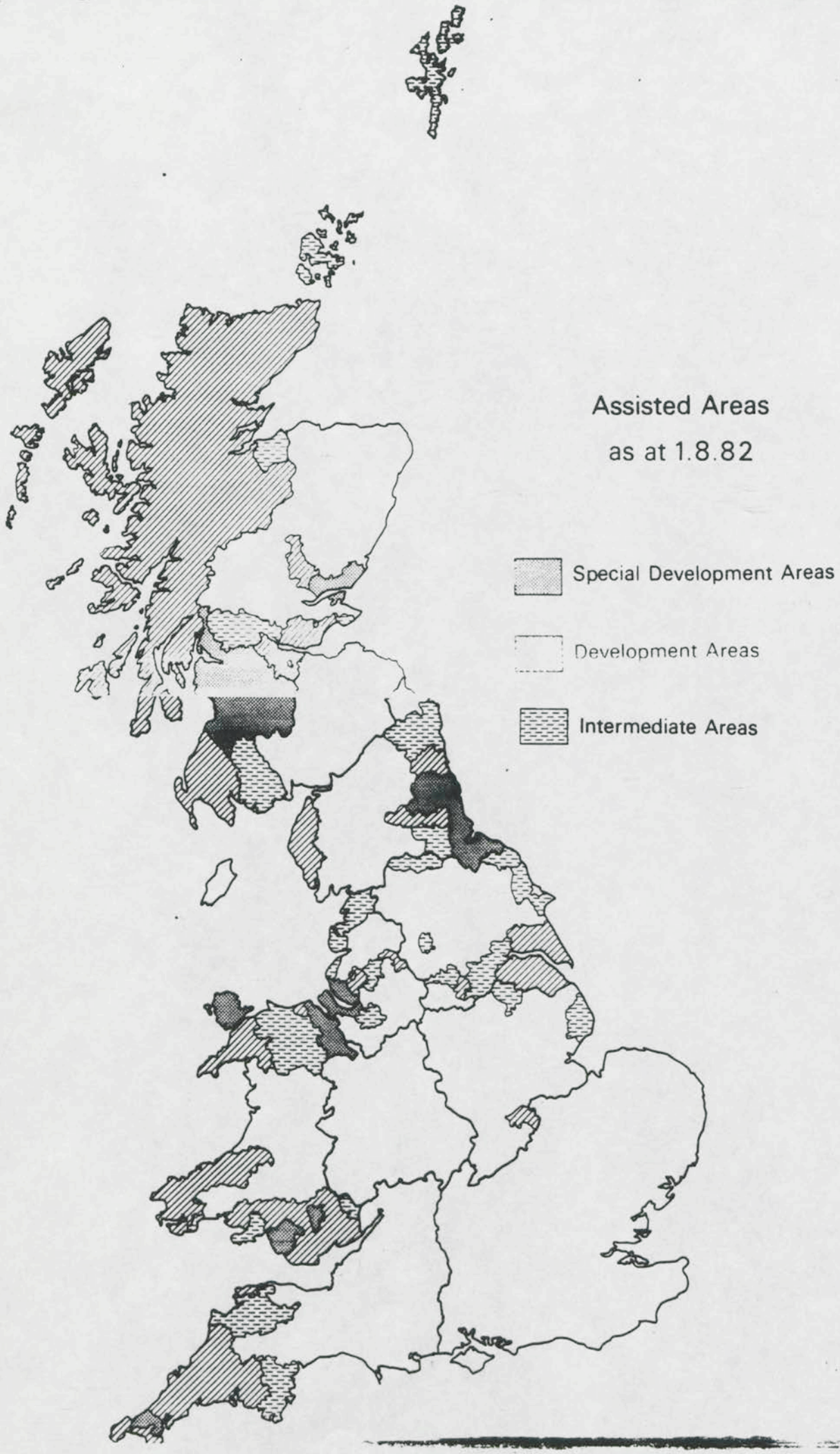
13 Government Departments, nationalised industries and other bodies will place contracts with firms in SDAs and DAs in preference to those elsewhere provided that all other considerations are equal.

Other Regional Industrial Aid

14 The SDA, WDA, HIDB have powers to make equity investments industry in their areas; in England their power resides in the regional role of BTG. HIDB and DBRW can also provide grant aid. Loans at commercial or concessionary rates for small rural firms are available from the SDA, WDA, HIDB, DBRW and CoSIRA. Small firms advisory services are provided by all these bodies and nationally the DTI Small Firms Service.

Derelict Land (Clearance)

15 Local authorities in England are eligible for grants of 100% of the approved cost of reclaiming derelict land in the Assisted Areas and Derelict Land Clearance Areas (DLCAs). Elsewhere in England the grant is available at 50%. Individuals, companies, public utilities and nationalised industries in the AAs and DLCAs are also eligible for grant of 80% of the approved cost. EIE are eligible for 100% grant in the AAs. Derelict land clearance in Scotland is carried out directly by SDA; in Wales the WDA uses local authorities as its agents.


Assisted Areas
as at 1.8.82
Special Development Areas
Development Areas
Intermediate Areas

JF4601

ANNEX B

EXPENDITURE ON MAINSTREAM REP IN GB

£m (1982 Prices)

Main Instruments	75/6	76/7	77/8	78/9	79/80	80/1	81/2	(Outturn) 82/3
(a) Regional Development Grants	748	857	707	667	463	589	679	690
(b) Regional Selective Assistance	152	90	81	165	105	85	84	90
(c) Land and Factories in England	60	36	35	42	40	40	40	28
SDA and WDA expenditure on Land and Factories	14	36	58	93	113	128	136	93
Regional Employment Premium	494	456	5	-	-	-	-	-
Total for Main Instruments	1469	1475	886	967	721	842	939	901

NOTES

(1) The Table excludes assistance to Northern Ireland which is treated separately from other regional expenditure. Assistance to Northern Ireland currently totals about £400m per annum. Total UK regional expenditure in 1982/83 was therefore about £1.3bn.

(2) Both the RDG expenditure and the total for 1982/83 include an exceptional item of about £150m caused by the abolition of the deferment of payment of RDGs introduced in 1979/80. The corresponding figures for 1979/80 are of course lower because of the introduction of that deferment of payment.

JF4602

ANNEX C

UNEMPLOYMENT - REGIONS - SEPTEMBER 1983

THOUSAND

SEASONALLY ADJUSTED excl school leavers

	Male	Female	All	Change since August	Percentage of all employees		
					Male	Female	All
South East	490.9	203.2	694.1	+ 3.3	11.1	6.3	9.1
(Greater London)	(250.4)	(99.0)	(394.4)	(+ 1.1)	(11.3)	(6.5)	(9.3)
East Anglia	51.5	22.0	73.5	+ 0.4	11.8	7.5	10.0
South West	122.3	58.1	180.4	+ 2.6	12.7	8.3	10.8
West Midlands	242.1	92.7	334.8	+ 1.0	17.8	10.3	14.8
East Midlands	127.0	51.4	178.4	+ 1.1	13.4	7.9	11.1
Yorks & Humber	194.4	76.8	271.2	+ 1.1	15.8	9.4	13.3
North West	299.3	114.4	413.7	+ 0.1	18.4	9.9	14.9
North	155.2	56.9	212.1	+ 2.0	19.9	10.9	16.3
Wales	114.5	44.6	159.1	+ 0.4	18.0	10.6	15.1
Scotland	217.0	96.3	313.3	+ 0.3	16.8	10.2	14.0
GREAT BRITAIN	2,017.6	818.7	2,836.3	+ 9.9	14.7	8.5	12.2
Northern Ireland	85.0	31.8	116.8	+ 2.3	26.9	13.2	21.0
UNITED KINGDOM	2,102.6	850.5	2,953.1	+12.2	15.0	8.6	12.4

FCE 87H

10 DOWNING STREET

From the Private Secretary 20 October, 1983

NEDC

I wrote to you on 17 October recording the Prime Minister's view that she would be willing, in principle, to chair an NEDC meeting but did not think the suggested date in February was suitable. She has now considered the alternative dates which you put to us and she would be willing to chair the 2 May meeting.

ANDREW TURNBULL

Miss Margaret O'Mara,
H.M. Treasury

VC

FILE

10 DOWNING STREET

From the Private Secretary

7 October, 1983

Thank you for your letter of 5 October to Tim Flesher about correspondence with Councillor Neville Bosworth, Leader of Birmingham City Council. I have shown this to the Prime Minister, together with the background note you enclosed about the Lucas/Smiths merger. She has taken note, and has no comment to make.

(David Barclay)

S. Nicklen, Esq.,
Department of Trade and Industry

JH 656

COMMERCIAL IN CONFIDENCE

Seen and noted

(2)

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

PS/ Secretary of State for Trade and Industry

5 October 1983

Tim Flesher Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Prime Minister

To see, especially the background note on the Lucas / Smiths case discussed at E(A) this afternoon.

DB 6/10

Dear Tim

On 25 August, Councillor Neville Bosworth, Leader of Birmingham City Council, wrote to the Prime Minister about the situation in Birmingham. In particular he referred to the system of regional industrial incentives, for which the West Midlands are not eligible.

2 My Secretary of State has now written to Councillor Boshworth and I enclose a copy of his letter together with copies of the Prime Minister's correspondence with him. However, my Secretary of State believes that commercial confidentiality prevents him from correcting in detail Councillor Bosworth's description of the Lucas/Smiths case, which he cites because it will lead to about 100 redundancies in Birmingham. It is clear that if the merger did not go ahead there would be considerable redundancies in the West Midlands. Furthermore, the new joint company plans to create 600 jobs in the West Midlands (which would replace jobs lost in other parts of Lucas), over the next 5 years as well as 450 in South Wales. Mr Butcher has met Councillor Bosworth, and Councillor Blumenthal from the West Midlands County Council, to discuss this case with them and has made the point that the region will benefit from the merger and the resulting Government support. He pointed out that the Department's financial support came not only from regional grants, but also included support under the Science and Technology Act and national selective assistance under Section 8 of the Industrial Development Act. He could not, however, refute the view expressed by the Councillors that the availability of automatic regional aid provided a financial advantage to the South Wales plant.

3 Ministers will be discussing regional investment incentives, as part of their consideration of regional economic policy, at E(A) on 6 October. My Secretary of State believes the Lucas/Smiths case is an example of the type of major rationalisation, capital investment, research and development programme which should be encouraged by whatever means are most appropriate. I enclose a note giving further background information.

Yours ever
Steve Nicklen

STEPHEN NICKLEN
Private Secretary

LUCAS/SMITHS MERGER

The question raised by the merger was whether, and at what level, the UK could sustain an effective role in the fast-growing area of automotive electronics. Smiths were certain to withdraw from this business and, given their own financial constraints, Lucas alone would have been unable to fund the heavy R&D and capital investment programme needed to give the Group a comprehensive vehicle electronics capability. Thus without the merger around 2000 jobs would have been lost and, although the bulk of these would have been in North London and South Wales, the West Midlands would have suffered not only in the short-term but also from the much slower growth (and thus job creation) within Lucas' operations.

The Government's assistance for the merger, strongly endorsed by IDAB, comprised a £12½m loan through BTG - against a specific investment programme - and commitment to a similar sum towards a blend of SFI and SFA projects over a period of five years which would be individually considered by the relevant Advisory Boards. The programme supported by this package did not in any way discriminate against the West Midlands, indeed the weight of SFI as well as Section 8 expenditure provided in the package reflected the fact that a major benefit would be the preservation and creation

of jobs in existing Lucas factories.

The employment effect of the merger was a loss of 1000 jobs at Cricklewood and a 100 short-term job loss in the West Midlands (both inevitable with or without the merger) but over five years 1000 new jobs will be created well over half of which will be in the West Midlands.

Far from distorting investment location decisions, the Department believes that the blend of SFI and SFA negotiated in this case represents a sensible contribution towards much-needed rationalisation in a high-technology sector to the long-term benefit of employment both in and outside the Assisted Areas.

✓ Division
21 September 1983

JH 564

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

5 October 1983

Cllr Neville Bosworth
Leader of the Council
The Council House
PO Box 17
BIRMINGHAM B7 1BB

Dear Neville,

Thank you for sending me a copy of your letter to the Prime Minister about the situation in Birmingham. I fully understand your concern when the immediate effects of companies' rationalisation plans' include a loss of jobs in the West Midlands. But such rationalisation is often essential to improving companies' competitiveness in both domestic and export markets, and ultimately to ensuring their survival.

In considering the options before them, companies are, of course, free to take account not only of capital and operating costs, but also of Government incentives. The Government's policy has been to restrict the availability of regional assistance to the areas of greatest need, and as you know we reduced the coverage of the Assisted Areas from 44% to 27% of the working population during the last administration. Selective assistance over and above the automatically available regional grants is only given in cases where it is in the national interest that the project goes ahead and the amount of such assistance is limited to the minimum necessary to ensure that the project does go ahead.

The Government is committed to having an effective regional policy. We are reviewing the present system to see amongst other things whether it can be made more cost-effective. During this review we are considering carefully the effect of regional investment incentives on areas where they are not available, and I am well aware of the strong views on this subject that have been expressed by many people in the West Midlands.

I am glad that John Butcher has been able to meet you to discuss these issues, and the particular example that you quote. I hope he has been able to reassure you that the views of people in the West Midlands regional are being taken into account during our consideration of regional policy, and that the merger of Lucas and Smiths will bring benefits to the West Midlands, as well as other parts of the country.

Yours Ever,

Leon

City of Birmingham
FROM COUNCILLOR NEVILLE BOSWORTH
Leader of the Council
The Council House PO Box 17
Birmingham B1 1BB

Telephone 021-235 2130

your ref
our ref NBBA/CE/JLEP
date 25th August, 1983

Dear Prime Minister,

I feel I must write to appeal to you about the situation in Birmingham - and indeed the whole of the West Midlands - as shown by what has happened to Lucas Industries.

You know how important Lucas' are to Birmingham. After their amalgamation with Smiths Industries they have in prospect a new development which would create a considerable number of jobs albeit there will be a loss of other jobs of a slightly greater number. But the new processes should be profitable. The Department of Trade and Industry are helping them with a grant of £12½ million.

But far from developing in Birmingham, Lucas propose to go to South Wales. We would lose jobs, Wales would gain. A major reason why they are considering this move is the money which Central Government are giving them. It is not just the new factory being provided for them in Glamorgan but further grants of 15% from the Department of Trade and Industry as a regional development grant on fixtures and fittings and yet another 15% from the Welsh Office. It cannot make sense for the Government to be paying out money to move jobs from Birmingham with an unemployment rate of 19% to West Glamorgan with an unemployment rate of 14½%.

I have quoted Lucas merely because it is a dramatic current example. But there are other cases. Please may I come and see you to plead not for more money for Birmingham but that we should stop being penalised in this way.

I am sending a copy of this letter to Cecil Parkinson.

Yours sincerely,

Neville Bosworth.

The Rt. Hon. Margaret Thatcher, M.P.,
Prime Minister,
10 Downing Street,
LONDON. SW1

10 DOWNING STREET

THE PRIME MINISTER

31 August, 1983

Dear Councillor Bosworth,

Thank you for your letter of 25 August.

I understand entirely why you wrote about the situation in Birmingham. I see you have written to Cecil Parkinson and perhaps I could suggest that you first discuss the general points you make about Government assistance with him or one of his Ministers. As you know, John Butcher has been asked to take a special interest in the problems and challenges facing the West Midlands. I will then discuss the matter with them. I am the first to see the importance of the point you are making.

Best wishes

Yours sincerely

Margaret Thatcher

Councillor Neville Bosworth

For information
Dir WMRO
PS/NL
PS/JB
PS/Sec I
Miss Mueller
Mr Dick RPDG
Mr Pearcey RPDG
SOS to see

88X

10 DOWNING STREET

Prime Minister

① Nick Owen has represented No 10 on the Anson group. It would be of great value if he could sit in on the E (A) meeting.

Agree? Yes pm

(2) The figure of £5,000 mentioned in para 5 is not in the CST's paper. It is a figure which Treasury may propose for inclusion in options for further study if their preferred job grant is rejected. It would provide an even more labour intensive option ~~than~~ even than Mr Sparrow's £7,000

AT
5/10

P.01114

PRIME MINISTER

Review of Regional Economic Policy
(E(A)(83)11 and 12)

Flags A - B

BACKGROUND

E
F+G

In February and March this year the Ministerial Steering Group on Government Strategy considered a report by officials (the "Quinlan Report") on regional economic policy (MISC 14(83)1st and 2nd Meetings). Ministers instructed officials to prepare a successor to Regional Development Grants (RDGs) which would:

Views of S/S Wales and S/S Emp at C + D

- place greater emphasis on job creation rather than capital investment;

- involve a substantial degree of automaticity;

- assume no significantly greater resources;

- maximise receipts from the EC;

- encourage sensible modernisation programmes.

Officials were also asked to examine other matters, including measures to encourage innovation in the regions. They were not, however, to consider possible changes in the map of Assisted Areas.

Proposals

Attached to A

2. The latest report by officials (the "Anson Report") carries out these instructions. It recommends that the successor scheme to RDGs should take the form of an automatic grant system, with eligible investment receiving the higher of:

- a fixed percentage on capital investment (subject to a cost per job ceiling); or

- a fixed amount per job created.

Five such schemes are exemplified; but no preference is stated for any particular level of grant. The report also suggests that the new scheme should be project based in order to reduce "deadweight" expenditure on replacement investment; that modernisation projects should qualify for regional selective assistance (RSA), to help safeguard employment in the assisted areas; that a wider range of activities, particularly more service industries, should qualify for assistance: and that there should be a simplified administration for small firms.

3. The other main recommendations in the report are:

a. officials should review the map of assisted areas, using up-to-date indicators of need following the 1981 census;

b. a White or Green Paper on the general approach to regional policy should be published and a short enabling Bill introduced, if possible, in the 1983-84 Session;

c. regional differentiation in the level of grants under the support for innovation schemes, and other specific measures to encourage innovation and the formation of new firms, should be considered;

d. measures to improve coordination between Government departments and further analyses of regional policy effectiveness should be undertaken.

4. The Chief Secretary in E(A)(83)11 and the Secretary of State for Trade and Industry in E(A)(83)12 both broadly endorse these recommendations and propose a White Paper later this year, with a short Bill in the current session. The main points of difference are however:

- how far the new grant should be job-related rather than capital-related;
  (the Chief Secretary thinks that the options to be considered should include not just those in the report but also an option proposed by Mr Sparrow in his letter of 19 July - copy at Annex A, and the option of a grant related to jobs alone; the Secretary of State for Trade and Industry rejects the option of a simple job grant and argues against making the grant too job-related)

- what savings should be sought;
  (the Chief Secretary argues for £200 million a year; the Secretary of State for Trade and Industry for £150 million a year)

- the approach to assisted area coverage;
  (the Chief Secretary proposes that this should be decided along with decisions on the form and level of grant within the objective of £200 million a year savings; the Secretary of State for Trade and Industry says that officials should be told to aim at the same percentage coverage of the working population as now, ie 27 per cent).

MAIN ISSUES

5. The main issues before the Sub-Committee are as follows:

i. the type of successor scheme to RDGs;

ii. the review of the assisted areas map;

iii. the scope for savings and the introduction of measures to help innovation and new firms in the regions;

iv. the publication of a White Paper and the timing and form of legislation.

Successor scheme to RDGs

6. The present RDG scheme provides an automatic grant towards capital expenditure. It is common ground that it is wasteful to provide large public subsidies to highly capital intensive projects like Sullum Voe. Arguably the need is to subsidise jobs not capital invesmtent in areas of high unemployment. But, as Mr Parkinson will argue, there are some important objections to a grant related to jobs only, or a grant which is related too much to jobs rather than capital investment, ie:

- encouragement to overmanning, and thus uncompetitiveness in the longer term

- EC rules limit the amount of job subsidy, so that a simple job grant or a grant mainly related to jobs would be small, and perhaps ineffective in attracting international projects

- job-related grants are less predictable for companies and may thus be ignored in location decisions

- job subsidies may leak into higher wages

- checking the number of jobs created greatly increases costs of administration.

7. At this stage it is a question of deciding on the range of options for officials to consider. It would be helpful if Ministers could decide:

- whether to rule out a grant related to jobs alone

- whether the options for a mixed jobs/capital grant should be confined to those in the officials' report or extended to include Mr Sparrow's option.

Assisted Areas map

8. There are two main questions here:

i. should officials be instructed to review the map of assisted areas?

ii. if so, should they be given any general guidance at this stage?

Should the map be reviewed?

