Part 2.

MT

Confidential filing

The possible creation of Urban Development Corporations to assist in the regeneration of Liverpool and London Docklands

Inner Cities Policy and Problems.

REGIONAL POLICY

Part 1: July 79

Part 2 Aug 81

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~19.8.81~~							
~~2-9-81~~							
~~15.9.81~~							
~~28.9.81~~							
30.9.81							
~~7.10.81~~							
~~8.10.81~~							
20.10.81							
— ends —							

PREM 19/578

PART 2 ends:-

20.10.87

PART 3 begins:-

19.11.87

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

"Regenerating our inner cities": a TUC policy statement
Published by Trades Union Congress, July 1981

Signed C Wayland Date 23 August 2011

PREM Records Team

Prime Minister (4)

cc J. Vereker
A. Ouguid
A. Walters

NORTHERN IRELAND OFFICE
GREAT GEORGE STREET,
LONDON SW1P 3AJ

Reg Pd

SECRETARY OF STATE
FOR
NORTHERN IRELAND

Rt Hon Michael Heseltine MP
Secretary of State
for the Environment
2 Marsham Street
LONDON SW1P 3EB

22 October 1981

Dear Secretary of State

MERSEYSIDE

The Prime Minister's statement of 9 October announced the steps which are now being taken to follow up the points to which you drew attention in your memorandum of 13 August. I was much struck at the time by the impressions of Merseyside which you then recorded; I have since been struck by the similarity between those impressions and my own first impressions of Belfast. Although there are important differences between the two cities, many of the social problems, and many of the elements of social disadvantage, are strikingly similar.

Belfast has, of course, been the focus of considerable special government attention for some years: as a result my officials in Northern Ireland have built up a good deal of experience on the issues involved, and I hope that your task force will feel free to draw upon the experience of my officials, just in the same way as the Prime Minister's announcement suggests they will be drawing upon experience of the Glasgow Eastern Area Renewal Project.

I notice from the announcement that although the task force will confine its attention to Merseyside, the team of seconded managers will be concerned with British Cities generally, not just Merseyside. I hope I am right in assuming that this is intended to include cities in Northern Ireland. I should certainly welcome any assistance they are able to give in the drive to improve levels of investment and economic activity in Belfast and Londonderry.

I appreciate, of course, that the main measures which are likely to emerge from the work of your task force will probably be confined in their application to Merseyside. But given the similarity between some of the problems of Merseyside, and some of those of Belfast, we shall I think have to be careful in our presentation of decisions.
George Younger, and Nicholas Edwards will no doubt have the same concern, for we shall expose ourselves to strong criticism if we appear to take social problems in one city more seriously than the same

/problems .....

problems (or worse ones) in other cities with powerful local lobbies. At this stage, I see this as mainly a presentational problem. In the case of Belfast, for instance, there are already many special measures operating, and I would expect to be able to draw attention to these at the same time as you announce any fresh measures in relation to Merseyside - thus, I would hope, quelling any suggestion that we are ignoring the problems of Belfast in favour of those of Merseyside.

It is no doubt too soon to know what sort of changes your task force will be recommending, but I would be grateful if your officials could be instructed to keep in close touch with mine because of our common interests.

I am sending copies of this letter to the Prime Minister, George Younger, Nicholas Edwards and Sir Robert Armstrong.

Yours sincerely

pp JAMES PRIOR
(Signed on behalf of the
Secretary of State in his absence)

STATEMENT BY THE PRIME MINISTER - 9 ~~AUGUST~~ OCTOBER 1981

MERSEYSIDE

Following his visit to Merseyside in July, the Secretary of State for the Environment has been asked by the Prime Minister to continue to take a special interest in the problems of that area for a further 12 months. His role will be to bring together and concentrate the activities of central Government Departments and to work with local government and the private sector to find ways of strengthening the economy and improving the environment in Merseyside.

To assist him in his work a new task force is to be established in Liverpool, with participation from the Government Departments concerned with Merseyside's economy and environment - principally the Department of the Environment, the Department of Industry, the Manpower Services Commission and the Department of Transport. Under the Secretary of State's direction the task force will work in collaboration with the local authorities, the private sector and other organisations on Merseyside, with a view to promoting the best use of resources which the central Government commits to Merseyside; making proposals, for consideration by Ministers, for modifying policies or switching resources between Departmental programmes of expenditure on Merseyside; generating new initiatives; examining, as a basis for Ministerial decisions, how any additional resources that might be made available by the Government could most usefully be deployed for the reduction of unemployment and the improvement of the economic and social life of the conurbation; and developing longer term proposals.

The task force will take account throughout of the need to promote good community relations and reduce disadvantage among ethnic minority groups.

These arrangements are intended to point to new ways of tackling the economic, environmental and social problems of inner cities which will benefit not just Merseyside but other conurbations with similar problems. There will be close liaison with Department of the Environment Ministers and their colleagues in the inner city partnerships in other conurbations. The task force will also draw on experience elsewhere for example the Glasgow Eastern Area Renewal project.

Following the Secretary of State's approach to them last July, over 20 leading financial institutions have each agreed to second one of their best managers to work with the Government and in particular to help find ways of improving co-operation with the private sector on inner city problems. This group will be concerned with British cities generally, not just Merseyside.

In addition, the Government will be looking at a whole range of its activities - for example incentives for service industries, help for small businesses,&training schemes, with the intention of seeing how they might contribute more effectively to the solution of inner city problems.

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB

cc Duguid
Walters
Vereker
Press.

p.a.
MES

My ref:

Your ref:

8 October 1981

Dear Michael

My Secretary of State has now had a chance to see the slightly revised version of the statement which the Prime Minister is to make tomorrow. I attach the version, containing some very small changes which he has approved.

I discussed with Mike Pattison this morning the probable timing. My Secretary of State has called a press conference for around 12.30 pm and the time of between 11.00 - 12.00 noon I agreed with Mike would therefore suit us.

I am copying this to those who received copies of the earlier draft.

I also enclose a note to editors which your Press Office might like to have by them.

Yours sincerely
David

D A EDMONDS
Private Secretary

Michael Scholar Esq - No 10

CONFIDENTIAL

NOTE FOR EDITORS

Mr Heseltine's previous visit to Merseyside was announced by the Home Secretary during the House of Commons' debate on the recent civil disturbances on 16 July. It lasted from 20 July to 5 August, and he was accompanied by Timothy Raison, Minsiter of State at the Home Office. At the end of the visit Mr Heseltine said that he would be reporting to the Prime Minister on his findings, and he also announced thirteen immediate initiatives, designed to help alleviate some of the problems of the area (DOE PN 309, 5 August). Since then he has also announced that he had invited the Merseyside Development Corporation to hold the first National Garden Show Festival on a derelict site on the Mersey estuary in 1984 (DOE PN 347, 15 September 1981).

The Task Force now being established will be concerned with an area greater than that of the County of Merseyside, covering the whole of the Merseyside Special Development Area and Runcorn and Skelmersdale New Towns. As well as direct participation, by the Departments of the Environment, Transport and Industry, together with the MSC, the task force will also have special links with other Departments, notably the Department of Health & Social Security, and the Department of Education & Science.

Questions that have been raised, and are being examined, about policing and police/community relations on Merseyside, are being dealt with separately by the Home Secretary.

CONFIDENTIAL

cc Reginald
Walker
Vorster

✓

MLS

pl copy to Margaffin too

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

6 October 1981

Dear Ian

You will have seen from the draft statement about Merseyside which I have circulated yesterday that we have taken on board your Secretary of State's proposed amendment, including the deletion of the reference to pilot projects. I should add, however, that my Secretary of State would not regard proposals by the task force as being ruled out by the fact that they require legislation.

I am copying this as before.

Yours ever

D A EDMONDS
Private Secretary

Ian Ellison Esq
PS/Secretary of State for
Industry

See my note of 30/x regarding the P.M.'s answer to 9x, which I delayed for Bernard.