9. As the Anson Report brings out, there are good reasons for reviewing the map. Certainly, if the map were being drawn "from scratch" it would be unlikely to take its present shape. Moreover, information from the 1981 census should soon be available; it would be difficult to appear to ignore it. On the other hand, changes in the map are bound to raise political difficulties; and the results of the previous review were announced as recently as the middle of 1982.

Guidance

10. If the map is to be reviewed, Ministers may wish to give officials guidance on, in particular, coverage and the number of

tiers. The present map covers about 27 per cent of the working population. Should officials assume that this percentage should stay broadly unchanged, as Mr Parkinson proposes? Or that it may be somewhat increased? (Presumably Ministers would not favour a substantial increase, since that would bring the percentage fairly close to the 44 per cent coverage under the last Labour administration, which it was a prime aim of the previous review to reduce). A relevant question here is access to EC resources: the larger the area classified as assisted, the greater the potential receipts - but at the cost of higher domestic public expenditure on regional policy.

11. It is possible to deal, as now, with different assisted areas in different ways by having more than one tier. Different tiers will be eligible for different assistance: for example, the rate of grant may vary, or some types of grant may be available in one tier but not another. The effective choice is probably between a three-tier and a two-tier approach. The latter, which Mr Parkinson favours, is administratively simpler and allows resources to be concentrated on areas of greatest need. But a three-tier approach, as at present, could have presentational and political advantages in dealing with sensitive areas, for example as a means of helping the West Midlands without giving it full assisted area status.

Resources and new measures

12. The Chief Secretary proposes that the aim should be net savings of £200 million a year (current annual spending on RDGs is about £450 million a year). The Secretary of State for Trade and Industry suggests somewhat smaller savings of about £150 million a year. Some Ministers may argue that it is better to leave this issue open for the time being. It is however crucial to the further work by officials on the form and level of

grant and on assisted area coverage. If the majority of the Sub-Committee are satisfied that fewer resources should be devoted to regional industrial policy, leaving more room to help the economy in other ways, a target for savings should now be set.

13. A related question is how far any savings should be devoted to various schemes discussed in the Anson Report for stimulating innovation and the formation of new firms in the assisted areas. The Chief Secretary estimates that if all the schemes were adopted they would cost £60-£70 million a year. If the Sub-Committee are able to agree on a target for savings, it would be helpful if they were also able to say in broad terms how far they wished the savings to be available for helping the economy generally through lower taxation and how much should be devoted to the new schemes.

White Paper and legislation

14. Both Mr Rees and Mr Parkinson favour early publication of a White Paper and a short enabling Bill in this Parliamentary session. There are obvious attractions in early and comprehensive action in preference to the alternatives discussed in the Anson Report (legislation postponed to 1984-85, or making only those changes to RDGs not requiring primary legislation.) In particular it would enable savings to be realised quickly; and it would minimise the period of transition to a new grants scheme, and the uncertainties during that period.

15. But Mr Parkinson's specific proposal (using the Cooperative Development Agency (CDA) Bill) entails a White Paper and legislation at a time when the Government will not be able to give crucial details of new grant schemes or the assisted area map (unless Ministers decide that the map should not be reviewed). Will Parliament be willing to pass general enabling legislation, with no firm indication of how it will be used?

16. If the difficulties of such early action seem too great, it would be possible to explore a slightly different approach: early publication of a consultative document, with legislation in, say, the early new year, either as a separate Bill or in a deferred CDA Bill. No doubt the business managers would not welcome this, but its feasibility may need to be examined.

Minor recommendations

17. Finally, paragraph 16 of E(A)(83) 11 mentions a large number of relatively minor and detailed recommendations in the Anson Report. It does not seem necessary to go through these at the meeting: it should be enough to ask whether any member of the Sub-Committee wishes to object to any of them.

HANDLING

18. You will wish to invite the Chief Secretary, Treasury and the Secretary of State for Trade and Industry to introduce their memoranda. The Chancellor of the Exchequer may wish to comment from the general economic standpoint. The Secretaries of State for Northern Ireland, Scotland and Wales will wish to discuss the implications for the parts of the United Kingdom for which they are responsible; and the Secretary of State for the Environment may have comments from the standpoint of the English regions. The Foreign and Commonwealth Secretary can advise on the EC aspects, and the Lord Privy Seal on the timetable and the implications for the legislative programme.

CONCLUSIONS

19. You will wish the Sub-Committee to reach conclusions on the following:

i. whether the successor scheme to RDGs should be a grant partly related to capital and partly to jobs on the lines proposed in the Anson Report and endorsed by the Secretary of State for Trade and Industry;

ii. whether the variants of such a scheme to be considered by officials should be as proposed in the Anson Report or should include the "Sparrow" option;

iii. whether officials should be instructed to review the map of assisted areas; and if so, whether they should be given any guidance at this stage, particularly on

- coverage;
- the number of tiers;

iv. whether Ministers should aim at a particular figure of net savings; and if so, what it should be;

v. whether Ministers wish to express any view at this stage on the measures to promote innovation and the formation of small firms in the assisted areas outlined in chapter 3 of the Anson Report and the scale of resources to be devoted to them;

vi. the nature and timing of any White Paper or other consultative document;

vii. the timing and nature of legislation;

viii. the minor recommendations mentioned in paragraph 16 of E(A)(83)11.

AS

P L GREGSON

5 October 1983

ANNEX A

CABINET OFFICE
Central Policy Review Staff
70 Whitehall, London SW1A 2AS Telephone 01-233 7765

Qa 06420

From: John Sparrow
CONFIDENTIAL

19 July 1983

The Rt Hon Nigel Lawson MP
HM Treasury
S W 1

Dear Nigel,

Review of Regional Economic Policy - Anson Report

I have seen a copy of this Report which, I understand, is very unlikely to be discussed before the Recess and the closure of the CPRS. I offer this letter as a kind of posthumous CPRS Collective Brief. It concentrates on the most important element in the Report - the new scheme for Regional Development Grants (RDGs). Points on three other issues are in an Annex.

As the Quinlan Report concluded, Government expenditure on regional policy is a means of achieving political and social objectives rather than economic objectives. RDGs are subsidies financed by the taxpayer which divert economic activity, often at a high exchequer cost-per-job, to regions of high unemployment. They may thus be seen as one of a number of instruments for redistributing a part of national income towards the needy and disadvantaged.

The present RDG Scheme is not cost-effective; nor does it minimise interference with the operation of market forces. It encourages excessive labour saving investment and the growth of capital intensive firms at the expense of labour intensive firms.

The proposed new arrangements for RDGs go some way towards reducing these disadvantages. Helpful in this context are the proposals to exclude replacement and modernisation investment (categories of investment prone to high deadweight), to introduce a cost-per-job ceiling and to extend in a limited way the coverage of qualifying activities to include some services. I do not, however, believe that the Scheme goes far enough.

As regards cost-effectiveness, material in the Report (e.g. paragraph 2.28 where it can be inferred that £1m. of extra grant expenditure will increase regional investment by slightly over £1m.) suggests that the once-off exchequer cost-per-job will be high. Although precise quantification is not possible, we guess that cost could be in excess of £40,000.

As regards capital bias (which contributes to high cost-per-job) the Report suggests that out of £260m. of automatic grant expenditure a year under Option B, only £35m. would be in the form of job grant. Our own calculations suggest that the job grant benefits would be paid to projects accounting for less than 10 per cent of the investment eligible for the scheme envisaged under Option B.

I recognise that EC constraints on grant levels make it impossible to devise a scheme fully neutral as between capital and labour. But I do believe that we could move further towards neutrality and at the same time secure substantial public expenditure savings - a prize worth considering in the general public expenditure context.

In preference to the Anson proposal I would advocate a single tier automatic assistance scheme with a cost-per-job ceiling of £7,000, a capital grant rate of 10 per cent and a job grant of £3,000. The report inclines to the view that a 10 per cent rate of capital grant would be 'ineffective' (paragraph 2.25(a)). Fortified by the views of its 'industrial members' the CPRS does not agree; a 10 per cent rate associated with a higher job grant and with the possibility of 'topping up' through selective assistance in particular cases should work. The other argument advanced against such a package is that job grant is unpredictable (2.25(c)). Surely job grant is unpredictable only in the sense that its size will depend on the success of the project - such an incentive is positively desirable! Moreover, would the CBI have pressed so forcefully for a reduction in the National Insurance Surcharge had it felt that the 'jobs tax' (tantamount to the converse of a job grant) was unpredictable?

I would also advocate:

(a) A firm prior commitment to full annual indexation of the cost-per-job ceiling and the job grant (albeit with the facility for

Ministers to over-ride these arrangements in special circumstances). Investors need to be able to predict that the full value of job grant will not be allowed to erode over time if they are to be encouraged to switch to less capital intensive methods of production. This indexation procedure may lead to a few more instances where total grant payments are constrained by EC limits. But I do not believe the difficulties thereby incurred can be that great (cf. paragraph 2.25(b)). Even under Option B - which is regarded as practicable - grant payments to some projects will be constrained by the higher of the EC limits (see graph in Appendix B).

(b) Renegotiationg the EC limits to permit higher job grants thus enabling the RDG scheme to be moved nearer neutrality. Even if a general increase in limits is not negotiable in the foreseeable future it would be worth renegotiating the structure of the limits with a view to obtaining a higher limit expressed in eua per job. This could be combined with a reduction in the current maximum grant of 30 per cent of capital costs (paragraph 2.4(d)).

Unless an automatic RDG scheme can be shifted nearer to a position of neutrality than the Anson proposal envisages it will not serve the central objective of increasing job opportunities cost-effectively in the areas of high unemployment. If the objections to any further significant move towards neutrality are seen to be overwhelming then I would suggest that Ministers should reconsider the importance they have hitherto given to the retention of an automatic system with the 'deadweight' disadvantage that it inevitably has. The primary objective of regional policy may be better and more economically served by relying exclusively on selective assistance (always assuming that such assistance is administered professionally and subjected to tight budgetary control).

I am sending copies of this letter to the Prime Minister, the Lord President and the Lord Privy Seal, the Secretaries of State for Scotland, Wales, Northern Ireland, Environment, Employment and Trade and Industry, and to Sir Robert Armstrong.

Yours sincerely,

John Sparrow

ANNEX

CONFIDENTIAL

Other CPRS Comments

1. Innovation: We support the aim of improving the climate for innovation in the Assisted Areas. But encouraging profitable innovation through state intervention is difficult enough without importing a regional bias into the subsidy arrangements. The risk that the national economy could thereby suffer seems particularly high. We do not therefore favour a regional differential on such grants (paras 3.3 - 3.4).

2. Co-ordination: We welcome the modest steps taken to co-ordinate the activities of Departments of the Environment and Trade and Industry (paras 3.11 - 3.15). The arrangements described in para 3.15 could be strengthened by developing a process of annual stock-taking of the problems and prospects of each region and the impact on them of Government policies generally.

3. Rural Programme: It is disturbing that there is little evidence available to assess the effectiveness of rural economic assistance and we question whether 2 years is not too long a time to allow for a research study. A shorter investigation, perhaps by independent consultants, might be preferable. More importantly the effect of agricultural policy on rural population and employment requires study. The suspicion must be that rural economic assistance is to a large extent merely coping with the adverse consequences of the Common Agricultural Policy on rural life.

cc Mr. Mount

MR. TURNBULL

E(A) DISCUSSION OF REGIONAL POLICY

General Objective

endorsed by Mr Gregson para 12

1. The Prime Minister's first objective in the meeting will be to secure agreement that substantial savings should be achieved. Treasury, DTI and Department of Employment agree that regional policy has doubtful economic value and warrants fewer resources. The Territorials will, of course, resist this, and will try to secure compensation for reductions in RDG levels and eligibility.

See Mr Edwards letter

2. Their arguments can be firmly resisted:

- RP does not increase jobs in the UK; it merely redistributes them;

- by pushing industry towards less preferred locations, RP probably reduces overall national efficiency;

- RP isn't very cost-effective at steering jobs to the regions (perhaps £50,000 per net job). These costs choke off jobs elsewhere in the economy;

- the problems of many assisted regions persist, despite decades of RP;

- inward investment can be a benefit, but not if we pay foreigners too much for it.

Savings Target

3. The Chief Secretary proposes savings of £200 million - a figure which already allows DTI substantial offsetting increases (£60-£85m a year) in regional selective assistance. Mr. Parkinson appears to envisage savings of only half this level. If we are not careful, the savings achieved from reductions in automatic grants will be frittered away on "schemes" dear to DTI's heart. We must go for savings of £200 million.

/RDG Options

RDG Options

4 Mr. Rees suggests that the new RDG options should be considered separately and that a wider range of options should be considered. Mr. Parkinson wishes to exclude one of these immediately - the jobs-only grant. Most of his reasons for doing so are bogus: the labour grant would make labour cheaper in the "regions", simulating the effect which a properly functioning labour market would produce. However, it would be difficult to introduce legislation without having resolved whether the new scheme would be entirely capital or entirely labour based. Tactically, it is important not to dismiss this option without securing some agreement that the new scheme must avoid a strong bias towards capital. The DTI's preferred scheme (involving a capital grant of 20%, a cost per job limit of £12,500 and a job grant of £3,000) would only offer job grants to a tiny proportion of regional investment (labour intensity more than double the average). If the jobs-only grant is dropped the Treasury wishes to substitute another job-orientated option (with a maximum cost per job of £5000) which we would wholeheartedly support. We would advise that the Prime Minister ensures that this option is firmly recorded in the minutes for inclusion in the next discussion.

Selective Assistance

5 We advise that the Prime Minister should resist the proposal in paragraph 9 of the DTI paper - to increase support for "desirable modernisation which safeguards jobs". DTI proposes to top up automatic grants for new investment with selective assistance and offer assistance, up to the same overall cost per job of these two measures combined, for "desirable modernisation". This is an open-ended commitment: which company could not claim that its investment was "desirable" and that it "safeguarded jobs"? How could the DTI know whether this was true or not? And in any case, even if it was, why should the Government subsidise companies to do what is sensible and obvious: those companies which are efficient and viable will modernise in any case.

6. All selective assistance falls foul of this point; if projects are any good, companies will go ahead with them anyway; and if projects are not sound, why should we want them?

/We suggest

We suggest allowing selective assistance for "modernisation" only up to the cost per job limit which is agreed in the new RDG structure.

Innovation

7 Mr. Parkinson also proposes to introduce a degree of regional differential in the support for "innovation" schemes, eg 50% grants, rather than 33%. It is very odd that Mr. Parkinson should come forward with such ideas in a review designed to achieve savings. We suggest greater regional emphasis in existing schemes but without raising the levels of grant.

Timetable

8. Mr. Parkinson's proposals on this look sensible, except that it seems unwise to invite views on grant levels and assistance schemes. An invitation of this kind will lead to clamours for additional expenditure from all quarters of the country. We would suggest that a White Paper should not have 'green edges'. Far better to indicate firmly that the Government intends to reduce the levels of grants which are automatically available; make the structure of RDGs more job orientated; and revise the map, on the basis of simple criteria. Officials could be asked to begin preparing it on the basis of local unemployment data already available.

Nicholas Owen

NICHOLAS OWEN
5 October 1983

CONFIDENTIAL

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From The Secretary of State for Wales

The Rt Hon Nicholas Edwards MP

5 October 1983

Dear Chief Secretary,

REVIEW OF REGIONAL ECONOMIC POLICY
E(A)(83)11 AND 12

I have seen your memorandum and also that by Cecil Parkinson which we are to discuss in E(A) on 6 October.

I agree that we should seek a more cost effective regional policy than th present one so that the overall cost of the policy may be reduced. But it is mistaken to assume that the benefit of regional economic policy is just social and political; the fact is that our worst areas of industrial decline will impose an increasing burden on public resources unless we can regenerate their economies and so induce commercially viable development. Industry will be looking to us to ensure that what replaces the present system is effective in helping manufacturing and service industry in the regions to be strong and competitive in today's conditions. Cecil's memorandum covers many of the points which concern me as a regional Minister and I would go along with his general approach.

In particular, I agree with him that, for inward investment in particular a selective assistance system will not on its own be enough. To be effective the new scheme for regional assistance must contain a significant element of automaticity and predictability which companies can take into account in the early planning stages of their projects. I strongly support Cecil on the importance of continuing to attract mobile international projects. Our current incentives are not at the upper end of those obtaining elsewhere in the EC. In my letter of 5 August (attached) I drew attention to this aspect in particular. My recent visit to North America left me in no doubt of the importance of retaining cash incentives to offset the relative unattractiveness of our capital taxation arrangements.

/Unless we

The Chief Secretary
HM Treasury

Unless we can compete effectively with others in the field, projects will be lost and the national economy will suffer along the regions.

I also share Cecil's views about job grants. It seems to me that Anson has gone about as far as we should on this. Job grants may be useful but it remains as important as ever that our manufacturing industry should be modern and competitive in its labour costs, in the Assisted Areas as elsewhere.

I agree too that the work should be taken forward as proposed, but am doubtful about the wisdom of fixing rigid financial targets at this stage. It was partly on that account that the 1979 review left us with a map that is now hard to defend. I am also reluctant to commit ourselves to a policy which would confine automatic grant to travel to work areas with the highest rates of unemployment or industrial decay. I fear that redrawing the map too tightly would merely serve to exclude attractive locations with better prospects for growth with the result that the areas which we had designated as being in greatest need of investment would fail to attract it. Regional Policy should be designed to maximise the attractions of a region and help industry establish itself in the best locations within it rather than force it into pockets of high unemployment that may not be suited to modern industrial needs. Indeed it is arguable that a two-tier map should provide automatic aid in both tiers with additional selective inducements in the inner tier. We ought not to exclude that option. I also agree with Cecil that the map will need to ensure that we maximise our take-up of ERDF and other EC grants.

I am sending copies of this letter to the Prime Minister and other members of E(A) and also to Sir Robert Armstrong.

Yours sincerely,

Leighton Davies

Approved by the
Secretary of State
and signed in his
absence

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From The Secretary of State for Wales

The Rt Hon Nicholas Edwards MP

CONFIDENTIAL

5th August 1983

Dear Cecil

REVIEW OF REGIONAL POLICY: ANSON REPORT

We are due to discuss the Anson report in September, and I am very anxious to be present at that meeting. Nevertheless, in view of the correspondence so far, there are one or two comments I should like to make now.

I agree that we should keep open the option of legislation this Session, but I am anxious that we should fully discuss the merits of the recommendations in the Anson report before forming any view on future expenditure levels. Our primary aim should be to find a regime that is effective and stable. I do not dispute the desirability of making public expenditure savings. My colleagues will remember that it was I who argued as strongly as any for reducing the subsidy to highly capital intensive projects such as Sullum Voe. But I am sure that we should give a fair hearing to the proposals in the report to making regional policy more effective, (as well as those for reshaping the RDG/SFA scheme). I refer particularly to the recommendations for improving incentives to service and innovative industries in the regions. These proposals are relatively speaking not very costly and are highly relevant to the aim of improving the performance and self-reliance of regional economies; and I believe they might do so without seriously distorting the national economy. We are, of course, committed to maintaining "an effective regional policy", since we all see this as essential to ease the process of change and encourage new businesses in areas which have been dependent on declining industries. Such measures could help in this aim.

/I am unhappy

The Rt Hon Cecil Parkinson MP
Secretary of State for Trade and Industry

I am unhappy about the argument that it is somehow a bad thing to encourage capital-intensive firms in the regions and a good thing to encourage labour-intensive firms. We have consistently emphasised the need to improve national productivity and competitivity, and this goes for service as well as manufacturing industry. I am therefore not clear why it is now being suggested that we should seek to aid firms in the Assisted Areas in a way which actively encourages them to increase their labour costs. I wonder what kind of labour-intensive firms are capable of standing up to competition and providing a secure basis for a long term improvement of employment in the regions, and I should be interested to hear the comments of those who support this suggestion. For my part, I think it more likely that such a policy would encourage the kind of projects or enterprises which do not compete effectively as to price or quality; these are precisely the sort of activities with which the disadvantaged regions are already afflicted.

I am also concerned about the effect on possible inward investors. The changes now proposed in the Anson report will themselves be significant and difficult to present effectively, since the scheme will be more complicated than the present one. I must say I am reluctant to compound this by shifting towards job-related grants to the degree suggested by John Sparrow. To signal a change of this kind might adversely affect inward investment and could lead to many potential overseas investors failing to enquire further about the incentives and to take their projects to other European countries. Our present package enables us to offer modern factories in pleasant surroundings to small and medium sized high technology firms looking for significant financial assistance with the capital costs of setting up a modern and competitive operation. Unless these companies can immediately see how much grant towards capital costs they can rely on (and 10% I think will be too low), they may well lose interest in the UK as a possible location. That would diminish the effect of regional policy and indeed it would be the national economy not just the regions that would suffer. I fully share George's concern about the assertion in Nigel Lawson's letter that regional policy has questionable benefits and may even be counter-productive to the national effort. The first report of the interdepartmental committee, whose conclusions and recommendations we largely endorsed in February and March, was clear that there remained a strong general case for a substantial regional policy and no evidence could be adduced to substantiate the arguments that national economic objectives were being compromised or damaged. I do not believe that we should now be deflected into further discussion of the underlying arguments.

/I am sending

I am sending a copy of this letter to the Prime Minister, the Chancellor of the Exchequer, the Lord President, the Lord Privy Seal, the Secretaries of State for Scotland, Northern Ireland, the Environment and Employment, and to Sir Robert Armstrong.

Yours ever

Nick

CC NO

DEPARTMENT OF TRADE AND INDUSTRY
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SWITCHBOARD 01-215 7877

From the Minister of State for Industry

Norman Lamont MP

NBPM

AT 5/10

The Rt Hon George Younger
Secretary of State for Scotland
New St Andrew's House
St James Centre
Edinburgh

5 OCTOBER
September 1983

Dear George

Thank you for your letter of 12 September in reply to mine of 5 August. I have also seen Nicholas Edwards comments in his letter of 19 August.

I accept, of course, that the calibre of SIDAB and WIDAB members is not in doubt. But I am not persuaded that we cannot improve our arrangements for handling applications for regional selective assistance in such a way as to make it less vulnerable to the kind of criticism to which I referred in my letter.

I think this is something we should look at again in the context of our consideration of the Anson Report on the Review of Regional Economic Policy, not least because any decision to move towards a more selective approach to the provision of regional assistance would be likely to accentuate the problem.

I am sending a copy of this letter to Nicholas Edwards and other E(A) members.

Yours

Norman

NORMAN LAMONT

Regional Policy
Review
pt 3

SPwp

CONFIDENTIAL

Prime Minister
To note Mr Tebbit's views

AT 4/10

Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213 6400

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The Rt Hon Cecil Parkinson MP
Secretary of State
Department of Trade and Industry
Ashdown House
123 Victoria Street
LONDON SW1

4. October 1983

Dear Cecil,

REGIONAL POLICY

I thought it might be helpful, in advance of our discussion in E(A), to let you and other colleagues know my initial reaction to the main proposals we shall have before us.

I agree that we should endorse the broad framework of a joint job and capital grant scheme of regional assistance as proposed in the officials' second report. I welcome the idea of an early White Paper along the lines suggested. We should seek views on a wide range of options on the levels of grant - including that suggested by CPRS - before reaching decisions.

The proposed new framework would help to correct the bias of the present Scheme towards capital intensive manufacturing industry. But we should recognise that so long as we remain constrained by the present EC limits - fixed as long ago as 1979 - the extent of the improvement will in practice be pretty limited. The simple job-grant mentioned as a further possibility by the Chief Secretary in his paper has attractions, but goes too far in the other direction. In my view, therefore, we must concentrate on finding the best combination of job and capital grant (with cost-per-job ceiling) within the present EC limits.

I also welcome the proposal to extend the main Scheme to service activities. Many new jobs capable of being steered to Assisted Areas will in future arise in this sector. It should also be noted that the EC limits do not apply to service sector projects. I think we could extend the Scheme to quite

CONFIDENTIAL

a wide range of such activities without incurring any greater deadweight than already arises in manufacturing. The White Paper should therefore seek views on this also.

I remain concerned at the way in which whilst spending on regional policy has declined in recent years that on urban aid has increased and I believe that the volume of urban aid, the criteria on which it is given and its effectiveness in promoting economic growth should be examined no less critically than we examine regional aid.

I also agree the proposal in paragraph 10 of your paper that selective assistance should in future be based upon the net creation of jobs by the group or company concerned on a national basis. I see little piont in spending public money simply to re-locate jobs as distinct from creating jobs.

I further agree that we should not direct the savings from the new Scheme back into regional assistance by way of premium rates of support for innovation, new firms etc.

Finally, I agree with you that we should give officials clear guidance as to the criteria for drawing up a revised Assisted Area map. I would only comment that the more factors we explicitly embody the longer it may take to complete this critical part of the whole exercise and the more scope we shall allow for arguments about our final decisions.

I am copying this letter to the Prime Minister, to other members of E(A) and to Sir Robert Armstrong.

Yours ever
Norman

cc NO

wrd AT

DEPARTMENT OF TRADE AND INDUSTRY
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JF4256

Secretary of State for Trade and Industry

13 September 1983

The Rt Hon Adam Butler MP
Minister of State
Northern Ireland Office
Netherleigh
Massey Avenue
BELFAST
BT4 2JP

NBPM

MCS 14/9

Dear Adam,

Thank you for your letter of 16 August concerning the review of regional economic policy. When we come to discuss the Anson Report in September, we shall need to take into account the views you have expressed and the implications which changes in the structure of assistance in GB may have for Northern Ireland.

2 On the particular question of the handling of applications for selective assistance for mobile investment, raised in Norman Lamont's letter of 5 August to which you referred, I agree that the arrangements applicable in Northern Ireland should be recognised as separate and not affected by the suggestions which Norman Lamont has put forward.

3 I am sending a copy of this letter to the recipients of yours.

Yours ever,

Cecil

Leonard Bill: Rev 185

cc NO

NEW ST. ANDREWS HOUSE
ST. JAMES CENTRE
EDINBURGH EH1 3SX

MBPM
MCS 13/9

Norman Lamont Esq MP
Minister of State
Department of Trade and Industry
1 Victoria Street
LONDON SW1

12 September 1983

Thank you for your letter of 5 August in which you propose asking officials to consider whether projects of a certain size might be put to IDAB rather than the regional board in cases which have a national as well as regional character.

I am afraid that I cannot agree with this proposal. SIDAB is a statutory body set up to advise me on applications for the provision of assistance in Scotland. I have no reason to doubt the Board's ability to take into account both national and regional considerations in formulating its advice. There are already provisions within our guidelines to ensure that sponsor divisions are given the opportunity to comment on all important and substantial cases. There are also provisions for arbitration up to ministerial level should national and regional policy conflict.

In these circumstances I do not accept that centralisation of the decision-making process would be the proper remedy of the problems which you perceive. I realise that in times of high unemployment we can sometimes face difficult decisions in cases where a UK locational decision is certain and regional assistance swings that decision to a particular area. However, despite the increase in unemployment in many of the non-assisted areas, our regional policy still recognises that structural imbalances and higher absolute rates of unemployment persist in many parts of Scotland and many parts of the UK. As a consequence the unemployed in these areas face a much bleaker outlook in getting into employment both in terms of the time taken to find a new job and in the type of industry which provides such job availability. It is for this reason that we are willing to pay a premium to attract the modern, high technology industries to the regions together with the related headquarter and service functions, thus helping in the process of evening out the structural disparities and providing the economic base which generates growth and employment prospects for the future. The regional boards do, of course, have a strong awareness of these problems which are also national problems. I would not expect IDAB to have any greater or lesser awareness.

I am copying this letter to Nicholas Edwards and other colleagues in E(A).

GEORGE YOUNGER

REGIONAL POLICY: Review
Pt 5.

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

NBPM
MIS 9/9

8 September 1983

Dear Alex

Thank you for your letter of 18 August, reporting Lord Cockfield's comment on my Secretary of State's intentions to approve a new monitoring programme for enterprise zones.

Lord Cockfield may find it helpful to know that there were two main reasons why it was necessary to take a decision now. Firstly we needed to be certain that an appropriate monitoring system would be fully operational in time to replace the current arrangements when they are completed early next year. This will involve substantial preparatory work, for example in ensuring that the relevant information on EZ's is extracted from the various data sources. Secondly our intention is that the monitoring system will be the same in both the established and the new zones. The new zones are now coming on stream and very soon we will have to start gathering detailed information on the situation in the zones at designation. That will give us a bench mark against which to measure future change.

I should add that we are in regular contact with our monitoring consultants. Although we have yet to see their detailed findings for their third report, we are sufficiently familiar with the broad thrust of their conclusions to be confident that the proposed new system is an appropriate replacement.

I am copying this letter to the recipients of yours.

Yours sincerely

Roger Bright

ROGER BRIGHT
Private Secretary

A K Galloway Esq

Reg Pol, Review, PLS

cc NO

Reg. Pol.

DEPARTMENT OF TRADE AND INDUSTRY
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From the Minister of State for Industry

Norman Lamont MP

DA 26/8

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales
Welsh Office
Gwydyr House
Whitehall
London SW1

26 August 1983

Dear Nick

Thank you for your letter of 5 August to Cecil Parkinson.

Nigel Lawson, George Younger and John Sparrow have also commented on particular aspects of the Anson recommendations. I agree that until the merits of all of the proposals have been considered and the report fully discussed in September we cannot reach any conclusions on these matters.

I am copying this letter to recipients of yours.

Yours ever

Norman

NORMAN LAMONT

Regional list: Review of Pt 5

await GYs response
cdr, 19/8

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From The Secretary of State for Wales

The Rt Hon Nicholas Edwards MP

19th August 1983

cc NO

Dear Norman

I was frankly very surprised to receive a copy of your letter of 5 August to George Younger - which incidentally did not arrive in my office until 6 days later. It seems to me that, stripped to its essentials, what you are saying is that Regional Industrial Development Advisory Boards and the statutory Welsh and Scottish IDABs are not able or to be trusted to reach a proper view on the national economic benefits that would arise from projects which are the subject of SFA application. I cannot speak for any Board other than my own but I can assure you that WIDAB takes the question of net benefit at the national and regional level (and the associated issue of displacement) very seriously. And it does so on the basis of detailed assessments of projects by my own officials and those of the sponsoring Department as well as, in appropriate case, a full resource cost analysis carried out by economists in your own Department.

I have always taken great care over the appointment of Members to WIDAB. If I did not think they were capable of taking a balanced and objective view of national as well as of Welsh interests - and of judging cases by reference to Guidelines that we have collectively approved - I would not have invited them to serve on the Board. To my mind it would be intolerable to suggest to WIDAB members that whilst they are perfectly capable of advising me on smaller cases I must look to IDAB for a view on projects above a certain size. For reasons which I need hardly spell out I would regard the alternative approach - of extending the ambit of 'GB' cases as defined in the Guidelines so that many more applications were determined on the basis of IDAB advice in your Department - as even more objectionable.

I am copying this letter to George Younger and to other members of E(A) Committee.

Yours ever
Nick

Norman Lamont Esq MP
Minister of State
Department of Trade and Industry
Ashdown House
123 Victoria Street, LONDON SW1E 6RB

Reg POT Rawlins Pt 5

19 AUG 1983

cc NO

Chancellor of the Duchy of Lancaster

CABINET OFFICE.
WHITEHALL, LONDON SW1A 2AS

18 August 1983

GM

Dear John,

FUTURE MONITORING OF ENTERPRISE ZONES

The Chancellor of the Duchy of Lancaster has seen your Secretary of State's letter to the Chancellor of the Exchequer dated 11 August.

Lord Cockfield has commented that while there is no case for deciding now to continue the detailed study, it seems premature to decide what should replace it - or what action should be taken - in advance of the Consultants' third report.

I think they mean 8th.

I am copying this letter to the Private Secretaries to the members of ES Committee and the Secretaries of State for Scotland and Wales.

Yours ever,

Alex Galloway

A K GALLOWAY
Private Secretary

John Ballard Esq
Private Secretary to the
Secretary of State for the Environment
2 Marsham Street
London
SW1p 3EB

Regional Policy
Review PES

Prime Minister — cc NO

FROM: MINISTER OF STATE

CONFIDENTIAL

DEPARTMENT OF ECONOMIC DEVELOPMENT

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Telephone 63244

WM 18/8

The Rt Hon Cecil Parkinson MP
Secretary of State
Department of Industry and Trade
Ashdown House
123 Victoria Street
LONDON SW1

16 August 1983

Dear Mr Parkinson

I have read all the correspondence on the Anson Report which has stemmed from Nigel Lawson's letter to you of 27 July. While the Report concentrates upon the system of regional incentives operated in GB, it goes without saying that whatever decisions are taken in September will also have implications for the Northern Ireland system of incentives. With this in mind I would like to give you an early NI reaction to the Report's main proposals.

Whilst I would agree that regional policy should have regard to the disadvantages in attracting and establishing a disproportionate amount of capital-intensive industry - and indeed we have taken steps to put a cap on the amount of grant available - we should not lose sight of the fact that the Western World will not generally compete in labour-intensive ones with the developing world. I believe therefore that any move to employment-related incentives should proceed with some caution. In this context I agree very much with the views expressed by Nick Edwards; I see little benefit in establishing in the regions labour-intensive companies which may, by definition, be more at risk. The accent should always be on potential viability and the likely durability of whatever jobs are created.

Secondly, I very much question the wisdom of dropping automatic grant for replacement investment. British industry since the war has failed to re-invest sufficiently: Regional Development Grants (or its NI counterpart standard Capital Grants) encourages at least those in the regions to do so and in Northern Ireland, where energy and transport costs are relatively high, these grants are also a continuing way to help redress the Province's cost disadvantages.

I would want to continue to encourage existing companies in established industries to re-equip and if possible to move up market, thereby securing a competitive future for themselves and their workforce.

Finally, I must say that I fully share the concern of Nick Edwards and George Younger about comments made by Nigel Lawson and by John Sparrow on the effectiveness of regional policy. Whilst I agree that we should ensure that we use the resources available for regional policy as cost-effectively as possible, we

CONFIDENTIAL

The Rt Hon Cecil Parkinson MP
Secretary of State

16 August 1983

must also show that Government is fully committed to the continuation of a strong regional policy, and that it can be applied effectively. Regional policy is crucial in achieving the industrial regeneration of areas such as Northern Ireland. The important thing is to have effective instruments which will not only help established industry but also help nurture the newer industries, and attract the inward investment, which is needed to broaden the regions' over-narrow industrial base, in competition with other countries.

I have also seen Norman Lamont's letter of 5 August to George Younger about the handling of applications for selective assistance involving mobile investment. While not wishing to anticipate the outcome of further discussions on this front, I would wish to ensure that whatever arrangements are finally agreed in GB continue to recognise Northern Ireland's spearate institutional arrangements in the administration of its selective assistance scheme.

I am copying this letter to Nigel Lawson and to the other recipients of his letter.

Yours sincerely

pp ADAM BUTLER
/Approved by the Minister and signed in his absence/

REGIONAL POLICY: REVIEW

pt 5

With the Compliments

of the

Lord Privy Seal

✓ NO

PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

16 August 1983

Dear Cecil

D 16/8

LEGISLATION: REGIONAL DEVELOPMENT GRANTS (RDG)

I am replying to your letter of 2 August to Willie Whitelaw, as the granting of authority to employ Parliamentary Counsel is a matter for me. I have also seen your minute of 2 August to the Prime Minister and comments on the underlying policy issues from a number of our colleagues.

I do of course understand your fears that delay in commencing drafting will lose you the legislative opportunity which seems to have presented itself. I should, however, point out that the Cabinet only agreed to consider at a later date 'tacking' the RDG legislation on to the Co-operative Development Agency Bill. As Arthur Cockfield has pointed out, a final decision must really await a considered view when decisions on both elements of the proposed package are known.

There is also the point that Parliamentary Counsel is already heavily burdened by the agreed legislative programme. Because of the special circumstances of this year, the programme is well advanced and he is already engaged on Bills to be introduced soon after the end of the Summer Adjournment. I would not wish to burden him further with work which might turn out to be unnecessary.

I hope, therefore, in the circumstances, you will agree that a decision about contingent drafting should be deferred until September. We shall then I hope have a clearer picture of when policy decisions will be taken on RDGs and on the Co-operative Development Agency. At that point perhaps we and John Wakeham could consider the possible timetable for a Bill combining these two elements if Cabinet subsequently authorises its inclusion in the legislative programme.

The Rt Hon Cecil Parkinson MP
Secretary of State
Department of Trade and Industry

I am copying this letter to the Prime Minister, the Lord President, the Chancellor, the Secretaries of State for Employment, the Environment, Scotland, Wales and Northern Ireland, the Chief Whip, Sir Robert Armstrong and Sir George Engle.

Yours

John Biffen

JOHN BIFFEN

file

da

10 DOWNING STREET

From the Private Secretary

12 August 1983

This is just to record that the Prime Minister has seen and noted your Secretary of State's minute of 2 August about regional economic policy.

Timothy Flesher

Jonathan Spencer, Esq.,
Department of Trade and Industry.

NR

Minister of State
for Local Government

cc NO

Department of the Environment
2 Marsham Street London SW1
Telephone 01-212 3434

My Ref: J/PSO/13766/83

11 August 1983

Dear Michael,

ENTERPRISE ZONES

Thank you for your letter dated 18 July to Patrick Jenkin, supporting the proposals to extend the Dudley enterprise zone and to create a new enterprise zone at Flixborough.

You also ask if we would give further consideration to the decision to include agricultural land at Park Farm within the proposed zone in Scunthorpe.

I am afraid that the intended designation of the Scunthorpe zone has already progressed beyond the stage when the boundaries might be changed. The legislation does not give us the power to alter the boundaries of a zone, once a statutory invitation to prepare the necessary scheme has been made, which in this case was on 17 March - some four months ago. There is therefore no opportunity to reconsider the decision to include the land at Park Farm. The Scunthorpe zone is now expected to be designated in mid September.

I should add that, although the Park Farm land happens to be still in agricultural use, the land was zoned in the approved Town Map for industrial use and had been so since 1966; if this land had been excluded, the enterprise zone would have been further fragmented and would not offer the necessary potential for development in later years.

I am sorry that I am unable to offer the prospect of reconsidering the boundaries of the zone. I can assure you however, that we will do what we can to see that every effort is made to keep this land in agricultural use for as long as possible.

Copies of this letter go to recipients of yours.

Yours Sincerely,
Irwin

LORD BELLWIN

The Rt Hon Michael Jopling MP

Reg POT Review Pt 3

NG

010

CC NO

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

8 August 1983

Dear Chancellor

FUTURE MONITORING OF ENTERPRISE ZONES

I think you will wish to know that I intend to give approval to a new programme of monitoring economic activity in enterprise zones to take effect when the present consultants' study is completed. You will be aware that at present the established zones are being monitored by consultants, Roger Tym and Partners. They have produced two reports so far, covering the period from the designation of zones up to 31 May 1982, and they are to produce a third, covering the year ending 31 May 1983. The contract with the consultants will finish with the production, early next year, of the third report and we have been giving some thought to what system of monitoring should replace it.

My officials, in consultation with yours and those in Departments represented on the inter-Departmental committee steering the consultans' present study, have reviewed the options for future arrangements.

I have considered their recommendations and I have concluded that maintaining the annual evaluation of the zones along the detailed lines currently followed by the consultants is unlikely to be worthwhile, at least for the time being. I cannot envisage that we will learn anything in the next two years beyond what emerges from the first three; while there may be a case for a single more rigorous survey in, say, three years time, a decision on such an exercise need not be taken now.

I have decided to focus future monitoring of enterprise zones on the collection of such basic data as will allow us to continue to identify what is happening to economic activity within the zones. It will in any case be necessary to collect this, if for no other reason than to be able to respond to the interest the zones continue to arouse both here and abroad. I intend that the data should be collected for both the established zones and those presently being designated and that it should be obtained from existing statistical sources, with officials here assembling and analysing the material.

I am copying this letter to members of E Committee and to George Younger and Nicholas Edwards.

Yours sincerely

PATRICK JENKIN
(Approved by the Secretary of State and signed in his absence)

The Rt Hon Nigel Lawson MP

010

Prime Minister
cc N.O.
await response from GY and LAE.
8/8

DEPARTMENT OF TRADE AND INDUSTRY

Room 1103 Ashdown House 123 Victoria Street SW1E 6RB

Telex 8813148
Telegrams Advantage London SW1
Telephone Direct Line 01-212 5902
Switchboard 01-212 7676

From the
Minister of State

Norman Lamont MP

The Rt Hon George Younger MP
Secretary of State for Scotland
Scottish Office
Dover House
Whitehall
London SW1

5 August 1983

Dear George

A subject that has concerned me for some time is the way we handle applications for regional selective assistance involving mobile investment sometimes resulting in a loss or potential loss of jobs at the old location. Critics of our regional industrial policy content that this is simply shuffling jobs from one location to another and this is much less easy to defend when unemployment is so high throughout the whole country. For that reason we have to be satisfied that projects are likely to benefit both the regional and national economy.

What concerns me is that the Boards which advise us on this type of case - in Scotland, Wales and in the English regions - are essentially regional in character and I wonder if it would not make more sense if the national IDAB were to advise us in such cases.