MR. WHITMORE (Melbourne)

cc. Michael Scholar
(on arrival)
Press Office

Merseyside

As I told you on the telephone over the weekend, Mr. Heseltine agrees with the Prime Minister that the Merseyside statement should be put out from No. 10 as soon as he gets back from his holiday in Mauritius. This would mean Thursday, 8 October. You said that you would think about the idea of delaying it until Friday, 9 October, when the Prime Minister is back. On reflection, I think it would be better if the statement went out on the Friday when both the Prime Minister and Mr. Heseltine are back. If it goes out on the Thursday, people will assume that we have delayed it because of Mr. Heseltine's absence, and they will then focus on the fact that he has been holidaying in Mauritius. It would be quite logical, on the other hand, to delay the statement until the Friday for the Prime Minister's return if it is going out from No. 10.

I have told DOE that we are considering whether it should go out on the 8th or 9th. Could you please consider again with the Prime Minister and Bernard, and let Michael Scholar know.

One or two comments are coming in from other Departments on the draft. I have asked DOE, in consultation with the Cabinet Office, to produce a final text. I hope this will be sufficiently close to the draft which the Prime Minister has already approved for us not to have to clear it with you.

28 September 1981

MR. WHITMORE FROM MR. LANKESTER

I received your message that the Prime Minister liked the Cabinet Office draft statement on Merseyside, and that she thought it should be sent out from No. 10.

Michael Heseltine also likes the draft, though he may want to tinker with it a little. But he does not want the statement to go out while he is lying on a beach in Mauritius. He thinks the reaction would be unfavourable. He gets back on Thursday 8 October. His preference would be to make the announcement himself in a speech at the Party Conference, when he will be replying to a debate on the inner cities. However, if the Prime Minister thought this was the wrong way of doing it he would be prepared for the statement to go out either from himself or No. 10 immediately after he gets back.

I have asked why the statement could not be put out tonight, or early tomorrow morning before he goes to Mauritius. Heseltine is against doing this - partly because he wants to keep it back for the Party Conference, and partly because he thinks he ought to be here in the aftermath of the statement to deal with enquiries about it. There is also the point that we are waiting for comments from other Departments.

The disadvantage of not putting the statement out as soon as possible is, of course, that it may leak. I have put this to the Department of the Environment but they seem prepared to take the risk.

Could you please discuss with the Prime Minister, and let me know her reaction?

Discussed with the P.M. who agrees that the statement should come out on 8th October. Tell Tim Lankester.

Subsequently spoke with the P.M. but it was in order to delay the announcement until 9th October when she was in touch with the country. Told Tim Lankester. AJ 30/9.

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CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-233 8319

From the Secretary of the Cabinet: Sir Robert Armstrong KCB, CVO

Ref: A05649

SECRETARY OF STATE FOR THE ENVIRONMENT

Merseyside

At yesterday's meeting of Ministers I was invited to prepare and agree with you a draft statement, announcing the conclusions reached at the meeting.

2. I attach a draft herewith. Time being short - given that both you and the Prime Minister will be out of the country for a fortnight - I have not been able to discuss this draft with other Departments at official level.

3. It is written as a "third person" statement, which could, if necessary, be put out by your Press Office or the Press Office at 10 Downing Street while you are away. It could of course be readily modified and made into a personal statement, if that was what you would prefer.

4. I am sending copies of the draft to the Prime Minister, the Home Secretary, the Lord Chancellor, the Chancellor of the Exchequer, the Lord President, the Secretaries of State for Education and Science, for Scotland, for Wales, for Industry, for Transport, for Social Services and for Employment, and the Chief Secretary, Treasury.

5. The draft is prepared on the assumption that anything to be said about the police would be said in a separate announcement by the Home Secretary.

24th September 1981

Robert Armstrong

DRAFT STATEMENT

Merseyside

Following his visit to Merseyside in July, and his subsequent report to the Cabinet, the Secretary of State for the Environment has been asked by the Prime Minister to continue to take a special interest in the problems of that area for a further twelve months. His role will be to bring together and concentrate the activities of central Government Departments and to work with local government and the private sector to find ways of strengthening the economy and environment in Merseyside.

2. To assist him in this work a new task force is to be established in Liverpool, with participation from the Government Departments concerned with Merseyside's economy and environment - principally the Department of the Environment, the Department of Industry, the Manpower Services Commission and the Department of Transport. Under the Secretary of State's direction the task force will work in collaboration with the local authorities and other organisations on Merseyside, with a view to promoting the best use of the resources which the central Government commits to Merseyside; making proposals, for consideration by Ministers, for modifying policies or switching resources between Departmental programmes of expenditure on Merseyside; examining, as a basis for Ministerial decisions, how any additional resources that might be made available by the Government could most usefully be deployed for the reduction of unemployment and the regeneration of the economic and social life of the conurbation; and developing a strategy for the conurbation as a viable economic and social entity.

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3. The task force will take account throughout of the need to promote good community relations and avoid disadvantage among ethnic minority groups.

4. This programme for Merseyside is intended to point to new ways of tackling the environmental and economic problems of inner cities which will benefit not just Merseyside but other conurbations with similar problems. There will be close liaison with the work of the Department of the Environment and its Ministers in the inner city partnerships in other conurbations. The task force will also draw on experience elsewhere, for example the Glasgow East End Redevelopment and Enterprise Ulster.

5. Following the Secretary of State's approach to them last July, /24/ leading financial institutions have each agreed to second one of their best young managers to work with the Government and in particular to help find ways of improving co-operation with the private sector on inner city problems. This group will be concerned not only with Merseyside but also with other English conurbations.

6. In addition the Government will be looking at a whole range of its activities - for example incentives for service industries, help for small businesses, and training with the intention of seeing how they might contribute more effectively to the solution of inner city problems. The intention is to develop pilot projects which, if successful on Merseyside can be repeated elsewhere.

CONFIDENTIAL

p.a. copy to Press Office or thrown to me

Personal Office

MCS 8/10

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

SECRETARY OF STATE FOR SCOTLAND

CONFIDENTIAL

D A Edmonds Esq
Private Secretary to the Secretary
of State for the Environment
2 Marsham Street
London
SW1P 3EB

7 October 1981

MERSEYSIDE

Thank you for sending me a copy of your letter to David Wright, enclosing the revised version of the statement to be issued by No 10 on 9 October.

I am afraid that the description of the Glasgow project at the end of paragraph 4 is still not correct, and it is of course important that No 10 should not be thought to be ignorant of it. The correct title is the 'Glasgow Eastern Area Renewal Project'. I should be obliged if this could be amended.

I am copying this letter to Willie Rickett and David Wright only.

A M RUSSELL
Private Secretary

CONFIDENTIAL

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

5 October 1981

cc J. Vereker
A. Walters
A. Duguid

Please also copy to the Press Office (Mr Gaffin)

File with D.G. correc B/F the paper & word File
8/10/81

Dear David

MERSEYSIDE

Sir Robert Armstrong sent to the Secretary of State on 24 September a draft statement on Merseyside. As you will know from Tim Lankester's letter of 30 September it is now to be put out by No 10 on Friday, 9 October.

The attached version takes in minor drafting amendments suggested by Departments. Subject to any final views from those to whom this is copied, it will be shown to my Secretary of State for his comments on his return to England on Thursday, 8 October.

I am copying this to those who received the original draft.

Yours ever
Dick

D A EDMONDS
Private Secretary

David Wright
Cabinet Office

CONFIDENTIAL

DRAFT STATEMENT

MERSEYSIDE

Following his visit to Merseyside in July, and his subsequent report to the Cabinet, the Secretary of State for the Environment has been asked by the Prime Minister to continue to take a special interest in the problems of that area for a further 12 months. His role will be to bring together and concentrate the activities of central Government Departments and to work with local government and the private sector to find ways of strengthening the economy and improving the environment in Merseyside.