I think it is important to be able to demonstrate that regional selective assistance is only given when there is a genuine advantage to the national economy, as well as the regional economy.

If you and Nicholas Edwards to whom I am copying this letter agree, I should like to ask our officials to consider whether projects above a certain size might be put to IDAB rather than SIDAB, WIDAB or the English Regional Industrial Development Boards. In addition to Nicholas Edwards, I am copying this letter to other colleagues of E(A).

Yours -

Norman

NORMAN LAMONT

V5887

Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 6106 (Llinell Union)
Oddi wrth Ysgrifennydd Gwladol Cymru

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)
From The Secretary of State for Wales

The Rt Hon Nicholas Edwards MP

CONFIDENTIAL

5th August 1983

Dear Cecil

REVIEW OF REGIONAL POLICY: ANSON REPORT

We are due to discuss the Anson report in September, and I am very anxious to be present at that meeting. Nevertheless, in view of the correspondence so far, there are one or two comments I should like to make now.

I agree that we should keep open the option of legislation this Session, but I am anxious that we should fully discuss the merits of the recommendations in the Anson report before forming any view on future expenditure levels. Our primary aim should be to find a regime that is effective and stable. I do not dispute the desirability of making public expenditure savings. My colleagues will remember that it was I who argued as strongly as any for reducing the subsidy to highly capital intensive projects such as Sullum Voe. But I am sure that we should give a fair hearing to the proposals in the report to making regional policy more effective, (as well as those for reshaping the RDG/SFA scheme). I refer particularly to the recommendations for improving incentives to service and innovative industries in the regions. These proposals are relatively speaking not very costly and are highly relevant to the aim of improving the performance and self-reliance of regional economies; and I believe they might do so without seriously distorting the national economy. We are, of course, committed to maintaining "an effective regional policy", since we all see this as essential to ease the process of change and encourage new businesses in areas which have been dependent on declining industries. Such measures could help in this aim.

/I am unhappy

The Rt Hon Cecil Parkinson MP
Secretary of State for Trade and Industry

I am unhappy about the argument that it is somehow a bad thing to encourage capital-intensive firms in the regions and a good thing to encourage labour-intensive firms. We have consistently emphasised the need to improve national productivity and competitivity, and this goes for service as well as manufacturing industry. I am therefore not clear why it is now being suggested that we should seek to aid firms in the Assisted Areas in a way which actively encourages them to increase their labour costs. I wonder what kind of labour-intensive firms are capable of standing up to competition and providing a secure basis for a long term improvement of employment in the regions, and I should be interested to hear the comments of those who support this suggestion. For my part, I think it more likely that such a policy would encourage the kind of projects or enterprises which do not compete effectively as to price or quality; these are precisely the sort of activities with which the disadvantaged regions are already afflicted.

I am also concerned about the effect on possible inward investors. The changes now proposed in the Anson report will themselves be significant and difficult to present effectively, since the scheme will be more complicated than the present one. I must say I am reluctant to compound this by shifting towards job-related grants to the degree suggested by John Sparrow. To signal a change of this kind might adversely affect inward investment and could lead to many potential overseas investors failing to enquire further about the incentives and to take their projects to other European countries. Our present package enables us to offer modern factories in pleasant surroundings to small and medium sized high technology firms looking for significant financial assistance with the capital costs of setting up a modern and competitive operation. Unless these companies can immediately see how much grant towards capital costs they can rely on (and 10% I think will be too low), they may well lose interest in the UK as a possible location. That would diminish the effect of regional policy and indeed it would be the national economy not just the regions that would suffer. I fully share George's concern about the assertion in Nigel Lawson's letter that regional policy has questionable benefits and may even be counter-productive to the national effort. The first report of the interdepartmental committee, whose conclusions and recommendations we largely endorsed in February and March, was clear that there remained a strong general case for a substantial regional policy and no evidence could be adduced to substantiate the arguments that national economic objectives were being compromised or damaged. I do not believe that we should now be deflected into further discussion of the underlying arguments.

/I am sending

Reg Pol, Review, Pt 5

I am sending a copy of this letter to the Prime Minister, the Chancellor of the Exchequer, the Lord President, the Lord Privy Seal, the Secretaries of State for Scotland, Northern Ireland, the Environment and Employment, and to Sir Robert Armstrong.

Yours ever

Nick

cc MO

Prime Minister

Mr Parkinson continues to argue for adding 4-6 clauses to the Co-operative Development Agency Bill to provide for changes in the RDG scheme. As you know, the Chancellor takes the same view. This reports that he is continuing work on the preparation of this legislation.

WM 3/8

JF4114

CONFIDENTIAL

MT

PRIME MINISTER

REGIONAL ECONOMIC POLICY

Following the completion of the second Report on Regional Policy which Nigel Lawson sent to you on 11 July, I had intended to circulate a paper to colleagues setting out my views on this Report. I have now decided not to do so at present, in view of your decision to postpone discussion of the Report until September.

2 There is, however, one point on which I believe action now would be helpful. The report proposes a new scheme to replace Regional Development Grants (RDGs) which could lead to savings of £100 to £150 million (or, in the longer term, as Nigel Lawson suggested in his letter to me of 27 July, of even more). An essential pre-requisite for achieving early expenditure savings is the introduction of legislation in this Session. It was agreed at Cabinet on 7 July that the most likely means of doing this would be to add the relevant 4-6 clauses to the Co-operative Development Agency Bill, which already has a place in the programme. I am asking my officials to continue to prepare legislation in accordance with the timetable envisaged and I am writing separately to Willie Whitelaw to seek his approval for the contingent drafting of the legislation by Parliamentary Counsel if necessary.

3 I should explain that the form of the legislation does not pre-empt decisions on the public expenditure savings we might achieve, the levels of grant, the number of tiers of regional assistance, or the shape and coverage of the Assisted Area Map. The proposals in the second Report and the variations suggested in Nigel Lawson's letter of 27 July and John Sparrow's letter of 19 July all require the same legislative changes. But failure to get ahead with drafting now - on a contingent basis - could delay implementation of the changes we are looking for (and the consequential public expenditure savings) by a full year.

4 I am sending copies of this minute to Willie Whitelaw, the Chancellor, George Younger, Nick Edwards, Jim Prior, John Biffen, Patrick Jenkin, Norman Tebbit, John Wakeham and Sir Robert Armstrong.

pp CECIL PARKINSON

2 August 1983

(Approved by the Secretary of State and signed in his absence)

Department of Trade and Industry
Ashdown House
123 Victoria Street
London SW1E 6RB

REGIONAL Pol: Review
PTS

Pemo

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Prime Minister (2)

Too much "balance".

MCS 29/7

CONFIDENTIAL

The Rt Hon Cecil Parkinson MP
Secretary of State
Department of Industry and Trade
Ashdown House
123 Victoria Street
LONDON SW1

28 July 1983

Dear Secretary of State,

MT

with mcs?

I have seen Nigel Lawson's letter to you about the Second Report on Regional Economic Policy. I see the advantage of keeping open the option of legislation this session, and for my part therefore I would be content if contingency drafting went ahead despite the absence of the underlying policy decision.

I must however take issue with the suggestion made by Nigel, in commenting on some of the points made in John Sparrow's letter on the Report, that from the point of view of the national economy regional policy may actually be counter-productive. The review of regional economic policy was conducted very thoroughly over a long period by an inter-departmental committee under Treasury chairmanship - the Quinlan Committee - who arrived at a balanced conclusion about the economic and the social and political effects of regional policy. We ourselves considered the Quinlan Report in February and March of this year and did not challenge its conclusions on this critical matter. I am therefore concerned that the assertions in the second half of Nigel's letter should not pass unchallenged. When we come to consider regional policy again in the Autumn our starting point must be the inter-departmental reports we have commissioned - the basic document (the first or Quinlan Report) and the second report which developed further some of the issues opened up by Quinlan.

I am copying this letter to Nigel Lawson and the other recipients of his letter.

Yours sincerely

Malcolm Rifkind

APPROVED BY THE SECRETARY OF STATE
AND SIGNED IN HIS ABSENCE

Log Pol
Review
P75

CONFIDENTIAL

I have spoken to J. Kerr.

FERB

1.8.

Prime Minister

An important letter.

I am concerned at the way this will emasculate the MT. We must be more circumspect.

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

Rt Hon Cecil Parkinson MP
Secretary of State for Trade & Industry

27 July 1983

Dear Cecil

The Prime Minister's decision to defer consideration of the second Report on Regional Policy until September gives us more time to develop our thoughts on these important issues. But this has implications for the proposal in your letter of 1 July to Willie Whitelaw that Clauses governing possible changes in the Regional Development Grants system should be prepared for incorporation in the Co-operative Development Agency Bill, which QL has recommended for inclusion in the 1983-84 legislative programme. Normally drafting of the necessary clauses would not be put in hand until the underlying policy has been decided.

Parliament, Legislation, Pt 11

2. You mentioned to me your concern that the postponement of the policy discussion might inadvertently result in closing the option of legislation in this Session which we might subsequently decide was desirable. As you pointed out in your letter, there are substantial public expenditure savings in prospect, and it would be a pity to deter these because of lack of legislative cover, assuming our colleagues agree on the Report's general recommendations for changing the grant system.

3. I think it is generally accepted that the current system is very cost-ineffective - we want no more Sullom Voes, for example - and the sooner we can move to a more cost-effective system and so fulfil our Manifesto commitment, the better. Nor should we lose sight of the possible benefits to be derived from the European Regional Development Fund by changing the RDG system in the direction proposed in the Report. I hope therefore that you will be able to secure agreement that, exceptionally, contingency drafting should be put in hand so as to keep the 1983-84 legislative option open.

4. I should also like to comment on some of the points made in John Sparrow's letter to me of 19 July. I have a great deal of sympathy with the general thrust of John's comments.

In my view, the economic benefits of regional economic policy are questionable as the first report on Regional Policy recognises. Indeed, from the point of view of the national economy, it is arguable that the policy may well be counter-productive.

5. This gives further strength to the social and political case for modifying the system to make it as effective as possible in generating employment, and for securing substantial savings which can be put to better use elsewhere. In your 1 July letter you suggested a possible potential saving of £100 - £150m. In my view, we should aim a little higher than this. I believe we should set our sights for net savings of at least £200m and I can see scope for achieving still more. However, these possibilities will depend on the outcome of our future discussions. Once the general principles of the revised grant system have been established, much will depend on the levels of grant as well as on the shape and size of the revised Assisted Area map. When we come to these issues, we ought to give serious consideration, along with the other options, to John Sparrow's suggestion for a package which would combine a job grant set as high as possible (within EC constraints) with a low capital grant and a low cost per-job ceiling. This would reduce the bias in the system towards capital-intensive investment, and would be better geared to the creation of jobs.

5. I am sending copies of this letter to the Prime Minister, the Lord President and the Lord Privy Seal, to the Secretaries of State for Scotland, Wales, Northern Ireland, Environment and Employment, and to Sir Robert Armstrong and John Sparrow.

Yours ever
Nigel

NIGEL LAWSON

cc NO

Prime Minister (4)

MCS 19/7

CABINET OFFICE
Central Policy Review Staff
70 Whitehall, London SW1A 2AS Telephone 01-233 7765

Qa 06420

From: John Sparrow
CONFIDENTIAL

19 July 1983

The Rt Hon Nigel Lawson MP
HM Treasury
S W 1

Dear Nigel,

Review of Regional Economic Policy - Anson Report

I have seen a copy of this Report which, I understand, is very unlikely to be discussed before the Recess and the closure of the CPRS. I offer this letter as a kind of posthumous CPRS Collective Brief. It concentrates on the most important element in the Report - the new scheme for Regional Development Grants (RDGs). Points on three other issues are in an Annex.

As the Quinlan Report concluded, Government expenditure on regional policy is a means of achieving political and social objectives rather than economic objectives. RDGs are subsidies financed by the taxpayer which divert economic activity, often at a high exchequer cost-per-job, to regions of high unemployment. They may thus be seen as one of a number of instruments for redistributing a part of national income towards the needy and disadvantaged.

The present RDG Scheme is not cost-effective; nor does it minimise interference with the operation of market forces. It encourages excessive labour saving investment and the growth of capital intensive firms at the expense of labour intensive firms.

The proposed new arrangements for RDGs go some way towards reducing these disadvantages. Helpful in this context are the proposals to exclude replacement and modernisation investment (categories of investment prone to high deadweight), to introduce a cost-per-job ceiling and to extend in a limited way the coverage of qualifying activities to include some services. I do not, however, believe that the Scheme goes far enough.

As regards cost-effectiveness, material in the Report (e.g. paragraph 2.28 where it can be inferred that £1m. of extra grant expenditure will increase regional investment by slightly over £1m.) suggests that the once-off exchequer cost-per-job will be high. Although precise quantification is not possible, we guess that cost could be in excess of £40,000.

As regards capital bias (which contributes to high cost-per-job) the Report suggests that out of £260m. of automatic grant expenditure a year under Option B, only £35m. would be in the form of job grant. Our own calculations suggest that the job grant benefits would be paid to projects accounting for less than 10 per cent of the investment eligible for the scheme envisaged under Option B.

I recognise that EC constraints on grant levels make it impossible to devise a scheme fully neutral as between capital and labour. But I do believe that we could move further towards neutrality and at the same time secure substantial public expenditure savings - a prize worth considering in the general public expenditure context.

In preference to the Anson proposal I would advocate a single tier automatic assistance scheme with a cost-per-job ceiling of £7,000, a capital grant rate of 10 per cent and a job grant of £3,000. The report inclines to the view that a 10 per cent rate of capital grant would be 'ineffective' (paragraph 2.25(a)). Fortified by the views of its 'industrial members' the CPRS does not agree; a 10 per cent rate associated with a higher job grant and with the possibility of 'topping up' through selective assistance in particular cases should work. The other argument advanced against such a package is that job grant is unpredictable (2.25(c)). Surely job grant is unpredictable only in the sense that its size will depend on the success of the project - such an incentive is positively desirable! Moreover, would the CBI have pressed so forcefully for a reduction in the National Insurance Surcharge had it felt that the 'jobs tax' (tantamount to the converse of a job grant) was unpredictable?

I would also advocate:

(a) A firm prior commitment to full annual indexation of the cost-per-job ceiling and the job grant (albeit with the facility for

Ministers to over-ride these arrangements in special circumstances). Investors need to be able to predict that the full value of job grant will not be allowed to erode over time if they are to be encouraged to switch to less capital intensive methods of production. This indexation procedure may lead to a few more instances where total grant payments are constrained by EC limits. But I do not believe the difficulties thereby incurred can be that great (cf. paragraph 2.25(b)). Even under Option B - which is regarded as practicable - grant payments to some projects will be constrained by the higher of the EC limits (see graph in Appendix B).

(b) Renegotiationg the EC limits to permit higher job grants thus enabling the RDG scheme to be moved nearer neutrality. Even if a general increase in limits is not negotiable in the foreseeable future it would be worth renegotiating the structure of the limits with a view to obtaining a higher limit expressed in eua per job. This could be combined with a reduction in the current maximum grant of 30 per cent of capital costs (paragraph 2.4(d)).

Unless an automatic RDG scheme can be shifted nearer to a position of neutrality than the Anson proposal envisages it will not serve the central objective of increasing job opportunities cost-effectively in the areas of high unemployment. If the objections to any further significant move towards neutrality are seen to be overwhelming then I would suggest that Ministers should reconsider the importance they have hitherto given to the retention of an automatic system with the 'deadweight' disadvantage that it inevitably has. The primary objective of regional policy may be better and more economically served by relying exclusively on selective assistance (always assuming that such assistance is administered professionally and subjected to tight budgetary control).

I am sending copies of this letter to the Prime Minister, the Lord President and the Lord Privy Seal, the Secretaries of State for Scotland, Wales, Northern Ireland, Environment, Employment and Trade and Industry, and to Sir Robert Armstrong.

Yours sincerely,

John Sparrow

Enc.

ANNEX

CONFIDENTIAL

Other CPRS Comments

1. Innovation: We support the aim of improving the climate for innovation in the Assisted Areas. But encouraging profitable innovation through state intervention is difficult enough without importing a regional bias into the subsidy arrangements. The risk that the national economy could thereby suffer seems particularly high. We do not therefore favour a regional differential on such grants (paras 3.3 - 3.4).

2. Co-ordination: We welcome the modest steps taken to co-ordinate the activities of Departments of the Environment and Trade and Industry (paras 3.11 - 3.15). The arrangements described in para 3.15 could be strengthened by developing a process of annual stock-taking of the problems and prospects of each region and the impact on them of Government policies generally.

3. Rural Programme: It is disturbing that there is little evidence available to assess the effectiveness of rural economic assistance and we question whether 2 years is not too long a time to allow for a research study. A shorter investigation, perhaps by independent consultants, might be preferable. More importantly the effect of agricultural policy on rural population and employment requires study. The suspicion must be that rural economic assistance is to a large extent merely coping with the adverse consequences of the Common Agricultural Policy on rural life.

Regional Policy
Review

Pt 5

Regional Policy

CC N-O

JF3919

(2)

Prime Minister

CONFIDENTIAL

This crossed with your decision to postpone until September.

MCS 18/7

PRIME MINISTER

REGIONAL ECONOMIC POLICY

TPM?

Nigel Lawson sent me a copy of his minute to you of 11 July, enclosing officials' second report on regional economic policy.

2 I agree with Nigel that an early discussion of this would be desirable. The new scheme of regional development grants should lead to significant public expenditure savings. If we are to make these savings at the earliest possible date, we need to reach agreement on the policy before the Recess, so that work can start on drafting the legislation for introduction in the present Session. As you will recall, Cabinet agreed on 7 July (C(83)22nd Meeting) to keep open the possibility of taking this legislation via an addition to the Co-operative Development Agency Bill.

3 I am copying this minute to the recipients of Nigel's.

C.P.

C P

18 July 1983

Department of Trade and Industry
Ashdown House
123 Victoria Street
London
SW1E 6RB

CONFIDENTIAL

LPO

bc: Nick Owen

file

10 DOWNING STREET

From the Private Secretary

18 July 1983

Dear Margaret,

REGIONAL ECONOMIC POLICY

The Prime Minister was grateful for the Chancellor's minute of 11 July, to which was attached the Second Report of the Inter-Departmental Group of Officials which has been reviewing Regional Economic Policy.

The Prime Minister has commented that she is loth to arrange a discussion of this Report at this stage in July. She fears that, to do so, would be to get off to a wrong start. The Prime Minister would prefer a discussion in September, by which time all the Ministers concerned would have had the opportunity to digest the Report.

I am sending copies of this letter to Bob Whalley (Lord President's Office), David Heyhoe (Lord Privy Seal's Office), Muir Russell (Scottish Office), Adam Peat (The Welsh Office), John Lyon (Northern Ireland Office), John Ballard (Department of the Environment), Barnaby Shaw (Department of Employment), Jonathan Spencer (Department of Trade and Industry), Gerry Spence (CPRS) and Richard Hatfield (Cabinet Office).

Yours sincerely,

Michael Scholar

Miss Margaret O'Mara,
HM Treasury.

CONFIDENTIAL

BTC

cc N.O.

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

Reg
Pol

From the Minister

MBM
MCS 18/7

The Rt Hon Patrick Jenkin MP
Secretary of State for the Environment
2 Marsham Street
LONDON SW1P 3EB

18 July 1983

Dear Patrick

ENTERPRISE ZONES

Thank you for copying to me your letter of 1 July to Nigel Lawson about the extension of the Enterprise Zone at Dudley and the creation of a Zone at Flixborough. I have no objection on agricultural grounds to either proposal. Indeed I welcome the move to direct industrial development to existing disused industrial areas, so helping to relieve the pressure for development on green field sites.

I would, however, ask that in view of the proximity of the new Flixborough Zone to the proposed Zone at Scunthorpe you might give further consideration to the decision to include agricultural land at Park Farm in the Scunthorpe Zone. I understand that the Scunthorpe Borough Council wish to change the designated use of the remainder of the Skippingdale English Industrial Estate land from housing to industry. Whether or not they succeed I am sure you would agree that the combination of the Scunthorpe and Flixborough Enterprise Zones will give the area more than adequate provision for industrial development. Under these circumstances I think it would be reasonable to redefine the boundaries of the Scunthorpe Zone to exclude Park Farm. If this is not possible at this late stage then I would welcome your assurance that, as Peter Walker requested in his letter of 11 November 1982 to Michael Heseltine, every effort is made to ensure this land is allowed to remain in agricultural production for as long as possible.

/I am copying .....

Regional Pol. Review Pt 5

I am copying this letter to the Prime Minister, other members of E(A) and to Sir Robert Armstrong.