To assist him in this work a new task force is to be established in Liverpool, with participation from the Government Departments concerned with Merseyside's economy and environment - principally the Department of the Environment, the Department of Industry, the Manpower Services Commission and the Department of Transport. Under the Secretary of State's direction the task force will work in collaboration with the local authorities, the private sector and other organisations on Merseyside, with a view to promoting the best use of the resources which the central Government commits to Merseyside; making proposals, for consideration by Ministers, for modifying policies or switching resources between Departmental programmes of expenditure on Merseyside; generating new initiatives; examining, as a basis for Ministerial decisions, how any additional resources that might be made available by the Government could most usefully be deployed for the reduction of unemployment and the improvement of the economic and social life of the conurbations; and developing longer term proposals.

The task force will take account throughout of the need to promote good community relations and reduce disadvantage among ethnic minority groups.

These arrangements are intended to point to new ways of tackling the economic, environmental and social problems of inner cities which will benefit not just Merseyside but other conurbations with similar problems. There will be close liaison with Department of the Environment Ministers and their colleagues in the inner city partnerships in other conurbations. The task force will also draw on experience elsewhere, for example the Glasgow Eastern Area ~~Redevelopment.~~ Renewal Project

Following the Secretary of State's approach to them last July, [over 20] leading financial institutions have each agreed to second one of their best managers to work with the Government and in particular to help find ways of improving co-operation with the private sector on inner city problems. This group will be concerned with British cities generally, not just Merseyside.

In addition, the Government will be looking at a whole range of its activities - for example incentives for service industries, help for small businesses, and training schemes, with the intention of seeing how they might contribute more effectively to the solution of inner city problems.

cc A Dugmd

MNS

Regional

PSS

Treasury Chambers, Parliament Street, SW1P 3AG

D A Edmonds Esq
Private Secretary to the
Rt Hon Michael Heseltine MP
Secretary of State
Department of the Environment
2 Marsham Street
London SW1P 3EB

2 October 1981

Dear David,

MERSEYSIDE

The Chief Secretary has read the draft statement enclosed with Sir Robert Armstrong's minute of 24 September to your Secretary of State. He has asked me to say that he agrees with the Secretary of State for Industry that it would be preferable to delete the reference to "developing a strategy for the conurbation as a viable economic and social entity".

The Chief Secretary has no other comments.

I am sending copies of this letter to those who received copies of Tim Lankester's letter of 28 September to you.

Yours ever

Terry Mathews

T F MATHEWS
Private Secretary

CONFIDENTIAL

cc CO Press HL

30 September 1981

Merseyside

I wrote to you earlier in the week about the Merseyside statement. The Prime Minister has now decided that the statement should go out from No. 10 on Friday 9 October.

I am sending a copy of this letter to David Wright (Cabinet Office).

TIM LANKESTER

David Edmonds, Esq.,
Department of the Environment.

CONFIDENTIAL

fl b.f. 8/10/81

M. WHITMORE (Melbourne)

cc. Michael Scholar
(on arrival)
Press Office

Merseyside

As I told you on the telephone over the weekend, Mr. Heseltine agrees with the Prime Minister that the Merseyside statement should be put out from No. 10 as soon as he gets back from his holiday in Mauritius. This would mean Thursday, 8 October. You said that you would think about the idea of delaying it until Friday, 9 October, when the Prime Minister is back. On reflection, I think it would be better if the statement went out on the Friday when both the Prime Minister and Mr. Heseltine are back. If it goes out on the Thursday, people will assume that we have delayed it because of Mr. Heseltine's absence, and they will then focus on the fact that he has been holidaying in Mauritius. It would be quite logical, on the other hand, to delay the statement until the Friday for the Prime Minister's return if it is going out from No. 10.

I have told DOE that we are considering whether it should go out on the 8th or 9th. Could you please consider again with the Prime Minister and Bernard, and let Michael Scholar know.

One or two comments are coming in from other Departments on the draft. I have asked DOE, in consultation with the Cabinet Office, to produce a final text. I hope this will be sufficiently close to the draft which the Prime Minister has already approved for us not to have to clear it with you.

T. P. LANKESTER

28 September 1981

CONFIDENTIAL

2 MARSHAM STREET
LONDON SW1P 3EB

cc Aberyd

My ref:

Your ref:

28 September 1981

Dear Sir Robert

MERSEYSIDE

My Secretary of State has asked me to thank you for your minute of 24 September, and for the proposed draft statement on Merseyside.

As I explained to your office on Friday, the Secretary of State believes that it is a very helpful draft. He considers it is very important that an announcement is not made while he is away. I have discussed this with Tim Lankester at No 10 this morning. He will put to the Prime Minister's staff in Melbourne the suggestion that the announcement should therefore be on Friday 9 October, from No 10, when both the Prime Minister and the Secretary of State are in the country.

The Secretary of State is broadly content with the drafting. However, he suggests that the Home Secretary may wish to consider the need for a brief paragraph on the police, as the ommission of any reference could be misunderstood.

I am copying this to the Private Secretaries of the recipients of your note of 24 September.

Yours ever
Dick Edmonds

D A EDMONDS
Private Secretary

Sir Robert Armstrong KCB CVO

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

cc

PL.

The Rt Hon Michael Heseltine MP
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

28 September 1981

With TPL

Dear Michael,

MERSEYSIDE

I have two comments on the text of the draft statement circulated with Sir Robert Armstrong's minute to you of 24 September.

The first, which arises on paragraph 4, is that the Glasgow Eastern Area Renewal Project should be given its correct title; subject to that I welcome this reference. The second point is that, as you know, I am most concerned that the interest of the young managers whom you have recruited should extend, and be seen to extend, to the problems of Clydeside as well as of the English conurbations, and I therefore would wish to see the word "English" omitted from the last line of paragraph 5.

I am sending copies of this letter to Sir Robert Armstrong and the other recipients of his minute.

Yours ever,

George

CONFIDENTIAL

VLB

BC Press Office ✓
CC HO SO D/M
LCO WO CST
HMT D/I CO
LPO D/Tpt
JES DHSS

CF

10 DOWNING STREET

From the Private Secretary

28 September 1981

Merseyside

The Prime Minister has considered the draft statement which was circulated under cover of Sir Robert Armstrong's minute of 24 September. As I told you, she is content with the draft; and subject to any drafting changes that your Secretary of State may have in mind, or amendments that other Ministers may suggest, she has directed that it should be put out from No. 10 as soon as Mr. Heseltine returns from overseas. That means, in practice, putting it out on Thursday 8 October; or possibly Friday 9 October when the Prime Minister will also be back. We will let you know nearer the time whether it will be the Thursday or the Friday.

In the meantime, I should be grateful if, in consultation with the Cabinet Office, you would put together a final draft - taking into account your Secretary of State's and other Ministers' amendments. You are also arranging, at Mr. Heseltine's request, for a letter to be handed to the Merseyside local authorities just before the statement goes out warning them of its content.

I am sending copies of this letter to the Private Secretaries to the Home Secretary, the Lord Chancellor, the Chancellor of the Exchequer, the Lord President, the Secretaries of State for Education and Science, Scotland, Wales, Industry, Transport, Social Services and Employment, the Chief Secretary, Treasury, and to David Wright (Cabinet Office).

T. P. LANKESTER

D. A. Edmonds, Esq.,
Department of the Environment.

CONFIDENTIAL

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

28 September 1981

David Edmonds Esq
Private Secretary to the Secretary of State
for the Environment
2 Marsham Street
London SW1

Dear David

MERSEYSIDE: DRAFT STATEMENT

My Secretary of State is generally content with the draft statement announcing the conclusions reached at Wednesday's meeting on Merseyside enclosed with Sir Robert Armstrong's minute of 24 September to your Secretary of State. He would, however, be grateful if Mr Heseltine would consider two amendments:

a The last section of paragraph 2 mentions "developing a strategy for the conurbation". As my Secretary of State said at the meeting, it is by no means clear that any such strategy could lead to a viable economic entity. My Secretary of State would therefore prefer this section to be deleted from the statement.

b The last sentence of paragraph 6 mentions the intention of developing pilot projects on a range of activities. Such projects to help small businesses and training may well be practicable but the scope for incentives for service industries within the present structure of regional aids appears to be distinctly limited. Any significant extension would require legislation. To promise pilot projects may therefore give a hostage to fortune. The tidiest way of dealing with this difficulty would be to delete the last sentence altogether, which would not seem to weaken the impact of the paragraph.

I am copying this letter to the Private Secretaries of those to whom Sir Robert Armstrong copied his and to David Wright (Cabinet Office).

Yours ever,

I K C ELLISON
Private Secretary

SUBJECT C.K. MASTER

CONFIDENTIAL FILE

10 DOWNING STREET

From the Private Secretary

25 September 1981

Dear Terry.

As you know, the Prime Minister held a meeting on Wednesday, 23 September to discuss Merseyside and related matters. The following were present: the Home Secretary, the Secretaries of State for Scotland, Social Services, Industry, Transport, the Environment, Employment, the Lord Chancellor, the Chief Secretary, the Minister of State, Department of Education and Science (Dr. Rhodes Boyson), Sir Robert Armstrong, and Robin Ibbs. They had before them your Secretary of State's minute of 26 September, Sir Robert Armstrong's minute of 18 September, together with the memorandum enclosed with it, and the Lord Chancellor's minute of 11 September.

The Secretary of State for the Environment said that the general situation on Merseyside was appalling. The level of unemployment was devastating. Although it was 18% for Merseyside as a whole, it came closer to 30-50% in some inner areas. There was no sense of community, and nobody with overall responsibility for promoting action. The system of two-tier government contributed to this. Consequently, there was endless opportunity to let things drift. Central government was seen as an obstructing force because of all the double checking it carried out on the local authorities' plans. Industry had left for other cities, and those managers who remained generally lived in the suburbs. Many people, both black and white, saw no hope whatever of obtaining a job. The atmosphere was highly demoralising, and the whole situation politically unacceptable. There seemed no prospect of changing all this greatly in the future even on the more optimistic forecasts for the economy. Other conurbations had similar problems, albeit on a smaller scale.

Against this background, he proposed that, on a time limited basis, central government should establish a more forceful presence both on Merseyside and in certain other conurbations. If this were accepted, the Government must be able to deliver. There appeared to be three possible options. Firstly, a "great and good" figure could be appointed commissioner in each area; however, this would not reflect the realities of power, and he therefore did not favour it. Secondly, he himself could take responsibility for each area. However, this would put too much power and responsibility in his own hands at the expense of other Ministers; he felt it was also important that other Cabinet Ministers should become involved in the problems of the inner cities. He therefore favoured the third option - which was to appoint a Cabinet Minister to each area. In addition to himself, the Secretaries of State for Industry and Employment, and one or two others, might be appointed with special inner city

responsibilities. They would spend time in their respective cities, and would co-ordinate and give momentum to government action in them. He also proposed that there should be a co-ordinating team at the centre chaired by the Prime Minister. The purpose of this would be to keep colleagues in touch, and to resolve differences between them on the ground. These proposals would be, in the first instance, for one year only.

It would be essential, if the proposals were to have any impact, to devote substantial resources. Extra money was a necessary lubricant if there were to be any real results. But it would be a mistake simply to allocate to each Department with responsibilities in the conurbations a given extra percentage. Instead, the designated Ministers should have discretion within certain figures to spend as they saw fit. Only when they had assessed the situation on the ground would they be able to decide how to spend the money - whether on roads, housing, drainage etc. It was crucial that any extra money should be used flexibly. There were many projects, e.g. improved housing and rebuilding of the sewers on Merseyside, which would have to go ahead in any case; but such projects would be better selected and more effectively carried out if they were supervised more directly by central government.

The Lord Chancellor said that it was clear that the Government had to do something for Merseyside. But while it might be right to designate a Minister for Merseyside, there were considerable dangers in designating Ministers for other parts of the country. They would almost certainly want extra money. It was doubtful where this would come from, and they would soon find themselves quarreling amongst each other for resources. He thought it would be desirable for the Merseyside initiative to be regarded as a pilot project, to be followed up for the time being only by studies under Department of the Environment auspices in other areas. Other conurbations would not be excluded from special treatment, but they would have to wait until experience had been gained from Merseyside and until the necessary resources were available.

The Home Secretary said he agreed with the Lord Chancellor that it would be a mistake to designate Ministers to areas other than Merseyside. In addition to the reasons he had given, other Ministers would not have the time, and some of the areas that the Secretary of State for the Environment had in mind would not want Ministers designated to them. On the other hand, he recognised that there was a risk that some areas would demand special treatment as well. If action was confined to Merseyside, they would complain that Merseyside had only been selected because of the Toxteth riots. Nonetheless, he felt that this risk had to be accepted. As regards those matters for which he had responsibility as Home Secretary, he was convinced that relations between central government and the police authorities could only be handled by himself. Given their sensitivity, there was no possibility of their being handled by other Ministers. He was grateful to the Secretary of State for the Environment for not getting involved in police matters while he was on Merseyside, and he was sure his continued non-involvement would be for the best. As for other Home Office matters, he was quite ready for the Home Office to provide whatever help they could.

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The Secretary of State for Industry said that, before reaching decisions on Merseyside, it was important to answer the question whether the Government intended to regenerate the area, or whether it intended to help a "managed run-down". There was little doubt that Merseyside was worse than nearly every other conurbation, and that if extra money was to be spent on the inner cities, it should be spent on Merseyside. But it was far from clear how it should be spent. There was a concentration of hopelessness on Merseyside, such that industries and resources generally tended to move away from it. If the Government decided to spend money on development projects, there was a risk that it would simply be throwing money away.

The Secretary of State for Transport said that any extra money for Merseyside would need to be carefully channelled. If it were to go through the metropolitan authority, there was a risk that it would be misused on extra transport subsidies. He also doubted whether extra spending on transport facilities, such as roads and freight liners, would be helpful. It was possible that the docks could be made viable if they were rationalised on a smaller scale; but based on past experience there was every prospect that they would be a continued drain on public funds.

In discussion, the following main points were made:

i) It would be a mistake for the Government to give the impression that the problems of Merseyside had not been very largely self-inflicted. The Liverpool dockers had caused the docks to decline by their appalling record of strikes and overmanning; likewise, many companies had been forced to run-down their plants because of labour problems. Against this, it was argued that central government had made Merseyside's problems worse; for example, it had imposed charges on the Port of Liverpool that were tougher than on other ports. More generally, the decline of Merseyside was extremely complex, and went back a long time. A key problem was the lack of leadership.

ii) The pressure for similar special treatment from other areas would not be as great as some imagined. For example, there was at present no such feeling in the West Midlands, nor in the North East. The problems of the North East were quite different from Merseyside. While there was some similarity in terms of industrial decline, the social problems were not nearly as bad. Furthermore, people in the North East on the whole would not want to be told what to do by a central government Minister. Against this, it was pointed out that Labour's Northern MPs had asked for a special Minister for the North. The Government had decided against this proposal because it had not been clear what such a Minister would do.

iii) If there were to be no special government presence in other conurbations besides Merseyside, it would be difficult to retain the support of the 24 institutions which had offered to second representatives to the inner cities. They would not wish them all to be on Merseyside; yet they would not achieve anything significant in other parts of the country without tight control and direction from the centre.