Yours ever
Michael

MICHAEL JOPLING

Regional Pol CC NO

NBPM

Mrs 18/7

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Patrick Jenkin MP
Secretary of State for the Environment
2 Marsham Street
LONDON
SW1

15 July 1983

Dear Patrick,

ENTERPRISE ZONES

You wrote to Nigel Lawson on 1 July with proposals for the replacement of the North-East Derbyshire Enterprise Zone.

If our colleagues are content I see no objection to an additional 43 hectares or so at Dudley and the new 48 hectare site at Glanford. This will not add significantly to the total amount of coverage which was agreed last November.

I am copying this letter to the recipients of yours.

Yours ever
John

JOHN MOORE

Regional Brief: Berks

PFS

NO

SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel 01-233 3000 (Switsfwrdd)
01-233 6106 (Llinell Union)
Oddi wrth Ysgrifennydd Gwladol Cymru

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)
From The Secretary of State for Wales

The Rt Hon Nicholas Edwards MP

4 July 1983

MSPM
MS 14/7

Dear Secretary of State,

EZ DESIGNATIONS

Thank you for sending me a copy of your letter of 1 July about EZ designations at Dudley and Glanford in place of the zone originally proposed for NE Derbyshire.

There seems to be a good case for each of the 2 sites and designation would be a sensible response to changed circumstances. I am therefore content with your proposal.

Copies of this letter go to the recipients of yours.

Yours sincerely

Judy Roberts

Approved by the
Secretary of State and
signed in his absence

The Rt Hon Patrick Jenkin MP
Secretary of State for the Environment

Regional Pol : Review of Reg Pol Pt 5

(1)

Prime Minister

MR SCHOLAR

14 July 1983

I strongly support X. Agree? Yes.

MCS 15/7

cc Mr Mount

REGIONAL ECONOMIC POLICY

see attachment

Mr Lawson proposes that the officials' report on this subject be discussed in E(A). My advice is that it should be discussed first at Chequers in September. The danger of a discussion at this stage in E(A) is that the territorial departments would mount a concerted attack on the proposed reduction in automatic grants ("less money for Scotland" etc). Mr Parkinson may concede something on rates of grant (20-25% rather than 10-15%) but he is more likely to concede even greater increases in selective assistance for investment and "technology" support than is proposed in the report, by way of compensation.

We want to see the maximum savings from RDGs. We do not wish to see these savings frittered away on increased selective assistance. Support of this kind makes no demonstrable contribution to economic performance (a DoI analysis has shown that sectors with relatively low growth in employment, and high import penetration do best out of selective support). In principle it is difficult to see how officials can be more successful at picking winners than industrialists when they (officials) do not have the industrialist's detailed knowledge, nor do they face his structure of incentives (a salaried official neither makes his fortune by getting it right, nor loses his job by getting it wrong). It would be better, therefore, for an inner group of economic Ministers to consider these issues first, in the context of a longer term discussion of expenditure, employment, etc.

NICHOLAS OWEN

cc KO

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

I am loth to discuss this report at this stage in July. We shall get off to a wrong start if we do. September would be much better. We shall all have had time to digest it by then.

PRIME MINISTER

REGIONAL ECONOMIC POLICY

In March, you agreed (Michael Scholar's letter of 8 March) that further work should be undertaken following the first report of the inter-departmental Group of officials, which has been reviewing regional economic policy, and that MISC 14 should supervise this. MISC 14 asked the official Group to do some further work, and I attach a copy of their second report.

2. The recommendations of the Group are summarised in Chapter 1 of the report. They have done some useful work in devising a blueprint for a successor scheme to regional development grants (RDGs), which should make these grants more cost-effective. As Cecil Parkinson indicated in his letter of 1 July, this offers the prospect of significant public expenditure savings. Officials have also identified some proposals for promoting innovation and the formation of new firms in the regions; and they have examined a number of other matters remitted to them by MISC 14. Chapter 9 of the report sets out possible ways in which the central issue of the new RDG scheme might be taken forward. These include the possibility of legislation in 1983-84, which we discussed in Cabinet on 7 July.

3. I think we should have an early discussion of this report to consider the proposals for improving the RDG scheme, and to decide how we want to take the matter forward. In particular, we need to decide whether we can now authorise work by officials on bringing the map of assisted areas up-to-date.

4. Following the recent revision of Ministerial Committees on economic matters, it might now be appropriate to discuss the matter in E(A). If you agree, the Chief Secretary could circulate the report with a short covering paper identifying the main issues for Ministerial decision at this stage.

5. I am copying this minute to the Lord President and the Lord Privy Seal, to the Secretaries of State for Scotland, Wales, Northern Ireland, Environment, Employment, and Trade and Industry, and to Sir Robert Armstrong and Mr Sparrow.

N.L.

N.L.
11 July 1983

JH 106

cc NO

DEPARTMENT OF TRADE AND INDUSTRY

Room 11.01 Ashdown House 123 Victoria Street SW1E 6RB

Telex 8813148
Telegrams Advantage London SW1
Telephone Direct Line 01-212 3301
Switchboard 01-212 7676

(2)

Prime Minister

MCS 11/7

Secretary of State for Trade and Industry

11 July 1983

The Rt Hon Patrick Jenkin MP
Secretary of State for
the Environment
2 Marsham Street
London SW1

Dear Patrick,

Thank you for your letter of 1 July to Nigel Lawson about your proposals to extend the boundaries of the Enterprise Zone at Dudley and to establish a new Enterprise Zone on the site of the Nypro chemical plant at Flixborough.

2 In the Dudley case the proposal to extend the boundaries to include the former steelworks seems very reasonable on the basis that the works are now closed and the site is unlikely to be developed in the near future otherwise. It is of course particularly helpful in the light of our special concern for the problems of the West Midlands.

3 As far as the proposal to establish a new EZ at Flixborough is concerned, my only reservation is that the proximity of the site to the existing EZ at Scunthorpe might lead to a certain amount of rivalry between the two, which might in turn hinder their respective potential for development. I recognise, however, that the Scunthorpe EZ has not, to date, sold itself as successfully as other EZs such as Corby, and that competition at close quarters may well provide a spur for improving self-promotion. The publicity for the new EZ at regional and even national level would also be likely to provide a spin-off benefit for the Scunthorpe EZ. In addition, the fact that the Nypro site at Flixborough, like Scunthorpe, is a steel closure area and a Development Area, means that the two EZs would present a neat package for industrial investment purposes.

4 On balance, therefore, I would add my support to proposals for these further EZ designations.

5 I am copying this letter to the recipients of yours.

Yours ever,

Nigel

V5887

Reg Pol, Review, p1-5

NG

Prime Minister (2)
MCS 4/7

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

cc NO

My ref: J/PSO/13100/83

Your ref:

7 JUL 83

Dear Nigel,

ENTERPRISE ZONES

Following the announcement of the second round of Enterprise Zones in November 1982, one of the local authorities concerned, North East Derbyshire, decided to withdraw their bid for an EZ. We have not sought to replace this zone hitherto, but there are two specific areas which I consider merit EZ status in view of their particular circumstances. The combined area of the two is 91 hectares, almost the same as the 93 hectares of the intended North East Derbyshire Zone.

The first area would be an extension of the existing EZ at Dudley covering about 43 hectares. At the time of the original negotiations for this zone the steelworks, which were bounded on three sides by the Zone, were in operation. They were excluded in line with our policy of leaving existing industry out of the zones as far as possible, largely because of the high cost of compensation to the Local Authority for the rate income foregone. However the steelworks have now closed and we see little prospect of the site being redeveloped in competition with land in the Zone. Given the loss of 1300 jobs brought about by the closure of the steelworks, the high level of unemployment in the West Midlands at present and the difficulties of developing the land without EZ status the extension seems well justified.

The second area is the 48 hectare site on which the Nypro chemical plant stood that was the scene of the Flixborough disaster in 1974. Glanford made a bid for this to be an EZ but one of the principal arguments for preferring other contenders was the restriction on the planning regime that would have been necessary as long as there was a possibility that the site could be developed for hazardous uses. Now the Local Authority has bought the site, thus removing this objection, and they are willing to dispose of it freehold to the private sector. However the proximity of the Scunthorpe EZ, only one mile away, will make it more difficult to dispose of the Flixborough site which, not surprisingly, is of considerable symbolic importance to the area. The area badly needs new jobs as local employment in steel has fallen by more than 50% in recent years and male unemployment is currently running at 17.7%

Irwin Bellwin has seen a deputation from Glanford and has been most impressed by their commitment to the development of the site by the private sector and to the need to work closely with Scunthorpe to promote the diversification of the industrial base in this steel-making area.

Provided you agree I therefore intend to approve the proposals for an extension to the Dudley Enterprise Zone and for a Zone in Glanford in substitution for the North East Derbyshire Zone which was withdrawn.

I am copying this letter to the Prime Minister, to members of E Committee and to George Younger and Nicholas Edwards, to whose letter of 24 June about an extension to the Swansea EZ I am replying separately.

Yours ever

Patrick

PATRICK JENKIN

The Rt Hon Nigel Lawson MP

A

Prime Minister (4)

MR SCHOLAR

PA MCS 5/7

17 June 1983

For discussion at your next regular meeting with the Chancellor?

cc Mr Mount
Sir Alan Walters

Yes

MCS 23/6

THE REVIEW OF REGIONAL POLICY

Decisions will have to be taken soon on regional policy if the full benefits - greater cost-effectiveness and substantial savings - are to be achieved much before the end of this Parliament. If these reforms are to be thorough-going ones, as we hope, they will dismay the Scots, Welsh and others. It would therefore be better to face this problem sooner rather than later.

The Policy Unit's view of regional policy is that it operates against the national interest. To the small extent that it actually works, the policy diverts investment, often at very high costs per job, from locations which industry prefers, thereby reducing efficiency. Many of the jobs concerned have not proved to be secure, partly because of poor industrial relations. 'Regional Trends' reveals that the North and Wales had the highest rates of industrial disputes in the period 1977-81 and the worst levels of unemployment in Great Britain in 1982. Conversely, East Anglia and the South East had the lowest rate of disputes and the lowest rate of unemployment. To some extent, the policy taxes the successful regions and insulates the less successful from the predictable consequences of their own behaviour and anti-business attitudes. Since the Government is committed on political grounds to maintain a regional policy, let it at least absorb far less money and use that money more effectively.

The Prime Minister asked that MISC 14 should continue to supervise the review of regional policy (your letter of 8 March) and that she would consider how discussions should be handled when the Chancellor reported back. My advice is that the Prime Minister should have a private word with the Chancellor in the next week or so, before MISC 14 takes a follow-up report from officials, to ensure that the MISC 14 discussion does not close off any options. My reason for suggesting this is

Pubs agenda

that the officials' report will not offer a radical change in regional policy. It will offer one, very sensible change of substance (lopping off automatic grants for replacement investment) but will suggest instead that the savings from this be devoted to additional selective assistance. The report's proposals are likely to make only a small dent in the manifest absurdity of regional grants - their bias towards capital-intensive projects, such as ethylene crackers, which absorb enormous grants and employ a handful of people, in areas with exceptionally high levels of unemployment. This bias cannot in the longer term even be said to help the economies of the assisted areas. Capital-intensive industries happen also to be slower growing than the average.

The officials' report will offer combinations of capital and job-related grants as a step towards more neutral incentives but the presentation of these options will be heavily slanted towards capital grants because the regional policy practitioners prefer them: capital grants are thought to be 'predictable', whereas job grants are less so, because they depend on projects' ultimate success (an advantage surely?). Job-related grants will have little scope to bite, perhaps on as little as 6% of investment in the assisted areas. The danger I foresee is that MISC 14, on which the regional interests are strongly represented, will decide in favour of an expensive and ineffective, capital-biased option, which might, as an illustration, provide for 20% automatic capital grants for around 90% of investment in new projects, reinforced by selective assistance, up to high cost-per-job limits (£17,000 +) for new and replacement investment, and grants for new technologies of up to 50%. The opportunity to save £200 million or more a year from the £460 million cost of regional support could be lost.

The Prime Minister might suggest to the Chancellor that he tries to steer MISC 14 towards two conclusions: 1) To ask officials to cost a more job-orientated option than any suggested in the officials' report. The job-related element will be the key to presenting a cheaper regional package; 2) as a stop gap measure, using discretion under existing legislation to withdraw grants for replacement expenditure and for new projects which fail to create a given number of new jobs per £ million of grant.

NICHOLAS OWEN

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Willie Rickett Esq
Private Secretary
10 Downing Street
LONDON SW1

12 May 1983

Dear Willie

SCOTLAND - EMPLOYMENT IN ELECTRONICS, STEEL AND SHIPBUILDING

We understand from Treasury Briefing Division that the question of employment in the Scottish electronics industry compared with that in steel and shipbuilding arose in the context of a Parliamentary Question from Mr Dennis Skinner tabled for reply on 6 May, and that you wish to have clarification on the present position and a form of words suitable for use.

It will be recalled that when this issue last arose in the context of the Prime Minister's Barbican speech, we confirmed that the broad statement that employment in the electronics industry in Scotland exceeded that in steel production and shipbuilding combined could be justified, but that we would not want to encourage public discussion on the actual figures (my letter to you of 22 December 1982 refers - copy attached for ease of reference). As explained, this reservation was based principally on the problems of suitably defining the respective industries, a lack of comprehensive up-to-date employment figures, and the consequent degree of judgement which was necessary.

Since then we have been looking at this question further in light of information now available from the 1981 Census of Employment, the employment totals of British Steel and British Shipbuilders, and our own internal sources for electronics (Scottish Manufacturing Establishments Record). This information is summarised in the following table which shows that the problems of definition and timing remains very much as before:

DE Census	'000 Employees September 1981		'000 Employees September 1982
Steel		National Corporations	
Iron and Steel Manufacture	12.4		
Steel Tubes	3.7		
Iron Castings etc	4.4		
	20.5	British Steel	11
Shipbuilding and Marine Engineering	34	British Shipbuilders	18
		Other sources (SCOMER)	Mid-1982
Electronics	37	Electronics	36.5

On either the DE Census basis which relates to 1981 (the quarterly employment estimates do not give a sufficiently detailed breakdown for these purposes) or our own SCOMER estimates for 1982, employment in electronics in Scotland has fallen since 1979, reflecting the impact of the recession.

The conventional definitions for iron and steel (which cover iron and steel manufacture and steel tubes) and for shipbuilding (which cover shipbuilding and marine engineering) yield combined employment of 50,000 in 1981. These go much wider than simply the production of steel and the building of ships, and employment has fallen since 1981. We indicated in December that the estimate of current employment of 32,000 in steel and shipbuilding,based on such a narrow view, involved a substantial element of judgement which we would not wish to defend publicly.

The current electronics employment estimate of 36-37,000 (as compared to the 40,000 quoted earlier) means that the margin between the total for electronics employment, and the combined total for steel and shipbuilding (even on a narrow definition requiring a judgemental approach) is so small that we would advise that the proposition that Scottish employment in electronics is greater than in steel and shipbuilding combined be no longer advanced. It remains true, however, that Scottish electronics employment is greater than Scottish employment of the British Steel Corporation and British Shipbuilders; and this is the comparison we would advocate.

In view of the highly unsatisfactory nature of the figures, we have recommended to our own Secretary of State that he should if possible avoid making comparisons between electronics and these other industries combined, and have suggested a form of words as follows:

On relative employment in electronics compared with steel and shipbuilding

(i) Electronics is now one of Scotland's most important industries with a total employment that is greater than either steel or shipbuilding.

(ii) Our most recent estimates which are for September 1982 give a total employment in the electronics industry of 36,500. This is greater than the total Scottish employment of the British Steel Corporation and British Shipbuilders combined.

While I am aware that this response is less straightforward than I would have liked, I hope at least that it gives sufficient guidance to meet your purposes.

Yours sincerely

John Wilson

JOHN S WILSON
Private Secretary

Prime Minister

You may like to see. "Minister for the West Midlands" is clearly a title invented by the press.

PERS
11.4.

MR. BUTLER

You asked about the status of the announcement that John Butcher was to be the "Minister for the West Midlands". As you will see from the attached minute from the Secretary of State for Industry, he informed the Prime Minister of the special West Midlands measures which he announced in his speech during the Budget debate. That speech (copy of the relevant portion attached) referred to the fact that Mr. Jenkin had invited Mr. Butcher to take charge of these measures. This clearly was simply an allocation of duties within the Department of Industry (and therefore within the perogative of the Secretary of State) rather than an official title along the lines of, for example, Minister for Information Technology.

11 April 1983

10 DOWNING STREET

CF

West Midlands

This is a political meeting ~~other~~ been arranged for 11.00 on Monday 25 april. ask Ian if any further papers.

CJ.

31/3

CAROLINE

THIS CAN WAIT – BUT AS SOON AS POSSIBLE, PLEASE!

10 DOWNING STREET

low

?. Tim.

Caroline

CP.

- SOS/DOI are unable to do 30/3 (also no Rontgen). I suggested 1600 on 11/4 but Jenkin departs for USA on that day.

- Is it necessary to SOS DOI (despite his min. of 9/3) or can the mtg. be delayed until he returns from USA Pete 28/3

VCC NO

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

NBPM

My ref: K/PSO/11711/83

Your ref:

MLS 29/3

29 MAR 83

Dear Geoffrey,

A THIRD ENTERPRISE ZONE IN WALES

I have seen Nick Edwards' letter to you of 21 March, in which he proposes that land on both sides of the Milford Haven waterway be designated as the third Welsh enterprise zone.

The sites described by Nick appear very suitable for such designation. We already have experience of enterprise zones made up of sites in close proximity to each other, but lying in the administrative area of two local authorities (Newcastle/Gateshead and Salford/Trafford). We have been concerned to ensure that the authorities involved work very closely together from the outset, and that they promote the several sites as a single zone. I am glad that Nick would wish to see a similarly unified approach to handling the proposed third Welsh zone.

My only other point is to stress the desirability of drawing the zone's boundary as far as possible so as to exclude existing businesses. We have had this objective very much in mind in looking at the exact areas of the new zones announced last November, both to keep down the initial costs to the Exchequer, and also to minimise the incidence of "windfall gains" to established firms. Practical considerations will always mean that some existing businesses have to be included, but Nick may find it possible to cut down the likely rates cost of the proposed third zone a little further.

Copies of this letter go to the recipients of Nick Edwards' letter.

Yours

TOM KING

The Rt Hon Sir Geoffrey Howe QC MP

Reg Pol: Review P+S

- SS/BUT unable to do 30/3.
- Offered 11/4 as next suitable date (1600) but BUT is going to US for 2 wks.
- Check with CS if Mtg. can wait until then.

PE.

PRIME MINISTER

THE WEST MIDLANDS

1. Herewith Patrick Jenkin's Minute to you dated 9th March, and Peter Walker's Minute dated 15th March.

2. I have asked Cecil Parkinson to follow up the point which Peter makes in the second paragraph of his Minute.

3. As you know, Patrick has recently appointed John Butcher as Minister with special responsibility for the West Midlands.

4. Do you agree that we should now have a meeting at which the following would be present:-

- Patrick Jenkin
  Peter Walker
  Geoffrey Howe
  Cecil Parkinson
- John Butcher

Yes MT

½ ✓

30th

IAN GOW

25.3.83

other 1500 on Wednesday or any time after Easter

cc/NO

Prime Minister

MCS 29/3

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales

25 March 1983

MT

Dear Nick

Thank you for your letter of 21 March reporting the outcome of your examination of the possibility of a third Enterprise Zone in Wales.

I am content for you to go ahead with the designation of the site around Milford Haven which appears to be a sound proposition as an EZ. We had left such an option open from the last round, which can now be regarded as settled.

You say in your letter that the site totals around 258 acres, subject to detailed negotiations with local authorities. This is well up to the average for the existing zones and I should not want the eventual figure to be significantly higher.

I am copying this to the Prime Minister, the members of E Committee, George Younger and Michael Heseltine.

Yours

GEOFFREY HOWE

MR MOUNT

23 March 1983

cc Mr Walters
Mr Scholar

PR

REGIONAL ECONOMIC POLICY

You will be attending MISC 14 tomorrow when papers on this subject by Mr Brittan and Mr Jenkin will be discussed. The purpose of the meeting is to provide a steer to the interdepartmental group of officials charged with developing this review further. We have two objectives at the MISC 14 meeting: to ensure that the more radical options are explicitly included in the officials' terms of reference (they will not address them if they are not and may disregard them even if they are) and to secure a place for the Policy Unit on the interdepartmental group (I would attend).

Mr Brittan's paper identifies the successor scheme to RDG as the single most important issue. Mr Jenkin's paper proposes a reassuring public statement on REP and outlines some possible ideas on what should replace RDG. Already the discussion has dodged three basic, and connected questions:

1) What makes a declining area decline?