/iv)

iv) Given the scale and cost to the Exchequer of unemployment on Merseyside, it was unfortunate that nothing was being done to use the unemployed on Merseyside on public sector schemes, such as clearing up derelict land. It would be worth considering whether, as a condition for receiving unemployment benefit, the unemployed should be obliged to undertake such work. The level of social security benefits had also tended to push up wages on Merseyside beyond what could be justified by productivity, with the result that jobs had been lost. On the other hand, it was pointed out that social security benefits and their application were set nationally; and to require beneficiaries to work on clearing up derelict land would be deeply resented. There was in any case a Community Enterprise Programme on Merseyside; but this had run into difficulty because there were not people of sufficient quality to run it. It might be necessary to wind the CEP down; but if the right people could be found to run it, then more could certainly be done on projects of the kind mentioned.

v) The Secretary of State for Scotland said that the Scottish Office had plenty of experience with inner city problems in Glasgow. These were, on many counts, worse than on Merseyside. The Scottish Office were already able to co-ordinate Government action in the inner cities on the lines that the Secretary of State for the Environment was proposing for England. Their experience was that it was difficult to achieve results and they came only after much time and effort. He cautioned against emulating what the Scottish Office had done in Glasgow in the early 1970s - namely, giving money to a special inner city unit for disbursement. The Government had to keep a grip on the way any extra money was to be spent; otherwise local groups would quarrel over it and the money would be wasted. It would be sensible if any pilot project on Merseyside took into account the Glasgow experience.

vi) On the question raised by the Secretary of State for Industry, there was indeed an element of hopelessness in the Merseyside problem. If further analysis confirmed this, then it would be important for the Government to take it into account in planning. The local authorities would never do so. In that case, any extra money should probably go on social amelioration rather than on trying to regenerate industry.

vii) Against the view that the main initiative should be confined to Merseyside and that there should be no more than reconnaissance studies of other urban areas, the Secretary of State for the Environment said that he and his Ministers already had a fairly good idea of the problems of other areas through the inner city partnership programme. On the other hand, the majority of Ministers present felt that it would be best to move one step at a time, and that the main initiative <u>should</u> be confined to Merseyside.

viii) As regards organisation, it was generally felt that no new regional organisation was needed for Merseyside. Co-ordination of central government activities at the local level was already good, although special efforts should be made to ensure that education decisions affecting

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the area were not taken without first consulting DOE. However, a taskforce or project team on the lines suggested in the Cabinet Office memorandum under Option B would be very helpful.

ix) The Chief Secretary said he accepted that the Secretary of State for the Environment would need some extra resources for Merseyside. But it would be a mistake to announce a particular figure until he, with the support of the project team, had come forward with specific project proposals. It was impossible to fix a sum in advance before seeing how the money might be spent. Against this, the Secretary of State said that he needed to have a rough idea of what might be spent before the project team began work. The majority of Ministers present, however, felt that this was not essential, and that it would be perfectly possible for work to begin without allocating a specific sum at this stage.

Summing up, the Prime Minister said that the majority of the group took the view that a senior Minister, the Secretary of State for the Environment, should be designated to Merseyside only, for one year and on an experimental basis. His job would be to co-ordinate and give new impetus to all central government activities affecting the area, although he should continue to leave police matters entirely to the Home Secretary. His co-ordinating role should relate principally to the activities of the Department of the Environment, Department of Industry, MSC and Department of Transport, but there should also be liaison with the Department of Education and Science and Department of Health and Social Security. He should be supported by a project team mainly drawn from departmental officials already working in the North West. No decision should be taken for the time being on how much extra expenditure should be allocated to Merseyside; a decision on this would only be possible after the Secretary of State had reported back with specific proposals. The Secretary of State should also, if he wished, initiate through his department reconnaissance studies of other conurbations with a view possibly to applying the Government's experience with Merseyside to those other areas in due course. The Cabinet Office, in consultation with the Secretary of State, should prepare a draft statement on the decisions that had been taken.

I am sending copies of this letter to John Halliday (Home Office), Godfrey Robson (Scottish Office), Don Brereton (Department of Health and Social Security), Ian Ellison (Department of Industry), Anthony Mayer (Department of Transport), Richard Dykes (Department of Employment), Michael Collon (Lord Chancellor's Office), Terry Mathews (Chief Secretary's Office), Peter Wilson (Department of Education and Science), David Wright (Cabinet Office) and Gerry Spence (CPRS).

Yours ever.

Tim Lankester.

David Edmonds, Esq.,
Department of the Environment.

From Clive Whitmore: 25.9.81

1. Draft Statement by the Secretary of State for the Environment on Merseyside. Sir Robert Armstrong's minute of yesterday. Prime Minister has seen the draft statement, and it should be sent out from No.10. She likes the statement.

2. Pay Review Bodies. CW has shown the Prime Minister John Vereker's minute of yesterday to Tim Lankester. Prime Minister has repeated her earlier concern and has repeated that she doesn't want Tim to send letter to the Private Office of the Chancellor.

3. Tim Lankester's note to Clive Whitmore of yesterday. Philip Goodhart's resignation letter. Clive consulted the Prime Minister who tells him she signed personal letter to Goodhart yesterday and left in box for despatch. In writing that letter, she was unaware that Goodhart had published his letter earlier this week. Her letter is not for publication. She is content for MOD to respond to any Press enquiry about substantive points raised by Goodhart in his letter. She doesn't want MOD to take initiative in dealing with Goodhart's points, though she is happy for them to respond to any Press enquiries about them.

Dictated from Bahrain 6.40pm 25/9.

MR. WHITMORE (Telephone)

I received your message that the Prime Minister liked the Cabinet Office draft statement on Merseyside, and that she thought it should be sent out from No.10.

Michael Heseltine also likes the draft, though he may want to tinker with it a little. But he does not want the statement to go out while he is lying on a beach in Mauritius. He thinks the reaction would be unfavourable. He gets back on Thursday, 8 October. His preference would be to make the announcement himself in a speech at the Party Conference, when he will be replying to a debate on the inner cities. However, if the Prime Minister thought this was the wrong way of doing it, he would be prepared for the statement to go out either from himself or No.10 immediately after he gets back.

I have asked why the statement could not be put out tonight, or early tomorrow morning before he goes to Mauritius. Heseltine is against doing this - partly because he wants to keep it back for the Party Conference, and partly because he thinks he ought to be here in the aftermath of the statement to deal with enquiries about it. There is also the point that we are waiting for comments from other Departments.

The disadvantage of not putting the statement out as soon as possible is, of course, that it may leak. I have put this to the Department of the Environment, but they seem prepared to take the risk.

Could you please discuss with the Prime Minister, and let me know her reaction.

TPL: 25.9.81

Copied to MODIS for PM 25/9/81

CABINET OFFICE

With the compliments of
Sir Robert Armstrong KCB, CVO
Secretary of the Cabinet

The Prime Minister

70 Whitehall, London SW1A 2AS
Telephone: 01-233 8319

CONFIDENTIAL

CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-233 8319

From the Secretary of the Cabinet: Sir Robert Armstrong KCB CVO

Ref: A05649

SECRETARY OF STATE FOR THE ENVIRONMENT

Merseyside

At yesterday's meeting of Ministers I was invited to prepare and agree with you a draft statement, announcing the conclusions reached at the meeting.

2. I attach a draft herewith. Time being short - given that both you and the Prime Minister will be out of the country for a fortnight - I have not been able to discuss this draft with other Departments at official level.

3. It is written as a "third person" statement, which could, if necessary, be put out by your Press Office or the Press Office at 10 Downing Street while you are away. It could of course be readily modified and made into a personal statement, if that was what you would prefer.

4. I am sending copies of the draft to the Prime Minister, the Home Secretary, the Lord Chancellor, the Chancellor of the Exchequer, the Lord President, the Secretaries of State for Education and Science, for Scotland, for Wales, for Industry, for Transport, for Social Services and for Employment, and the Chief Secretary, Treasury.

5. The draft is prepared on the assumption that anything to be said about the police would be said in a separate announcement by the Home Secretary.

24th September 1981

Robert Armstrong

CONFIDENTIAL

DRAFT STATEMENT

Merseyside

Following his visit to Merseyside in July, and his subsequent report to the Cabinet, the Secretary of State for the Environment has been asked by the Prime Minister to continue to take a special interest in the problems of that area for a further twelve months. His role will be to bring together and concentrate the activities of central Government Departments and to work with local government and the private sector to find ways of strengthening the economy and environment in Merseyside.

2. To assist him in this work a new task force is to be established in Liverpool, with participation from the Government Departments concerned with Merseyside's economy and environment - principally the Department of the Environment, the Department of Industry, the Manpower Services Commission and the Department of Transport. Under the Secretary of State's direction the task force will work in collaboration with the local authorities and other organisations on Merseyside, with a view to promoting the best use of the resources which the central Government commits to Merseyside; making proposals, for consideration by Ministers, for modifying policies or switching resources between Departmental programmes of expenditure on Merseyside; examining, as a basis for Ministerial decisions, how any additional resources that might be made available by the Government could most usefully be deployed for the reduction of unemployment and the regeneration of the economic and social life of the conurbation; and developing a strategy for the conurbation as a viable economic and social entity.

3. The task force will take account throughout of the need to promote good community relations and avoid disadvantage among ethnic minority groups.

4. This programme for Merseyside is intended to point to new ways of tackling the environmental and economic problems of inner cities which will benefit not just Merseyside but other conurbations with similar problems. There will be close liaison with the work of the Department of the Environment and its Ministers in the inner city partnerships in other conurbations. The task force will also draw on experience elsewhere, for example the Glasgow East End Redevelopment and Enterprise Ulster.

5. Following the Secretary of State's approach to them last July, /24/ leading financial institutions have each agreed to second one of their best young managers to work with the Government and in particular to help find ways of improving co-operation with the private sector on inner city problems. This group will be concerned not only with Merseyside but also with other English conurbations.

6. In addition the Government will be looking at a whole range of its activities - for example incentives for service industries, help for small businesses, and training with the intention of seeing how they might contribute more effectively to the solution of inner city problems. The intention is to develop pilot projects which, if successful on Merseyside can be repeated elsewhere.

Ref. A05620

PRIME MINISTER

Merseyside and Related Matters

BACKGROUND

Following his visit to Merseyside the Secretary of State for the Environment circulated a report to members of the Cabinet on 13th August. The main proposals were: that his Merseyside remit should be extended for a year; that other senior Ministers should be given similar remits for other English conurbations; that there should be a new central Government office in Liverpool; that substantial additional resources should be directed to Merseyside and other conurbations; and that certain other initiatives and policy reviews should be put in hand.

2. At your meeting on 7th September with the Ministers principally concerned (the Secretary of State for the Environment, the Home Secretary, the Chancellor of the Exchequer and the Secretary of State for Industry) there was tentative agreement only that the Secretary of State for the Environment's Merseyside remit should be extended for a year, and that a new central Government presence might be established in Liverpool depending on clarification of the form that it might take. Other Ministers were unconvinced by the merits of the Secretary of State for the Environment's proposals to designate other senior Ministers for other conurbations or to provide very large additional resources to Merseyside (£100 million a year for two years, net of social security savings), and similar sums elsewhere.

3. The Secretary of the Cabinet was invited to prepare a memorandum as a basis for further consideration and decisions by Ministers. This memorandum, which was circulated on 18th September, should form the main item for discussion at the meeting. It has been prepared with the assistance of all the Departments who might be directly affected by the proposals, and a considerably larger number of Ministers than those present on 7th September will attend tomorrow's meeting.

4. The Secretary of State for the Environment has circulated a further minute of 22nd September. This does not raise any new points but underlines some considerations to which he attaches particular importance - the pressures to do something for other areas as well as Merseyside, the need for additional resources (which would have to be announced) to provide leverage, and his preference for giving a co-ordinating Minister for each conurbation considerable discretion over how any additional resources should be spent rather than adding them to existing programmes. The Lord Chancellor has also offered some comments in his minute of 11th September based on his experience in the North East in the early 1960s.

MAIN ISSUES

5. There are three main issues concerning organisation and resources: (1) Ministerial responsibility for Merseyside and other conurbations (paragraphs 2-6 of the memorandum), (2) the central Government presence on Merseyside (paragraphs 7-10), and (3) the availability of additional resources for Merseyside and other conurbations (paragraphs 13-18). On the more specific matters in paragraph 19 of the memorandum it should be necessary only to take note of the action in hand.

Ministerial Responsibility

6. The question of whether to designate senior Ministers as having responsibilities for conurbations other than Merseyside is largely a matter for political judgment. Ministers at the meeting on 7th September were not attracted by the proposal; but you will wish to weigh the balance of opinion in the wider group of Ministers at tomorrow's meeting. There are however some important practical considerations. Of the Departments involved in preparing the memorandum by officials, none supported the DOE proposal for at least five senior Ministers with territorial responsibility and most were strongly opposed to it. The pros and cons are set out in paragraphs 3 and 4 of the memorandum. The main anxiety is that such an arrangement would lead to administrative, Parliamentary and public confusion. Moreover the argument about where to draw the line is a very real difficulty. No-one believes that it would make sense to have as many as seven senior Ministers with English territorial responsibilities, but anything less than

that gives rise to some awkward anomalies. We understand that the Secretary of State for the Environment has been considering whether to reduce the number of senior Ministers involved by making some of them responsible for more than one conurbation (e.g. for Greater Manchester as well as Merseyside, and for South and West Yorkshire) but it is doubtful whether this would work because of the demands on the senior Ministers' time and local rivalries.

7. In his latest minute the Secretary of State for the Environment uses the argument that the young managers seconded from the financial institutions should be active in areas other than Merseyside and that this strengthens the case for Ministerial arrangements in other areas. It may well be that the young managers should not be confined to Merseyside and that their activities need to be carefully steered. There may however be other ways of achieving that objective.

8. If the balance of view remains unfavourable to the Secretary of State's proposal, Ministers may nevertheless accept the premise that they do not want to appear to be giving Merseyside special treatment because of the Toxteth riot. They may therefore want to consider some intermediate option such as Options C and D in paragraph 6. Option D, the designation of DOE junior Ministers, would be regarded by the Secretary of State for the Environment as very much a second best solution but it has the merit of being a natural development of the involvement of DOE Ministers in the inner city "partnerships" not just in Liverpool but also in Manchester/Salford, Birmingham, Newcastle/Gateshead and three London Boroughs (Hackney, Islington and Lambeth). Alternatively, Ministers may feel that the key issue for the other areas is not Ministerial responsibility but additional resources. Special Ministerial arrangements for Merseyside on a temporary and experimental basis may not matter if Merseyside and the other conurbations have an equal claim to extra resources (see paragraphs 11 and 12 below).

Central Government Presence on Merseyside

9. There is a wide measure of agreement on the proposal in the memorandum (Option B, outlined in paragraph 10) for a multidepartmental task force in Liverpool with a co-ordinating official in support of the Secretary of State. The only point of dispute is the DOE's wish that the task force should have executive rather than co-ordinating responsibility for certain key functions, but all other Departments are opposed to this.

10. Important features of the task force concept are that it is designed to meet some of the criticisms of the Secretary of State's original proposals - it will promote the best use of existing resources, it will be able to work up properly formulated proposals for additional resources, and it will try and relate expenditure to a viable strategy for the conurbation.

Resources

11. The arguments about resources are set out in paragraphs 13-17 of the memorandum, and Ministers have a choice from five options A to E set out in paragraph 18. Ministers may feel that it is unrealistic to ask the Secretary of State for the Environment to return to Merseyside for a year and to set up a new office there, unless he has the prospect of some additional resources over and above the £15 million provisionally allocated out of the Contingency Reserve in July. Equally they may feel that it would be wrong to appear to be giving Merseyside preferential treatment compared with other conurbations with similar problems. If that is how the discussion runs it would point towards Option E - the possibility of some additional resources being available not just in Merseyside but also in other conurbations, depending on further work done on their likely contribution to the reduction of unemployment and regeneration of the areas. The Treasury is however likely to look very critically at this option. The Chief Secretary's agreement may depend entirely on the precise formulation of the option: i. e. on there being no public commitment of a given quantum of extra resources but merely a willingness to consider new proposals for expenditure on their merits and against other competing claims. The Secretary of State for the Environment may well feel that this does not go far enough, but it at least provides a way forward.

12. If Ministers adopt Option E, they will also want to consider how the further examination of proposals for additional expenditure can best be organised. For Merseyside they may already have agreed on a co-ordinating senior Minister and supporting task force. If senior Ministers are not to be appointed elsewhere, the task may fall to DOE junior Ministers and to such arrangements as the Secretary of State for Scotland may establish on Clydeside. In addition Ministers may wish to consider whether there is a need for:

(a) Co-ordinating task forces on the Merseyside model for other conurbations.