2) Should we have a regional policy at all?

3) If we judge that we must, can we reduce its cost substantially?

In regard to (1), your note of 13 January to the Prime Minister (attached) addresses the first question but neither the Quinlan report nor the papers presented tomorrow do this. As a result we are moving rapidly towards a repackaging of existing industrial policies without any serious discussion of the origins of regional problems or their appropriate remedies. The chance to do this is unlikely to recur for years, in view of the entrenched regional interests and DoI officials' concerns about the 'stability' of regional policies, reflected in the proposed statement. Mr Jenkin raised many of the important questions in his excellent and

personally drafted 16 February paper (MISC 14(83)6) but his own officials disregarded his views in their contributions to Quinlan and seem to have taken over once again in the latest DoI paper, with its preamble about 'public reassurance' that REP is here to stay and will change slowly. It is important, therefore, that officials should be instructed to report on the causes of regional decline, preferably at the same time as their interim report (Mr Brittan suggests June 1983).

In regard to (2), Mr Jenkin's earlier paper observed (para 5) that "a sound economic case can be made out for having no REP at all" and listed this as one option. Subsequent discussion ruled it out, largely on political and Community grounds, but if we are to make sensible decisions on the size and shape of REP it is surely important to establish the strength or otherwise of the case for having no REP. If the case is a strong one, REP should be re-designed to minimise its cost and damage, within the political and Community constraints. [In this context, incidentally, shouldn't Ministers look hard at the political map? Why tax their own supporters to subsidise areas of the country whose cultures are predominantly socialist, anti-business, heavily unionised, lacking in entrepreneurship?]

In regard to (3), the prospect of reducing the costs associated with REP is lost in the two papers for consideration tomorrow. Mr Brittan's paper puts the matter the wrong way round, observing (para 5) that "it is sensible to assume that significantly greater resources for regional policy are unlikely to be available". Mr Jenkin's paper (MISC 14(83)9) is a menu without prices. I believe that in practice, his approach could cost much less, because it would lop off the deadweight costs of supporting many manufacturing projects which would go ahead anyway, and would impose a cost per job limit. Its proposed initiatives for new firms are likely to be fairly inexpensive. But anything new we might press for on services could cost rather more because we would not want them to be confined just to what DoI refers to as 'mobile services' (eg data processing centres). As Alan says, the alternative to investing in services in assisted areas can be not to invest at all. Our concern should be to define the criteria for support for manufacturing projects (cost per job, additionality) tightly enough to leave enough funds for wider support for services and

to reduce the cost of REP. The discussion of costs should also expose the hidden elements of REP expenditure (in BSC, BS, NCB etc).

The other strand to this is the Urban Policy expenditure. Throwing money into the black holes of our old industrial cities is almost a parody of REP. Inner cities fail for many of the reasons that regions fail. But the Department of the Environment has wriggled clear of this review. Mr Jenkin is understandably aggrieved, and is unlikely to accept willingly any further substantial reductions in REP expenditure if Mr King is to spray the proceeds into economically exhausted inner cities. You should therefore support any effort which Mr Jenkin makes to pull this item back into the review process - see his recommendation (v).

Regarding the specific proposals in Mr Jenkin's latest note (para 3)

(i) No, the statement should not be made, at least in the form proposed. Officials have an exaggerated fear that investors will melt away, to Eire or Spain, if there is any hint that changes are afoot. They overlook the fact that many investors will come here anyway, regardless of grants, and that some capital-intensive companies who might choose not to if we imposed cost per job limits, are not worth attracting at the present cost of RDGs. The statement could make it difficult for this Government to make early progress on reforming REP eg imposing cpj and removing automatic regional grants.

(ii) Yes, let officials explore alternative grant schemes but avoid a clear steer at this stage: the DoI's annex A is far too muddled, and threatens to carry into REP the arbitrariness of its innovation policies: what for example, is the distinction in para 6 between 'restructuring through new technology' (good) and 'modernisation' (bad)? Job-related grants should not be ruled out.

(iii) Yes, small firms policies are our favoured instrument for REP: small firms are non-unionised and stand a better chance; and lack of entrepreneurs in the anti-business cultures

of the assisted areas is a central problem.

(iv) No, it is still too early in this review to start tinkering with institutions.

(v) Yes, but the work should be done concurrently with, and have a bearing on the rest of the work officials will be doing and not "on a longer term timescale".

N.O.

NICHOLAS OWEN

HANSARD
21.3.83
COL 554-555

Mr. Douglas Jay (Battersea, North): Why, after all these wonderful schemes, are there still nearly 4 million people unemployed?

Mr. Jenkin: Perhaps the right hon. Gentleman can wait until I deal with bankruptcies. These measures are necessary to enhance competitiveness so that industry can win back customers and rebuild jobs. If the right hon. Gentleman, whom I greatly respect as a senior Member of the House, cannot see that, I am sorry for him. That is at the heart of what we are trying to do.

It is interesting to note that the west midlands gets about twice as much SEFIS suport per head of population as the national average. By reopening the scheme and allocating no less that £100 million to it—four times as much as was allocated to SEFIS 1—we shall bring substantial help to the west midlands especially, as well as to small engineering firms in general.

There is no doubt that industry in the west midlands has suffered grievously in the recession. The reasons for that are deep and complex, the roots going back many years. West midlanders are rightly proud of their skills as metal bashers. They have an innate skill in handling metal to which industrialists in the area often refer. Of course there is a future for those industries, but many firms there need to modernise their plant, design new products and seek new markets. Moreover, the west midlands must broaden its industrial base.

It was disappointing to realise that relatively few firms in the region applied for the various forms of assistance under our support for innovation scheme. The reintroduction of SEFIS, and the additional help that the rest of my right hon. and learned Friend's innovation package makes possible, enables me to anounce a new initiative to encourage more innovation in the west midlands. I am setting up a special team, to be called a team for innovation, in the west midlands regional office of the Department of Industry. Its purpose will be to help and to encourage firms in the west midlands to make the fullest use of all the national schemes of suport for industry. The CBI in the west midlands is considering plans to co-ordinate and to promote industrial and commercial development in the region on a self-help basis. I hope that the CBI, the chambers of commerce and the local authorities will come together in a partnership to achieve this. I have asked my officials to give them as much help as they can.

I shall be ready to consider providing a modest grant-in-aid for the promotion of the region overseas, in co-ordination with the Invest in Britain Bureau in my Department. The CBI has called for firms in the region to make greater use of the Government's schemes, and I know that that organisation will wish to co-operate to the full with the innovation team. I am recruiting a senior industrial adviser to head the team and I am asking my hon. Friend the Under-Secretary of State—the hon. Member for Coventry, South-West (Mr. Butcher)—to take charge of this work. Under our support schemes for innovation in addition to SEFIS, a wide variety of help is available for the development and introduction of new technology, new processes and new products. That is what the west midlands needs, and by making a special effort to bring this to the attention of local businesses I hope that we shall see a much greater take-up of the schemes and, with it, a revival of the fortunes of manufacturing industry in the region.

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Oddi wrth Ysgrifennydd Gwladol Cymru

2/Pps Prime Minister NJ
MS 22/3

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)
From The Secretary of State for Wales

The Rt Hon Nicholas Edwards MP

21 March 1983

Dear Geoffrey

You and colleagues will know that I have been examining the possibility of establishing a third Enterprise Zone in Wales.

There is much interest among local authorities in Wales in the EZ idea and I have had to consider some ten or so claims for EZ designation. Only two seemed to me to merit serious consideration, one in Blaenau Gwent and one in Pembrokeshire. I have considered the issues very fully and firmly recommend the proposals of Preseli and South Pembrokeshire District Councils for a zone covering land on both sides of the Milford Haven waterway.

This proposal has been developed from an original application confined to land on the southern shore of the Haven. The area on either side of the waterway has however a natural cohesion and common economic problems and this argued for a co-ordinated approach taking in sites on both sides. As a result recent discussions involving both local authorities and major landowners in the area have suggested that the zone should comprise three main and closely related blocks fronting on the Haven including substantial areas in the dockyard land at Pembroke Dock and the Milford Docks at Milford Haven. Much of the land is privately owned and the main owners would be ready and willing to play their part in an Enterprise Zone.

The area has suffered considerably from the decline of fishing and other port related industries and, more recently, from closures and cutbacks at the refineries. Unemployment rates are very high - even by current Welsh standards (Pembroke Dock has a rate of about 30%) - and there is little realistic expectation of early recovery unless some boost can be given to the attractiveness of the area for new industrial and commercial development. In fact the area has unique opportunities for capitalising on its deep water frontage and local skills in the manufacturing or service industries and both the public and private sectors share a common concern to use the EZ experiment as a focus to revive activity in the docks sites and those related to them nearby. Direct EZ inducements and a co-ordinated approach, in both financial and administrative terms, to infrastructure development and marketing which I intend to ensure will go a long way to help restore the health of the area.

/The Zone

The Rt Hon Sir Geoffrey Howe QC MP

Regional Pol. Review
Pt 5

The Zone which has been proposed totals about 258 acres in three main blocks of which 112 acres are in the two dockland sites. (I would want of course to discuss the precise coverage further in a little more detail with the local authorities). About 175 acres of the land is privately owned some of which is already occupied or available (142 acres) and the remainder will be made available in the short (78 acres) or longer term (38 acres). The rates payable in the proposed zone would be of the order of £200,000 as compared for example with the £225,000 or so estimated in the Flint zone.

I would like to make an early announcement - if possible, before Easter - and get the process of defining the exact boundary and agreeing the scheme with the participating authorities under way as quickly as possible. Can I ask, therefore, for confirmation of the proposal by 25 March.

I am copying this to the Prime Minister, the members of 'E' Committee, George Younger and Michael Heseltine.

Yours ever

Nick

cc NO
Reg Pol

NBPM
MCS 22/3

Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 6106 (Llinell Union)
Oddi wrth Ysgrifennydd Gwladol Cymru

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)
From The Secretary of State for Wales

The Rt Hon Nicholas Edwards MP

18 March 1983

Dear Tom

MONITORING ENTERPRISE ZONES

Thank you for copying to me your letter of 8 March to Geoffrey Howe on the Year 2 monitoring report on the Enterprise Zone experiment.

I agree with your conclusion that it is too early to judge the results of the EZ experiment. So I go along with your proposals to publish the report without the summary and with an emphasis on the limited period to which it relates. I would add though that progress in the Swansea Zone continues to be encouraging and I would hope to see this success repeated elsewhere in Wales.

Copies of this letter go to recipients of yours.

Yours

Nick

Rt Hon Tom King MP

Regional Policy - Review PKS

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON S.W.1

From the Minister

Mr Gow

Press guidance

15 March 1983

MCS 15/3

PRIME MINISTER

I have seen Patrick Jenkin's minute to you of 9 March on the West Midlands. When you have a moment I would like to come and discuss with you the manner in which I now believe we should present the whole case of the West Midlands. Certainly some substantial initiatives need to be taken over the next few months so as to start to remedy the present atmosphere, and I believe this has got to be organised almost on a constituency by constituency basis.

When we last met you suggested a briefing in campaign methods for our members from marginal seats. I would naturally be delighted to do this whenever you wish the arrangements to be made.

PETER WALKER

(dictated by the Minister and signed in his absence)

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON S.W.1

From the Minister

Mr Gow

Yes, I think.

MCS 15/3

15 March 1983

PRIME MINISTER

I have seen Patrick Jenkin's minute to you of 9 March on the West Midlands. When you have a moment I would like to come and discuss with you the manner in which I now believe we should present the whole case of the West Midlands. Certainly some substantial initiatives need to be taken over the next few months so as to start to remedy the present atmosphere, and I believe this has got to be organised almost on a constituency by constituency basis.

When we last met you suggested a briefing in campaign methods for our members from marginal seats. I would naturally be delighted to do this whenever you wish the arrangements to be made.

PETER WALKER
(dictated by the Minister and signed in his absence)

Regional for Review Pt 5

Regional Pol.

2 pps

cc DV

Prime Minister 2

MCS 15/3

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

The Rt Hon Tom King, MP
Secretary of State for the
Environment
2 Marsham Street
LONDON SW1P 3EB

14 March 1983

REGIONAL POLICY.

Dear Tom

MONITORING ENTERPRISE ZONES

Thank you for your letter of 8 March about the forthcoming publication of the Year Two Monitoring Report on Enterprise Zones.

I am sure that you are right to authorise publication of the Report, even though some of the consultants' findings may give openings to critics of our enterprise zone policy. I was pleased to learn that the consultants have agreed to drop the summary, which could have been unnecessarily damaging.

The main positive point to emerge from the Report is, as you say, that the zones are succeeding in their primary purpose of bringing new life and investment to some very run-down areas. I hope you will emphasise this in your press statement.

Criticism that the zones have not added in net terms to national income are, of course, misplaced. It was to be expected that the initial effect would be to influence the location of firms within a fairly narrow locality. The wider benefit from the regeneration of derelict areas will take longer to come through.

Our objective in setting up the EZ experiment was to see whether development could be stimulated in specific sites in areas of special difficulty, and to identify the essential factors contributing to such development with a view, perhaps, to applying the lessons learnt more widely. I believe that we should continue to emphasise the experimental nature of the zones and the fact that, as you say, it is still too early to draw firm conclusions.

/A good deal

Reg Pol, Review, pt 5

A good deal of the correspondence I have received on EZs has been concerned with the effect of alleged "unfair competition" on firms just outside the zones. I think Table 3.26 from the Report is useful in this context: it shows that a majority of firms even outside the zones thought the effects of the EZ measures would be beneficial outside the zones. It is a slim majority on a small sample, but nevertheless encouraging at this early stage in the zones' development.

I am sending copies of this letter to colleagues on E Committee and to George Younger and Nick Edwards.

GEOFFREY HOWE

CONFIDENTIAL

Reg. Pol. cc/JV

NBPM

MCS 16/3

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

THE WEST MIDLANDS

I welcome the initiatives which Patrick Jenkin reports in his minute of 9 March. They are modest measures, as he says, but I agree that they could be useful steps within the limits set by his present powers and ceilings on cash and manpower. They will be re-inforced by the re-opening of the Small Engineering Firms Investment Scheme (SEFIS) which I shall announce tomorrow, emphasising that it will be of special benefit to the West Midlands with its high concentration of eligible firms.

2. I agree with our colleagues on MISC 14 that it would be unwise for us to think in terms of designating the West Midlands an Assisted Area. But its problems strengthen the case for pressing on with a reform of regional policy in which the changing pattern of needs can be reflected in a new and defensible structure of regional assistance. MISC 14 will be meeting again to carry this work forward on 24 March.

3. I am sending copies of this minute to the Secretaries of State for Foreign & Commonwealth Affairs, Education & Science, Industry, Northern Ireland, Scotland, Wales, Employment and the Environment, the Minister of Agriculture Fisheries and Food, Sir Robert Armstrong and Mr Sparrow.

(G.H.)

14 March 1983

Reg Pol.
Review, P45

CONFIDENTIAL

FILE Reg Sw Pol
bcc: J.V.

10 DOWNING STREET

From the Private Secretary

9 March, 1983

The West Midlands

The Prime Minister has noted without comment your Secretary of State's minute of 9 March about the West Midlands.

I am sending copies of this letter to the Private Secretaries of the Chancellor of the Exchequer, the Secretaries of State for Foreign and Commonwealth Affairs, Education and Science, Northern Ireland, Scotland, Wales, Employment and the Environment, the Minister of Agriculture, Fisheries and Food, the Chief Secretary, Sir Robert Armstrong and Mr. Sparrow.

M. C. SCHOLAR

Jonathan Spencer, Esq.,
Department of Industry

CONFIDENTIAL

JF2917

CONFIDENTIAL

cc JR

Prime Minister (2)

To note.

MCS 9/3

PRIME MINISTER

THE WEST MIDLANDS

I know that you are as concerned as I am at the serious industrial and economic decline in the West Midlands. Under the current criteria for Assisted Area status, most of the region would now qualify; indeed, Telford where the January unemployment rate was 20.6% would qualify as a Special Development Area. In his minute of 24 February, however, the Chancellor of the Exchequer sent you the first thoughts of MISC 14 on the review of regional economic policy and explained that it would not be consistent with the Government's regional policy to increase the coverage of the assisted areas so substantially at this moment. At the meeting of MISC 14, I indicated that I had one or two initiatives open to me under national schemes for industrial support and that I was putting together a modest package aimed at increasing substantially the take-up of the schemes by West Midlands Industry.

2 The CBI in the West Midlands region has been very statesmanlike in handling the issue of Assisted Area status and with the blessing of the CBI nationally has been working on a proposal to set up a regional co-ordinating body to promote (but not to finance) industrial and commercial developments in the region of a self-help basis. I think this is an encouraging development and I have asked my officials to give them such advice and help

as they can in getting the support of the Chambers of Commerce and all the local authorities in the region; however, the CBI have probably under-estimated the difficulty of getting all the local authorities to pull together given the extent to which they are increasingly doing their own thing in promoting job creation and seeking to attract new investment. If an association is established to carry out an effective role in the promotion of the region overseas, in a co-ordinated way incremental to the promotional effort which is undertaken on behalf of the UK as a whole, I would be prepared to provide some modest grant in aid, on a matching basis, of the kind now provided to associations in the Assisted Area regions. This possibility may be helpful in getting the various representative bodies to work together, and strong participation by industry would be a valuable plus factor.

3 The CBI and Chambers of Commerce are both anxious to collaborate with my Department in promoting our national schemes of assistance within the region. The schemes I have at my disposal include in particular a range of advisory services, the Department's technology awareness programmes and a variety of schemes providing grants for innovation. Hitherto, no special effort has been made to market these schemes in the West Midlands and it is a fact that the take-up by firms in the region does not in my view adequately reflect the extent to which they could help industry to grapple with the effects of the recession. In my view, a special effort is necessary and to achieve this, I am

setting up, at the Department's West Midlands Regional Office, a "team for innovation". I am recruiting an industrial adviser who will head up the team. The team's main objective will be to promote the adoption of new technology and the growth of new industries by increased take-up of the help available under the Department's schemes.

4 I have also asked English Industrial Estates to investigate the industrial and commercial property market in the West Midlands and report to me if they identify any needs for the economic development of the region, especially in relation to high technology industry and small businesses which private sector developers are unwilling or unable to undertake. If necessary I will ask them to undertake development in the region even though it is not an Assisted Area.

5 I hope that the campaign can be fully underway by May and I propose to announce it just after Budget day. At the same time, it is important that we do not seek to claim too much for these proposals. Their merit is that they fit in well with the needs of the region and with the commitment of both the CBI and the Chambers of Commerce to the principle of self-help.

6 I am copying this minute to the Chancellor, the Secretaries of State for Foreign and Commonwealth Affairs, Education and

CONFIDENTIAL

Science, Northern Ireland, Scotland, Wales, Employment and Environment, the Minister of Agriculture, Fisheries and Food, the Chief Secretary, Sir Robert Armstrong and Mr Sparrow.

PJ

P J

9 March 1983

Department of Industry
Ashdown House
123 Victoria Street
London
SW1E 6RB

BGG

Prime Minister (2)

This bears out your own suspicions.

MCS 9/3

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

8 March 1983

Dear Geoffrey,

MONITORING ENTERPRISE ZONES

I have now received the second report from Roger Tym and Partners, the consultants monitoring the Enterprise Zones. The report covers the operation of the zones up to 31 May 1982. I understand your officials have a copy.

You will recall that the consultants last Spring carried out a pilot study for this report which covered the EZs in Corby, Trafford and Hartlepool. The conclusions in the current report are broadly in line with the findings in the pilot study. They show that, whilst it is still early in the life of the experiment to draw firm conclusions, the zones have succeeded in attracting considerable activity and investment to their areas, have acted as a valuable promotional tool and have stimulated local authorities and landowners to co-ordinate their efforts to develop and market land. However, the consultants' interviews with businessmen in the zones suggests that most development in EZs so far would have happened anyway, the majority of it within the neighbouring areas. They conclude that in some cases this has had an adverse effect on development outside the zones. No doubt the critics of EZs will make much of these points. But the report also shows that the EZs have succeeded in attracting this potential development to areas where it is badly needed and where the economic activity that it generates will be of benefit over a much longer period.

I consider that it is far too early in the life of the EZ experiment to be drawing substantive conclusions about their effects. The report relates to the first twelve months or so since designation (less in some cases). It is hardly surprising that the first projects to get off the ground were already in prospect. There is still plenty of room for further development in most of the zones and plenty of active interest in them. The fiscal benefits, of course, run for ten years and this should be a further stimulus to the successful expansion of the enterprises that set up in the zones. This will bring further economic activity to these areas.

The consultants have agreed not to include in the published report a summary of their conclusions, which I felt did not do justice either to the report itself or to the EZ concept. I will issue a press notice (probably following a written PQ) at the time of publication, emphasising the short period to which the report relates and the actual and prospective benefits of the EZ experiment. The consultants are still checking the factual annexes to the report and publication will probably be early in April.

I am copying this letter to members of E Committee and to George Younger and Nicholas Edwards.

TOM KING

The Rt Hon Sir Geoffrey Howe QC MP

TPM

CONFIDENTIAL

cc FCO DES NIO SO WO DOI D/ETLP DOE MAFF CSO CO CPRS PA

10 DOWNING STREET

bcc JV & BT.

From the Private Secretary

8 March 1983

Dear Margaret,

Review of Regional Economic Policy

The Prime Minister was grateful for the Chancellor's minute of 24 February, in which he reported the outcome of the discussion by the Ministerial Group on Government Strategy (MISC 14) of the report of the Interdepartmental Group on Regional Policy ('The Quinlan Report').

The Prime Minister broadly agrees with the conclusions of MISC 14. In particular, she agrees that there should be no major statement about regional policy before the election, but rather a series of low-key announcements, for example about the desirability of making regional incentives more effective as a means of job creation. She agrees, too, that action to deal with the problems of the West Midlands cannot be delayed until decisions have been reached on regional policy generally; she has noted what is in train on this matter.

The Prime Minister accepts that further work will be needed before final decisions can be taken on the form or details of any changes in regional policy. The Prime Minister hopes that this work will be carried forward under the supervision of MISC 14; and that when the time comes for decision-making the Chancellor will make a further report to her. She will then consider in what forum these decisions should be made.

I am sending a copy of this letter to Derek Page (FCO), Stephen Williams (Department of Education and Science), Derek Hill (Northern Ireland Office), Muir Russell (Scottish Office), Adam Peat (Welsh Office), Jonathan Spencer (Department of Industry), Barnaby Shaw (Department of Employment), David Edmonds (Department of the Environment), David Dawson (MAFF), John Gieve (Chief Secretary's Office), Richard Hatfield (Cabinet Office) and Gerry Spence (CPRS).

Yours sincerely,

Michael Scholar

Miss Margaret O'Mara,
HM Treasury.

CONFIDENTIAL

HL

10 DOWNING STREET

Prime Minister

Meeting with the Chancellor

AGENDA

1. Mortgage Interest Relief

   see papers ~~in~~ attached

2. Senior Appointments

   (Papers attached)

MCS 1/3

Asked if the Chancellor agrees these conclusions. Tony Pte Office told me he agreed 4/3.

(1)

Not reached

CP/ For meeting with Chancellor 2/3/83

MCS 28/2

PRIME MINISTER

REGIONAL ECONOMIC POLICY

During your discussion with Mr. Tebbit a few weeks back, you were concerned to inject some urgency into the review of Regional Policy, in particular, its impact on the West Midlands.

You will see from the attached minute from the Chancellor that MISC 14 has concluded that the West Midlands needs to be dealt with separately from Regional Policy, both because urgent steps are needed, and because there is no desire to treat the West Midlands as an Assisted Area. Further, it is agreed by MISC 14 that there should be no major statement about Regional Policy before the Election, but rather a series of low-key announcements, e.g. about the desirability of making regional incentives more effective as a means of job creation, which could prepare the way for changes in the next Parliament.

When you talked to Mr. Tebbit and later to Mr. Gregson, you had it in mind to take charge of the follow-up to MISC 14. As things have developed, you may feel that it is not now necessary to become so closely involved at this stage. The key thing will be to ensure that the Budget package does in fact help the West Midlands. You can find out about this at your next meeting with the Chancellor, on Wednesday.

At the same time it might be worthwhile to agree with the Chancellor how the further work on Regional Policy referred to in his minute might best be carried forward. I have asked Mr. Gregson for his advice on this and it is that a new Ministerial Group would risk being publicised and raising expectations too high; that E(EA) would be ideal but for the fact that the Secretary of State for Industry who chairs it has now taken up a strong position on Regional Policy and made himself unpopular with the Secretary of State for Scotland and the Secretary of State for Wales; therefore,

/ that it would

that it would be best to allow MISC 14 to supervise further work for the time being until the time comes for actual decisions, when the whole matter could go to E Committee or to an ad hoc group.

Agree these conclusions?

MCS

Yes MT

25 February 1983

cc JV

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

24 February 1983

Michael Scholar Esq
10 Downing Street
Whitehall

Dear Michael,

REGIONAL ECONOMIC POLICY

.. I am enclosing a copy of a minute which the Chancellor is sending to the Prime Minister in his capacity as Chairman of MISC 14. He has asked me to point out that, as he has already explained to the Prime Minister, he will be bearing all these matters in mind in framing his Budget.

I am copying this letter to Richard Hatfield (Cabinet Office).

Yours sincerely,

Margaret O'Mara

MISS M O'MARA
Private Secretary

25 APR 1983

Reg Pol: Review of Regional Policy Pt 5

cc JV

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

REVIEW OF REGIONAL ECONOMIC POLICY

The report of the Interdepartmental Group on Regional Policy ('The Quinlan Report'), which was commissioned by the Ministerial Group on Government Strategy at their meeting on 29 July 1982 (MISC 14(82)3rd Meeting), was submitted at the end of last year and MISC 14 had a first discussion of the various issues which it raised at their meeting on 21 February (MISC 14(83)1st Meeting). This minute is to report the outcome of that discussion to you and to invite you to consider, in particular, the handling of further work on this issue.

2. The Quinlan Group favoured the retention of distinct regional policies, but largely for social rather than economic reasons; regional policy ought no longer to be regarded as a means of increasing national wealth. It also agreed that the root cause of disparities in regional unemployment was the rigidity of the labour market, but, not unexpectedly, offered no new insights into how this intractable problem might best be tackled. The main recommendation of the Quinlan Report is that for the future regional policy should be much more directed at job-creating rather than capital-intensive projects. To this end regional development grants (RDGs) should be replaced by a system of less automatic grants involving cost-per-job limits and perhaps also enhanced

/grant payments

grant payments for the most labour-intensive projects. The Report also examines the different organisational arrangements in England on the one hand and in Scotland and Wales on the other hand, both of which have Development Agencies. Finally, the Report invites Ministers to consider the timing of any statement on the revision of regional polciies and theform that this might best take.

3. MISC 14 reviewed the ground that will need to be covered in further work, the areas where there is a degree of consensus among Ministers, and where views differ. Our very preliminary conclusions were as follows. The main question is how best to use resources; the question whether the justification for regional economic policy is mainly social or economic is secondary. MISC 14 favoured altering the present system of RDGs so as to reduce the bias towards capital-intensive projects and manufacturing industry. Any new system will have to take account of the need to attract support from Community institutions; nor must we overlook that regional policy has allowed us to compete, in a way that is acceptable to the Commission, for internationally mobile investment. Views were divided on whether a new grant system should retain the large element of automaticity which is a feature of the present arrangements or whether it should involve a significantly greater degree of discretion. Further work will be required by officials on the options for a new grant system before Ministers can reach final decisions. The Group did not favour imposing at this stage any specific and over-riding cost limitations on

/the options which

the options which might be studied although we recognised any decisions on possible changes had to take account of the fact that the resources which could be devoted to regional policy were limited.

4. MISC 14 noted that the institutional arrangements impinging on regional policy appear to work better in Scotland, Wales and Northern Ireland than in England. We agreed that coordination between English Ministers and Departments should be improved, but did not favour going further and establishing new arrangements in England or extending the geographical coverage of the Assisted Areas.

5. MISC 14 recognised the importance of improving the workings of the labour market but felt that this somewhat intractable problem required constant attention and perhaps also a rather pragmatic approach, which might best be handled separately from the discussion of other aspects of regional policy.

6. A great deal of further work is clearly required before final decisions can be taken on the form or details of any changes in regional policy. You will want to consider how this further work might best be handled. You will also wish to consider whether the aim should be to produce a major statement of policy, perhaps in the form of a Green or White Paper, before the General Election; or whether we should delay any announcement until after the Election but push ahead meanwhile with the development of policy so that

/changes in the

changes in the present arrangements can be the subject of legislation early in the life of a new Parliament. On this question MISC 14 were inclined not to favour a major statement of policy before the Election. Most of us felt that the better approach would be to take appropriate opportunities to make announcements in relatively low key about particular aspects of regional policy and the benefits to be gained for changing them in a variety of ways. It would be important in any announcement of measures giving particular benefit to one area to avoid suggesting that this was being given at the expense of other areas.

7. Finally, MISC 14 agreed that action to deal with the problems of the West Midlands should not be delayed until decisions have been reached on regional policy generally; it was important that the Government should be seen to be taking early and effective measures to deal with the problems of this area. But a pragmatic approach was required; it would be wrong to designate the West Midlands as an Assisted Area. The Secretary of State for Industry mentioned two particular proposals in this respect, on which he will no doubt be writing to colleagues in due course.

8. I am sending a copy of this minute to the Secretaries of State for Foreign and Commonwealth Affairs, Education and Science, Northern Ireland, Scotland, Wales, Industry, Employment and the Environment, to the Minister of Agriculture, Fisheries and Food, to the Chief Secretary, Treasury and to Sir Robert Armstrong and Mr Sparrow.

G.H.

24 February 1983

Regional Policy : Review of Regional Policy Pt 5

PA

P.0970

MR SCHOLAR

Regional economic policy

I understand that the Prime Minister will be seeing the Chancellor of the Exchequer this afternoon to discuss, among other things, the handling of future work on regional economic policy in the light of the discussion on 21 February in the Ministerial Steering Group on Government Strategy (MISC 14).

Conclusions of MISC 14

2. The Chancellor is on the point of minuting the Prime Minister to report on the MISC 14 discussion and I attach for convenience a copy of the draft minute which the Secretariat has supplied to him. As you will see the MISC 14 meeting served the purpose foreshadowed in my minute to the Prime Minister of 11 February. There has been a second reading debate of a broadly political kind and the next steps are entirely within the Prime Minister's control. Moreover there was agreement on the two matters of most interest to the Prime Minister, ie:

i. that the problem of the West Midlands has to be dealt with separately from regional policy, both because urgent steps are needed and because it would be politically counterproductive to treat the West Midlands as an Assisted Area;

ii. that there ought not to be a major statement about regional policy before the Election but a series of low key announcements of a non-controversial and not too specific kind (eg about the desirability of making regional incentives more effective as a means of job creation) which could prepare the ground for useful changes in the next Parliament.

Handling of future work

3. It now remains to decide how best to carry matters forward. MISC 14 agreed that it would be useful for officials to do more work on proposals for making

RDGs more job related but that the options should not be constrained by a requirement to save any given amount of money. There are also many minor recommendations in the Quinlan Report which the relevant Ministers ought to discuss, which probably do not raise difficult political issues, and which might, if approved, be implemented in a low-key way as and when the time seems ripe.

4. As things have developed, the Prime Minister will probably not feel that she needs to get involved herself. Within the cautious political steer which has now emerged from MISC 14 some further low-key official work needs to be put in hand. It would be useful to have another Ministerial discussion to go over the minor recommendations first and give more detailed guidance to officials and a later Ministerial discussion to review the further work by officials.

5. The Prime Minister may want to have a brief word with the Chancellor about the best machinery for that. The simplest course would be to set up a new Ministerial Group but the disadvantage would be that its existence might become known; this would give the exercise too high a profile and work against the desire to avoid a major statement of regional policy before the Election. Using E(EA) would be ideal but for the fact that the Secretary of State for Industry who chairs it has now taken up a strong position on regional policy and made himself unpopular with the territorial Secretaries of State. Moreover the Chancellor (who is not involved in E(EA)) would probably not wish to lose touch with the subject.

6. It may therefore be best to allow MISC 14 to supervise the further work on regional policy for the time being, despite the fact that it is not strictly speaking a decision taking body. When the time comes for actual decisions we can arrange for the Chancellor to minute the Prime Minister with copies to members of E; whether or not any discussion will be required in E at that stage will depend on the extent of agreement and disagreement.

PLG

P L GREGSON

23 February 1983

DRAFT MINUTE FOR THE CHANCELLOR OF THE EXCHEQUER TO SEND TO THE PRIME MINISTER.

REVIEW OF REGIONAL ECONOMIC POLICY

The report of the Interdepartmental Group on Regional Policy ('The Quinlan Report'), which was commissioned by the Ministerial Group on Government Strategy at their meeting on 29 July 1982 (MISC 14(82)3rd Meeting), was submitted at the end of last year and MISC 14 had a first discussion of the various issues which it raised at their meeting on 21 February (MISC 14(83)1st Meeting). This minute is to report the outcome of that discussion to you and to invite you to consider, in particular, the handling of further work on this issue.

2. The Quinlan Group favoured the retention of distinct regional policies, but largely for social rather than economic reasons; regional policy ought no longer to be regarded as a means of increasing national wealth. It also agreed that the root cause of disparities in regional unemployment was the rigidity of the labour market, but, not unexpectedly, offered no new insights into how this intractable problem might best be tackled. The main recommendation of the Quinlan Report is that for the future regional policy should be much more directed at job-creating rather than capital-intensive projects. To this end regional development grants (RDGs) should be replaced by a system of less automatic grants involving cost-per-job limits and perhaps also enhanced grant payments for the most labour-intensive projects. The Report also examines the different organisational arrangements in England on the one hand and in Scotland and Wales on the other hand, both of which have Development Agencies. Finally, the Report invites Ministers to consider the timing of any statement on the revision of regional policies and the form that this might best take.

3. MISC 14 reviewed the ground that will need to be covered in further work, the areas where there is a degree of consensus among Ministers, and where views differ. Our very preliminary conclusions were as follows. The main question is how best to use resources; the question whether the justification

for regional economic policy is mainly social or economic is secondary. MISC 14 favoured altering the present system of RDGs so as to reduce the bias towards capital-intensive projects and manufacturing industry. Any new system will have to take account of the need to attract support from Community institutions; nor must we overlook that regional policy has allowed us to compete, in a way that is acceptable to the Commission, for internationally mobile investment. Views were divided on whether a new grant system should retain the large element of automaticity which is a feature of the present arrangements or whether it should involve a significantly greater degree of discretion. Further work will be required by officials on the options for a new grant system before Ministers can reach final decisions. The Group did not favour imposing at this stage any over-riding cost limitations on the options which might be studied, although we recognised that the resources which could be devoted to regional policy were limited.

4. MISC 14 noted that the institutional arrangements impinging on regional policy appear to work better in Scotland, Wales and Northern Ireland than in England. We agreed that coordination between English Ministers and Departments should be improved, but did not favour going further and establishing new arrangements in England or extending the geographical coverage of the Assisted Areas.

5. MISC 14 recognised the importance of improving the workings of the labour market but felt that this somewhat intractable problem required constant attention and perhaps also a rather pragmatic approach, which might best be handled separately from the discussion of other aspects of regional policy.

6. A great deal of further work is clearly required before final decisions can be taken on the form of any new regional policy or on its details. You will want to consider how this further work might best be handled. You will also wish to consider whether the aim should be to produce a major statement of policy, perhaps in the form of a Green or White Paper, before the General Election; or whether we should delay any announcement until after the Election but push ahead meanwhile with the development of policy so that changes in the present arrangements can be the subject of legislation early

in the life of a new Parliament. On this question MISC 14 did not favour a major statement of policy before the Election. They concluded instead that the better approach would be to take appropriate opportunities to make announcements in low key about particular aspects of regional policy and the benefits to be gained for changing them in a variety of ways. It would be important in any announcement of measures giving particular benefit to one area to avoid suggesting that this was being given at the expense of other areas.

7. Finally, MISC 14 agreed that action to deal with the problems of the West Midlands should not be delayed until decisions have been reached on regional policy generally; it was important that the Government should be seen to be taking early and effective measures to deal with the problems of this area. But a pragmatic approach was required; it would be wrong to designate the West Midlands as an Assisted Area. The Secretary of State for Industry mentioned two particular proposals in this respect, on which he will no doubt be writing to colleagues in due course. [This is a matter to which I shall want to give some thought in the context of the Budget].

8. I am sending a copy of this minute to the Secretaries of State for Foreign and Commonwealth Affairs, Education and Science, Northern Ireland, Scotland, Wales, Industry, Employment and the Environment, to the Minister of Agriculture, Fisheries and Food, to the Chief Secretary, Treasury and to Sir Robert Armstrong and Mr Sparrow.

GH.

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Regional Pol

Debate on Regional Policy with reference to the West Midlands and Yorkshire and Humberside on Tuesday 22nd February 1983

Contents

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BACKGROUND TO GOVERNMENT ECONOMIC POLICY

The background to the economic problems afflicting the West Midlands and Yorkshire and Humberside, is the world recession. This is the severest for fifty years and it has hit British industry at a time when it was already finding difficulty in competing with other industrialised countries. The whole thrust of the Government's economic and industrial policy is to create a climate in which industry can be productive and profitable.

FIGHT AGAINST INFLATION

This has been the Government's main contribution. Last month inflation was down to 4.9%, the lowest since the 1960's. The Government has achieved this by maintaining downward pressure on its borrowing. It cannot control the world's financial markets, but by financing its deficit responsibly it has relieved the pressure on interest rates. Since autumn 1981 they have fallen by around 5% and this benefits industry by over £1,000 million a year.

REALISM ON WAGES AND EMPLOYMENT

Lower inflation has reduced the pressure for high wage settlements. The Government's policies on industrial relations have helped redress the negotiating balance in industry. The Government has stressed the connection between pay and jobs and this is now far more widely understood. The underlying rate of wage increases in November was 8.3% compared to 11.3% a year ago.

COMPETITIVENESS

This greater realism has led to greater competitiveness in industry. Over the last two years our productivity has risen faster than most of our competitors. Between 1979 and the third quarter of 1982 output per man-hour improved by 10.1%. Since the first quarter of 1981 industry's competitiveness has improved by 24%.

REDUCTION OF BUREAUCRATIC CONTROLS

The Government has taken steps to improve market efficiency by repealing many restrictions and requirements. Pay, price, dividend and exchange controls have been removed. Industrial Development Certificates and Office Development Permits have been abolished. These moves give industry greater control over their own affairs. The abolition of Industrial Development Certificates was particularly welcomed in the West Midlands.

GOVERNMENT REGIONAL POLICY

Mr. Norman Lamont, Minister of State at the Department of Industry told Parliament on February 14th that a review of Regional Policy is at present being undertaken, but that there would be no further substantial changes in the lifetime of this Parliament. At the moment parts of Yorkshire and Humberside qualify for Regional Development Grants, but the West Midlands do not.

The main characteristics of Government Regional Policy are:-

Selectivity. Under Labour 44% of the workforce were in designated areas. Evidence has shown that regional policy becomes less effective as it becomes less selective. So the present Government has concentrated aid on the most deprived areas, and our regional policy now covers 27% of the population. The policy now operates primarily in Special Development Areas and Development Areas. Intermediate Areas no longer receive grants. The differentials between SDAs and DAs have been increased. The rate of Regional Development Grant is 22% in SDAs and 15% in DAs. SDAs are largely concentrated in the surrounds of the old industrial cities such as Glasgow, Newcastle, Dundee and Hull. DAs cover needy regions like Northern and Western Scotland, the remoter parts of Wales and Cornwall and parts of Cumbria.

Stability. Regional policy has to be stable and predictable if it is to effect investment decisions. So the process of downgrading areas to increase selectivity was slow and phased. This contrasted sharply with the way in which the Labour Government cut out the regional employment premium in a matter of weeks in December 1976.

Value for Money. The criteria for discretionary regional selective assistance under Section 7 of the Industry Act 1972, has been tightened

a) to include only those projects which would not go ahead without it.
b) to concentrate on projects that will strengthen the regional and national economy.

Flexibility. The Government acknowledgesthat changing circumstances require a range of responses. The policy had been flexible. For example, Shotton became a SDA and Corby a DA following steel closures in December 1979. Similarly Port Talbot became a SDA, Newport, Cumbria and Scunthorpe DA's in July 1980.

Attractiveness to Investors. The Government is determined to ensure that regional aid attracts investors to the designated areas. So as well as the grants mentioned above more specific incentives are available, notably the Government's factory building programmes.

Help with Training Costs. In April 1980 an in plant training scheme was introduced under Section 7 of the 1972 Act. Grants of up to 40% of the wages of trainees and instructors can be obtained, and as these attract a matching contribution from the European Social Fund, a company can receive 80% of its eligible training costs.

Other forms of assistance available to industry in the regions.