(b) A Ministerial Committee to co-ordinate and supervise all this work, with possibly an Official Committee in support (see paragraphs 11 and 12 of the memorandum).

(c) An interdepartmental study of the problems of the conurbations generally, to provide a broader perspective which would supplement the consideration of particular proposals coming from the conurbations.

13. The Secretary of State for the Environment has again stressed in his minute of 22nd September that any extra resources should not just be added to existing programmes but that there should be "discretion to meet local opportunity". Precisely how this would work would depend on what arrangements have been made for designating Ministers for conurbations, for setting up local task forces there, and for co-ordination in Whitehall. There should however be no difficulty provided that, as we assume, the Secretary of State is not proposing some new programme but merely that the extent to which additional resources are made available for any of the existing programmes affecting the conurbations (including the Urban Programme within which there is already some flexibility), should depend on the local merits of the proposals put forward. Any conflicts between local and national priorities would need to be resolved interdepartmentally at whatever level was appropriate.

HANDLING

14. You will wish to ask the Secretary of State for the Environment to open the discussion. The other Ministers whose comments will be particularly important are the Home Secretary (not only because of the link with police and race relations issues but also because of his political judgment about the practicability of the Secretary of State for the Environment's proposals and about the public response needed from the Government on inner city problems), the Chief Secretary, Treasury (on availability of extra resources), the Secretaries of State for Industry and for Employment (because the greater co-ordination the Secretary of State for the Environment is seeking mainly affects the work of the Department of Industry and the Manpower Services Commission) and the Secretary of State for Scotland (because of the repercussions for Clydeside).

CONCLUSIONS

15. You will wish to reach conclusions on the points listed in the final paragraph of the memorandum by officials i. e.:

(a) Which of the Options A, B, C or D relating to Ministerial responsibilities should be adopted.

(b) Whether Option B (the task force concept) should be adopted for the central Government presence in Merseyside. (Depending on other conclusions, Ministers might want something similar in other conurbations.)

(c) Whether the proposals for Ministerial and Departmental co-ordination in paragraphs 11 and 12 of the memorandum by officials should be adopted. (This depends to some extent on how far Ministers want to do something for conurbations other than Merseyside.)

(d) Which of the Options A, B, C, D or E relating to resources should be adopted.

(e) Whether they are content with the work on specific matters, either in hand or proposed, outlined in paragraph 19 of the memorandum by officials.

PRESENTATION

16. If Ministers are able to agree on a policy framework for Merseyside and the other conurbations, it would be useful to consider how and when this should be made known publicly. Any announcement about organisation and resources for dealing with the economic and environmental problems of the conurbations will need to be supplemented by some statement by the Home Secretary on police and community relations matters. The Scarman Report is not expected until late October but Ministers may feel that some announcement will have to be made before then, possibly at the Party Conference, or when Parliament reassembles. You may wish to stress that any draft statements should be circulated for clearance by yourself and other Ministers concerned in good time.

RbA

ROBERT ARMSTRONG

22nd September, 1981

Prime Minister

22/9

PRIME MINISTER
INNER CITIES

Colleagues now have the very helpful paper from Sir Robert Armstrong to provide a basis for the decisions indicated in my report. I agree with much of what Quintin Hailsham has to say in his minute to you.

Since I wrote my report there are a number of developments that I should place before colleagues in advance of Wednesday's meeting.

As you know, my recommendation is for a time limited commitment of a number of senior colleagues to a small number of major conurbations.

Since I wrote my report, and the regrettable leaks, there have been significant representations from other areas stating their claim. This reinforces my judgement that we ought to go wider than just Merseyside. I believe it would be welcomed and failure to do so the source of much criticism and resentment.

Further, there is now the response of the financial institutions. Obviously there have been second thoughts particularly as I have held detailed discussions with them. This is unavoidable as one asks very uncertain and cautious organisations to come out of their shells. But the fact is that we have achieved what Geoffrey Howe, Keith Joseph and I have been working for, for at least five years - the first major if tentative sign of a more outward going attitude. This is of inestimable importance to what we all want to achieve and I now have agreement from the organisations listed to the secondment of a good manager for a year to help in our work. I expect other, substantial

organisations to commit themselves to assigning a secondee very shortly. We can't put them all into Merseyside. It would be wrong from our point of view but impossible from theirs.

Yet we can't send them out into other parts of the country without tight control and direction or they will achieve nothing, get fed up and withdraw. I think this reinforces the arguments I have already made for a powerful government commitment to our more densely crowded, politically sensitive and economically vital urban areas.

I wholly agree with the views of the Home Secretary about the non-involvement of his police responsibilities on the initiative. My Merseyside experience made it quite clear to me that there were many seeking to drive an explosive wedge between the Home Secretary and myself. That would be disastrous.

Finally I remain as convinced as ever that without resources no Minister can secure leverage and cooperation of the many forces at work. To add these simply to existing programmes without earmarking them would in many cases just compound the problems we already have. There is need for discretion to meet to local opportunity. Equally without the announcement that some extra resources will be available I am sure that the Government's commitment will lack credibility.

I hope colleagues will feel that the Government gained from the Merseyside initiative and that we should now build on that by taking the necessary decisions on Wednesday.

I am copying this minute to the Home Secretary, the Chancellor of the Exchequer, the Secretaries of State for Education and Science, Scotland, Industry, Transport, Social Service, and Employment, and to Sir Robert Armstrong, Sir Ian Bancroft and Mr Ibbs.

For MH

22 September 1981

(minute signed by the Secy of State and signed in his absence)

FINANCIAL INSTITUTIONS WHICH HAVE AGREED TO

SECONDED MANAGERS TO WORK IN THE INNER CITIES

Barclays Bank
Lloyds Bank
Midland Bank
Nat West Bank
Williams & Glyns Bank
Co-operative Bank

Abbey National Building Society
Halifax Building Society
Leeds Building Society
Midshires Building Society
Nationwide Building Society
Woolwich Building Society

British Rail Pension Fund
British Steel Pension Fund
N C B Pension Fund

Prudential Assurance Company

PRIME MINISTER

Meeting on Merseyside: Wednesday, 0900

The question arises whether we should invite the Lord Chancellor to the meeting on Wednesday. He has not been involved in any of the earlier discussions; but he did send you that long minute with his comments on Michael Heseltine's paper. I doubt whether the Lord Chancellor's contribution is likely to be all that helpful; on the other hand, if he hears about the meeting when he has put in what appears to be a good deal of work into thinking about the subject, he may be a bit put out. I understand that he is fairly busy on Wednesday and may well be unable to come. In the circumstances, I suggest that we invite him (and hope that he does not come).

Agree? Yes MH

21 September 1981

HAR/80

18 September 1981

H A Russett Esq
Director
Premier Transport
Sussex Street
St Phillips
BRISTOL
BS2 ORB

Dear Mr Russett

Thank you for your letter of 30 July to the Prime Minister. As your correspondence raises matters relating to the administration of the Manpower Services Commission's Youth Opportunities Programme, I have been asked to reply. Please accept my apologies for the delay in replying.

The question of delay in dealing with applications is a matter which has caused the MSC concern over the last few months. You may not realise that the number of young people coming on to the programme this year has increased by about 75%. In addition there have been extensive marketing campaigns which gratifyingly have brought in a considerable number of enquiries and offers of places, all of which have had to be followed up. This has placed great demands on our local office staff and unfortunately some delays have occurred. As you probably know additional Government finance was allocated to our programme and has enabled us to increase staffing levels but not in proportion to the extra work load. There has however been a considerable improvement in the throughput of work.

Because public money is involved, proposals for schemes require examination to ensure that they do not put at risk the employment and training of permanent employees and that schemes are not used to avoid normal labour costs. These enquiries inevitably take some time, although I can assure you that we are looking at ways of speeding up the processing of applications and of keeping paperwork to a minimum.

I should, however, make the point that the delay in processing schemes does not necessarily mean that individual young people are waiting for opportunities to become available for them. In consultation with the local authority careers service and our own employment service, who are responsible for sending suitable applicants to sponsors, our area offices are continually assessing future as well as present needs. Schemes of many different types catering for diverse abilities and interests are "banked" in readiness for school leavers entering the employment market and who are expected to be unable to find jobs.