Section 8 Grants. These are authorised under the Industry Act 1972 and are made available throughout the UK, so the West Midlands is eligible. They are given on a selective basis under schemes designed to promote specific developments, usually in high technology, or to attract certain new types of industry. Between May 1979 and April 1982 £145.9 million of grants were offered under Section 8.

Regional assistance from the EEC. As a member of the EEC Britain receives grants under its regional schemes. The most important are:

1) The European Regional Development Fund gives grants towards projects which receive regional development grants from DOI. These sums are not additional; the EEC pays part of the grants the DOI gives. Since 1975 the UK has received £1,035 million under this scheme.

2) The Supplementary Measures Scheme. These grants arise from the refunds negotiated by the Prime Minister, on the UK's net contribution to the community budget. Once again these grants are only additional in the sense that without them public expenditure would have had to be cut. They mostly go to infrastructure projects. The UK also received nearly £250 million from the European Coal and Steel Community between 1973 and 1981. This money went to areas affected by pit or steel closures. Grants were given for retraining and redundancy schemes.

WEST MIDLANDS REGION

The West Midlands region consists of the West Midlands Metropolitan County, Hereford and Worcester, Staffordshire, Shropshire, part of Derbyshire, Warwickshire.

The major employers in the area are traditionally the engineering and allied industries, particularly vehicles. In round figures the Midlands formerly contained rather more than half the car assembly capacity and a third of the machine tool, iron foundry and drop forging capacity in the country, for which the vehicle industries were the main customers. When the recession began factory closures and redundancies were inevitably followed by closures and redundancies in supplying industries.

The traditional strengths of the West Midlands are its central location and good communications, its good supply of reasonably priced industrial land, and its skilled workforce. But the industries on which it is dependant, vehicles and engineering, are those in which the UK has proved particularly vulnerable. The region has outdated industrial structure, the lowest output per capita in the country and many of its skills are outdated. In the 1970's its car and component industries acquired a reputation for bad industrial relations and poor quality. These industries were very dependant on exports and the problems subsequently dogged them at a time when they were also having to contend with sterling's international strength. These factors have continued to hit the West Midlands particularly hard in the present recession.

The total number of unemployed people in the West Midlands has risen from 110,000 in 1979 to 367,000 in 1982. On a percentage basis this represents a rise from 5.2% to 16.1%, the biggest increase in Great Britain. Areas particularly badly hit include:

Oakengates	19.9%
Redditch	18.5%
Walsall	18.1%
Wolverhampton	17.1%
Dudley/Sandwell	16.3%
Birmingham	16.2%
Coventry	15.9%
Kidderminster	14.2%
Stoke on Trent	13.5%

Department of Employment Gazette
January 1983

The West Midlands do not qualify for Regional Development Grants but the area is eligible for assistance from European Funds, and from the Department of Industry under Section 8 of the Industry Act 1972 and the Special Employment Measures. For example between May 1979 and April 1982 the West Midlands received over £24 million out of the total of almost £146 million granted under Section 8. It has also been the main beneficiary of almost £1 billion that has been made available for BL in the lifetime of this Government. Enterprise Zones have been created at Dudley and Telford.

BL and the Motor Industry. In January 1983 British manufacturers took 43.06% of the UK market, and BL had 16.94% of it. In 1970 the UK produced 1.64 million cars and exported 690,000. New car registrations in 1970 were 1,077,000. In 1982 the UK produced 888,000 cars and new registrations were 1,555,000. In 1981, the latest year for which export figures are available, the UK exported 349,000 cars. These figures illustrate the dramatic loss of competitiveness that has crippled the West Midlands' most important industry.

BL has had £990 million of state aid made available to it by this Government for investment. Much of this has been spent on modernising Longbridge, where the Metro is produced in one of Europe's most automated factories. BL have reduced their workforce by 93,000 from its peak and there was a 30% increase in productivity in 1981. Some divisions of BL are now trading profitably, notably Jaguar whose exports to the US doubled in 1982, Land Rover and Unipart. The product line is being rationalised and new models introduced to follow the Metro and Triumph Acclaim. The Maestro will shortly be launched and so will a new executive car, the XX developed in co-operation with Honda. All this has been made possible by the Government's investment and BL have recently been recruiting workers for the new models.

The Government is also attempting, through the EEC to reduce the inequalities in our vehicle trade with Spain. An announcement is expected later this month.

Rates. Rapidly rising rates are one of industry's greatest problems. The Government is aware of this and has taken action to restrain Local Authority spending. In the West Midlands this problem has been exacerbated by the extravagant attitude of the Labour controlled West Midlands County Council, who constantly increase this burden. In January they rejected calls for rate relief schemes for industry. By contrast Birmingham City Council, which is Conservative, intends to exempt redundant factories and warehouses from rates for the next two years. The CBI have recently urged West Midlands companies to demolish or deroof empty factories to save rates. In some areas of Birmingham empty space to let at 50p per square foot costs an additional £1 per square foot in rates. The connection between high rates and industrial decline is obvious, but Labour authorities still refuse to recognise it.

Inward Investment and Section 8 Grants. The West Midlands have benefited from the Government's success in attracting new investment to Britain, much of which is eligible for grants under Section 8 of the Industry Act, 1972. Unimation of the US, the world's leading robot manufacturer, is expanding its UK subsidiary at Telford to create 250 jobs. The scheme will cost £10 million of which the National Research and Development Corporation will invest £2 million and the Department of Industry will provide £1.5 million in grants under Section 8. Hitachi Maxell are to spend up to £25 million, also at Telford, on a new plant to make video-tapes and this project too is benefiting from Section 8 Grants. These companies regard Britain as a stable base for their EEC operations.

Special Employment Measures. Although ineligible for Regional Development Grants, the West Midlands does benefit from the Government's Special Employment Measures. At the end of November 1982 the figures for the West Midlands were as follows:

	Number of Places
Temporary Short Time Compensation Scheme	18,535
Job Release Scheme	6,481
Community Industry	285
Young Workers Scheme	28,890
Community Enterprise Scheme	3,683
Youth Opportunities Programme	
1. 1981-2	67,120
2. Entrants April-November 1982	84,600

European Assistance. ECSC grants have gone to the Staffordshire mining area and West Midlands steel producers have received over £10 million under the plan to reduce capacity. Projects in the area have received money from the European Social Fund.

Labour Record. Under the last Labour Government unemployment more than doubled in the West Midlands from 46,400 to 119,000.

YORKSHIRE AND HUMBERSIDE

This region includes a wide cross-section of producers, ranging from the heavy industrial plants in the old 'West Riding' to the farms of East Yorkshire. In addition fishing is important in Hull and Grimsby, whilst the coal mining industry is a major employer in South Yorkshire.

Historically much of the prosperity of the region derived from the wool industry, centred around Halifax. Towns such as Huddersfield, Dewsbury and Cleckheaton grew up because of the development of the textile industry. Gradually specialised products evolved from this industry, notably carpets, which created many jobs in the mill towns. In recent years many of the textile companies have incurred major problems, notably because of imports from the Far East and in the specific case of carpets, from the United States of America. The new Multi-fibre Arrangement should, however, curtail such imports.

Many of the country's larger coal pits are located in South Yorkshire, with the result that many villages have grown up round the local colliery. Some pits, though, are in the process of being closed down by the National Coal Board. By contrast the Board hopes to develop more fully in the Selby area, where there are substantial coal deposits.

Relying on the Coal Industry are many companies, involved in metal manufacture and engineering. The steel industry has been a major employer in Sheffield and Rotherham;in addition other industries like cutlery and wire manufacture have developed in nearby towns.

Agriculture is concentrated mainly on Humberside and in the Northern part of Yorkshire, whilst fishing has created many jobs in Grimsby and Hull, but developments in recent years, notably agreements on fishing ground limits and catch restrictions, have resulted in less employment.

When the Labour Government left office in 1979, the total number of unemployed in the region was around 113,000. The current figure is 292,000, giving a total percentage of 14.5%. The worst areas affected are:

Mexborough	22.6%
Rotherham	20.3%
Scunthorpe	17.2%
Doncaster	16.8%
Hull	15.9%
Barnsley	15.6%
Bradford	15.2%
Dewsbury	14.9%
Grimsby	14.3%
Sheffield	13.8%

Rotherham and Scunthorpe have suffered as British Steel production has been reduced, whilst employment in Sheffield has suffered both directly and indirectly from the problems in the steel industry. Other towns like Bradford and Dewsbury are seriously affected by

redundancies made by textile companies. Hull and Grimsby, both substantially dependent on fishing, have a high unemployment level. In many of these areas, insufficient new industries have developed and as a result recession in Yorkshire and Humberside has been harshly felt.

The Government's regional policy takes some account of this and the region has received aid in the form of Regional Development Grants. Between 1972/3 and 1981/2 inclusive a figure of about £290 million was paid in grants by the Department of Industry (N.B. the figures include some adjustment for selective financial assistance, which was measured differently in the first five years of the above period).

In the last financial year the region received a total of £47 million in Regional Development grants, as compared with:

Northern Region	£144 million (23%)
North West	£143 million (23%)
Scotland	£143 million (23%)
Wales	£122 million (20%)

In percentage terms Yorkshire and Humberside received about 7½% of the total grant, whilst the region accounts for approximately 8½% of the total working population. In addition a figure of about £15 million was given during 1981/2 through the Selective Financial Assistance and Local Employment Act Assistance schemes.

The region has also benefitted from the Enterprise Zone policy. Wakefield was included initially in the scheme and four of the five factories vacant when the area was designated have been let. It has been recently announced that the Wakefield zone will be extended ~~and~~ **further** that Scunthorpe and Rotherham will be incorporated with the scheme. Both these towns have suffered from the problems of the steel industry and it is intended that some redundant workers will establish small enterprises. These will become progressively more important there as employers, as opposed to the dependence in recent years on one major industry, like steel, which is presently suffering from serious over capacity.

LABOUR REGIONAL POLICY

The Labour Programme 1982 outlines the party's plans for a cumbersome and expensive tripartite national planning system to control and direct the economy on Socialist lines. Companies will be obliged to agree plans with the extensive new bureaucracy that is to be set up for this purpose. It will have powers to control prices, credit, investment, companies purchasing and production, and employment. Those that do not co-operate are threatened with having an Official Trustee put in control of their affairs, those that comply will benefit from relaxed price controls, preferential access to credit, import protection and subsidies. This system could of course be used to direct investment towards the regions for political purposes. Labour are not unduly concerned that investment decisions, even those involving public money, should be based on sound financial criteria. In addition to the national planning bureaucracy the Labour Programme proposes new forms of regional planning and bureaucracy. Labour set up the Scottish and Welsh Development Agencies in 1975 and 1976 respectively. Labour's Programme 1982 proposes similar agencies for the English regions. It says that Local Enterprise Boards will have a part to play, and that Regional Industrial Planning bodies will also be set up to "develop local and regional economies". This policy represents a proliferation of bureaucracy.

By 1979, more than half the country and 44% of the working population were in areas designated for assistance. Labour's Programme gives no hint of whether they would return to this poorly-focussed approach. Another criticism of the Labour Government's policy is that it lacked consistency. In August 1974, the Regional Employment Premium (a subsidy then paid for employment in designated areas) was doubled. In December 1976, the government announced that it was to be phased out in 1977. Labour's Programme does not indicate whether a more consistent approach is now to be adopted. We are, however, told that the Labour Party and the TUC are currently working on the details of a new regional policy.

Labour plans for nationalisation and co-operatives would also adversely affect regions such as Yorkshire and the West Midlands. Old and new industries alike are threatened with nationalisation, including those privatized by this government, electronics (special mention is made of GEC), pharmaceuticals, construction and building materials, timber and oil. This threat would, if Labour came to power, discourage sound commercial investment in just those areas that need it most. Small business too, is threatened by Labour's proposal to "provide a statutory right and mechanism for workers in private firms - subject to government consent - to convert their enterprise into a workers co-operative by acquiring the assets of the firm, and provide assistance for this prupose." No mention is made of the need for the owners consent. In his book "Inside the Treasury" (Andre Deutsch 1981) Mr. Joel Barnett says that the workers' co-operatives financed by the last Labour government were "sometimes known as Benn's Follies". The present government has encouraged the creation and growth of small businesses in the regions. Policies such as Labour's will destroy them.

SDP REGIONAL POLICY

The Social Democrats' regional policy is set out in their White Paper on industrial strategy. This concentrates on the need for reflation, and the SDP hope that the effects of this, combined with their plans to decentralize government, will give the regions a boost. They aim "to encourage high-level management to move out of the South East" and expect more public expenditure in the regions. Subsidised finance and investment by British Technology Group will be used to boost investment in the regions. They propose a ceiling on Regional Development Grant paid "on any one premises" and want to use the saving to fund a new type of regional employment premium for highly qualified manpower. This might deter important capital-intensive industries, such as might be expected to need highly qualified manpower, from locating in the regions. Apart from this limitation however the fate of the present system of concrete incentives and grants which have attracted many enterprises to the regions is not clearly stated in the White Paper.

Reg Pol.

Prime Minister (2)

For your Wednesday meeting with the Chancellor (no more than an aide-memoire of Peter Graysm's discourse yesterday).

MCS 11/2

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PRIME MINISTER

Regional Policy and the West Midlands

You have it in mind to speak to the Chancellor of the Exchequer next week about:

i. the major issues raised by the report by officials on regional economic policy;

ii. what should be done to help the West Midlands;

iii. the handling of the MISC 14 discussion of the Regional Economic Policy Report which the Chancellor will be chairing on 21 February.

Regional Economic Policy

2. In his memorandum to MISC 14 covering the report by officials (MISC 14(83)1) the Chief Secretary has made two main proposals:

i. legislation in the next Parliament to make the Regional Development Grant (RDG) scheme more job-related with a saving of about £100 million a year;

ii. a statement about regional economic policy before the Election covering the RDG proposals and some other minor matters.

3. The proposal about RDGs has much merit in terms of the Government's economic policy. The officials' report makes it clear that the present expenditure of about £650 million a year on regional economic measures is justified primarily for social and political rather than economic reasons. There is therefore much to be said for continuing the trend in recent years of reducing this expenditure within social and political constraints. Moreover, as the CPRS Report on Unemployment brought out, the present expenditure is weighted too

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far in favour of capital intensive projects. The proposed change to the RDG scheme would help to correct this.

4. This change, though desirable in itself, does not however help with the major current political problem of regional economic policy, ie the fact that the West Midlands does not have Assisted Area status although its January unemployment rate was 15.6 per cent, higher than that for Scotland (14.6 per cent) and the North West (15.4 per cent) and only a little lower than that for Wales (16.2 per cent). Possible ways of helping the West Midlands in the context of the proposals in the regional policy report would be:

a. using some or all of the savings from changing the RDG scheme to bring the West Midlands within the Assisted Areas;

b. removing Assisted Area status from some existing Assisted Areas, and substituting the West Midlands, thus keeping Assisted Area coverage at about 27 per cent of the working population.

5. The problem about the solution at a. is that it would run counter to the Government's policy of reducing Assisted Area coverage from over 40 per cent in 1979 to 27 per cent now. Inclusion of the West Midlands would increase coverage to around 35 per cent. The difficulty about b. is that there would probably be strong opposition from the areas displaced, especially if some of them were in Scotland or Wales. If therefore these options are ruled out, the Government's only line of defence in relation to the West Midlands, so far as regional policy is concerned, is that the Government has reduced discrimination against the West Midlands by reducing Assisted Area coverage and would be carrying this further by cutting expenditure on RDGs. Any positive help for the West Midlands would have to be provided outside the context of regional economic policy.

Help for the West Midlands

6. In reality the best way of helping the West Midlands, which accounts for about one in ten of the population of the UK, is through Budget measures which

will benefit the UK economy generally. It is however desirable presentationally for the Government to be able to point to specific measures which might have a particular relevance to the West Midlands. The industrial structure of the West Midlands is heavily weighted towards engineering. It is also historically an area in which small businesses have flourished. This suggests that measures related to the engineering sector, and to small businesses might be particularly helpful to the West Midlands.

7. The Chancellor is already considering a package of minor measures to supplement the major taxation measures in the Budget. The Secretary of State for Industry made some specific suggestions in his letters to the Chancellor of 6 December 1982 and 12 January 1983, for example:

- a revival of the Small Engineering Firms Industry Scheme (SEFIS) on an expanded basis (ie available to firms of up to 500 employees) at a cost of about £30 million a year;

- a new scheme for supporting innovation-linked investment at a cost building up to about £20 million a year;

- a relaxation of limits and conditions in the Business Start-up Scheme;

- easing the Corporation Tax and VAT burdens for small firms.

Regional Grants towards the grant : not disadvantaging the Northeast

8. You will wish to draw the Chancellor's attention to the possible relevance of these and similar measures to the problems of the West Midlands and explore with him what might usefully be done on these lines.

Handling of MISC 14 discussion

9. MISC 14 is not a decision taking body. Any major proposal, such as that relating to RDGs would eventually, after further work, be brought to some appropriate forum (probably E Committee) for decision. The purpose of the MISC 14 descussion will therefore be to have a Second Reading debate of a rather general kind. If you and the Chancellor have a reasonably clear idea of the

way in which you would prefer to proceed between now and the Election, you will probably wish to avoid opening up the issues too far in MISC 14. The best course might therefore be for the Chancellor to do no more than collect some general reactions to the officials' report from the members of MISC 14 and summarise them in a minute to you. You could then consider further at that stage what the next steps might be.

PLG

P L GREGSON

11 February 1983

PART 4 ends:-

Misc 14(83)1 27.1

PART 5 begins:-

Grayson to PM 11/2

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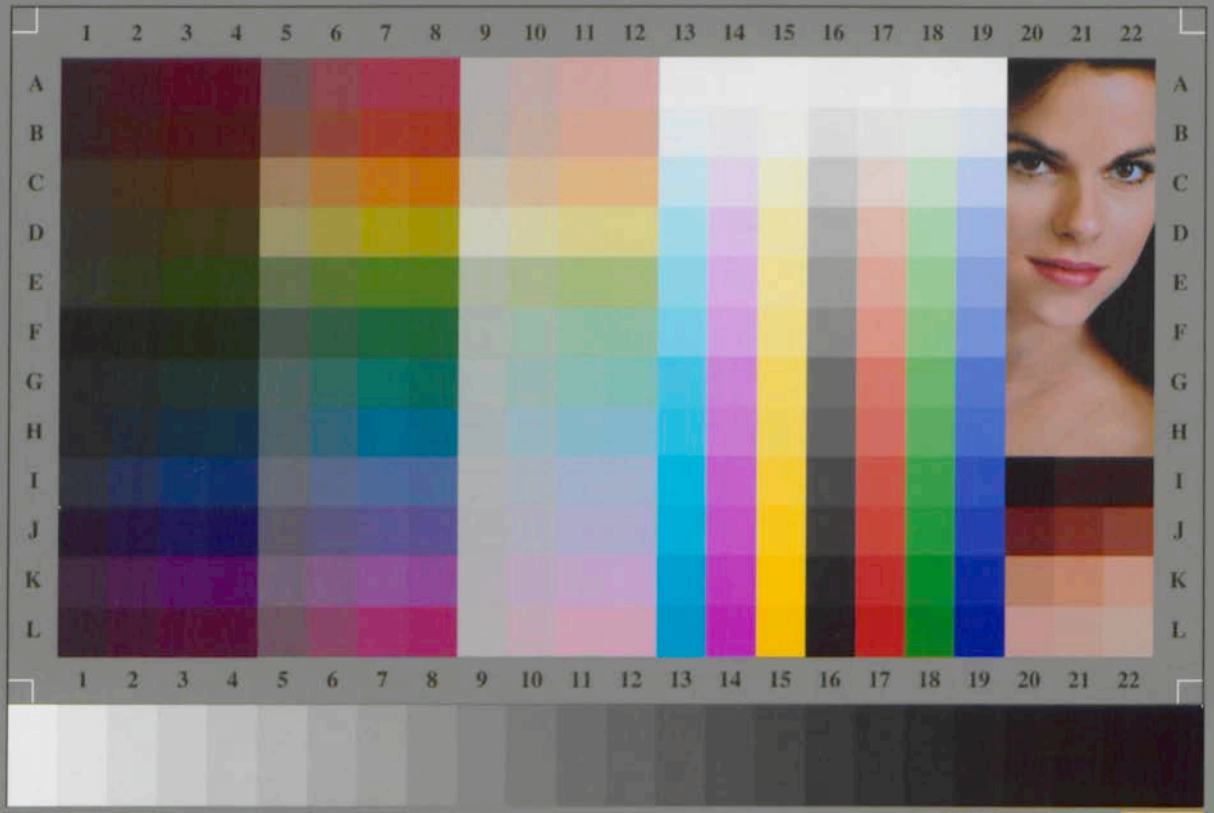

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