I understand that two further places have been approved on 19 August at your Bristol warehouse but there was some difficulty in contacting your manager in Exeter; if nothing has happened it would help if he contacted a Mr Willey at Exeter 38711 when an appointment will be made to visit him as soon as possible.

I would like to thank your company for the help it is giving to the young unemployed. I hope that all the additional places you have offered will soon be filled by the local authority careers service.

Yours sincerely

J THOMSON

Ref. A05581

PRIME MINISTER

Merseyside and Related Matters

At your meeting of Ministers on 7 September 1981 to discuss the report by the Secretary of State for the Environment following his visit to Merseyside, I was invited to arrange for the preparation of a memorandum making specific proposals for establishing a central Government presence on Merseyside and for carrying forward consideration of the various matters identified at that meeting, as a basis for discussion and decision by the Ministers concerned. This memorandum, prepared in consultation with the Departments concerned, is now attached.

2. I am sending copies of this minute and the memorandum to the Home Secretary, the Chancellor of the Exchequer, the Secretaries of State for Education and Science, Environment, Scotland, Industry, Transport, Social Services and Employment, and to Sir Ian Bancroft and Mr Ibbs.

ROBERT ARMSTRONG

18 September 1981

MEMORANDUM

MERSEYSIDE AND RELATED MATTERS

At the meeting of Ministers of 7 September 1981 a provisional conclusion was reached that the Secretary of State for the Environment should continue, probably for a year, to be the Cabinet Minister with special responsibility for Merseyside. Further thought was to be given to the following matters -

a. what arrangements, if any, should be made for the designation of other Ministers as having special responsibilities for other conurbations;

b. how to co-ordinate and strengthen the Central Government presence on Merseyside;

c. whether, and, if so, to what extent, additional resources should be made available for dealing with the problems of Merseyside and other conurbations;

d. how best to carry forward work on the following specific matters, with particular reference to Merseyside -

i. more assistance for the development of service industries and small businesses;

ii. the clearance of derelict sites, which might also provide extra jobs for the unemployed;

iii. the provision of skills through education and training;

iv. the improvement of the labour market.

The Secretary of the Cabinet was invited to arrange for the preparation of a memorandum making specific proposals for carrying forward consideration of these matters.

Ministerial responsibilities

2. The Secretary of State for the Environment proposed (pages 7 and 8 of his Report) that in addition to an extension of his special responsibility for Merseyside, other senior Ministers should be given similar responsibilities for other conurbations. The role of such Ministers would be to co-ordinate Government action, to act as "troubleshooters", to secure maximum value for money from present programmes, to take new initiatives where appropriate, to secure improved performance in local government, and to seek greater commitment from the private sector.

3. The main arguments for designating other senior Ministers with special responsibility for other conurbations are -

a. Other conurbations suffer from similar levels of deprivation. If Merseyside alone had the special attention of a senior Minister, there could be resentment elsewhere. The Government's response might be thought to be simply a reaction to the riots rather than to common underlying problems.

b. Ministers have said (for example at the Prime Minister's meeting with the TUC on 1st September) that the Government would not concentrate on Merseyside to the exclusion of other urban areas with major problems.

c. There could be strong political pressures for similar Government assistance to other conurbations. If these pressures were thought likely to be irrestistible, it might be better for the Government to be seen to retain the initiative by making these appointments at the outset rather than subsequently as an apparently grudging response to pressure.

d. There is already a precedent for Ministerial involvement in the conurbations; DoE Ministers work with the partnership authorities in five conurbations.

e. The appointment of Ministers with special "territorial" responsibilities for the conurbations would bring, and would be seen as bringing, central government in general and Ministers in particular in closer and more continuous contact with the problems of the conurbations, with consequent benefits for collective Ministerial discussion and the work of the departments concerned.

f. In other conurbations, as in Merseyside, the presence of a senior Minister should improve the co-ordination and flexibility of central government and local government and stimulate action in the private sector.

4. The arguments against the proposal are -

a. Some of the problems of Merseyside, notably the shortcomings of local government, may be peculiar to that area. The designation of a senior Minister might be less appropriate and less welcome in other conurbations. The Merseyside arrangements need not lead to pressure for similar arrangements in other areas, if they are seen as temporary and experimental.

b. If senior Ministers were to be designated for other conurbations, this would multiply the pressures on the Government to make available extra resources.

c. It would be difficult to decide where to draw the line. A case could be made out for treating Tyneside, Greater Manchester and the West Midlands on the same basis as Merseyside, but the omission of South and West Yorkshire and Greater London could be difficult to justify. On the other hand the designation of as many as seven senior Ministers might not be feasible and there could be special difficulties about Greater London.

d. While it may be practicable and appropriate for the Secretary of State for the Environment to exercise special responsibilities of this kind, since he has many relevant functions and has close dealings with local authorities, this would not be true of other functional Ministers to the same extent.

e. Any widespread assumption of English territorial responsibilities by functional Ministers, even of a temporary and informal kind, could raise difficult issues of central government organisation, might be thought to undermine local government; and could have profound constitutional implications, if it led on to the creation of a comprehensive central government presence in the regions or to greater regionalisation of central government on a permanent basis.

f. The proliferation of Ministers with territorial responsibilities could cause confusion in Parliament and outside about the respective accountability of the territorial and functional Ministers.

g. Although differences of view among functional and territorial Ministers could be sorted out by a group of Ministers with the Prime Minister in the chair, this could be a formidable task; and there would be a particular problem of co-ordination with statutory bodies such as the Manpower Services Commission. There would probably also need to be new co-ordinating machinery locally of the kind discussed with special reference to Merseyside in paras 7 to 10 below.

5. The Home Secretary has given further consideration to the handling of police matters, in the context both of an extension of the special Ministerial remit for Merseyside and the possible introduction of similar arrangements in other conurbations. Although a Home Office junior Minister participated in the visit by the Secretary of State for the Environment to Merseyside, the Home Secretary does not consider that this arrangement should be maintained on a more continuing basis in Merseyside or adopted elsewhere. The handling of difficult police issues at Ministerial level is inevitably a matter for the Home Secretary himself; and the presence of a Home Office Minister on a continuing basis might suggest, however erroneously, that the operational independence of the local Chief Constable was being eroded, and could upset the delicate balance of the relationship between the Home Secretary, local police authorities and Chief Constables. So far as community relations are concerned this is mainly a matter of the attitudes of the various agencies and organisations in the area, and it is not thought that the involvement of a Home Office Minister on a continuing basis would be helpful. But it would be important in any public announcement to make it clear that the Home Secretary would be continuing to give particular attention to the police and the community elections aspects of the problems facing the conurbations.

6. The two main options before Ministers are therefore as follows -

Option A to designate senior Ministers for all (or nearly all) of the seven English conurbations, with such action in respect of Clydeside as the Secretary of State for Scotland's more comprehensive responsibilities make appropriate;

Option B to confine the designation of a senior Minister to Merseyside only on a temporary and experimental basis.

There are also two intermediate options -

Option C to designate a senior Minister for one area or possibly two areas in addition to Merseyside, again on a temporary and experimental basis, to remove the impression that Merseyside is receiving special treatment because of the Toxteth riots;

Or

Option D to designate DOE junior Ministers as having special responsibilities for some or all of the English conurbations, as an extension of the present arrangements for DOE Ministerial involvement in the "partnerships".

Central Government presence on Merseyside

7. The Secretary of State for the Environment proposed in his Report (pages 7 and 8) a single Regional Office for Merseyside and probably related parts of Lancashire and Cheshire comprising the DOE DTpt, DoI and DEm/MSC and having links also with the DES and DHSS.

8. There are two main options -

Option A a new regional organisation in Merseyside and adjoining areas, carved out of the existing North West region, and serving a population of about $2\frac{1}{4}$ million; this would involve the relocation of a substantial number of officials, many at present based in Manchester;

Option B a task force or project team in Liverpool to support the Secretary of State for the Environment in his special co-ordinating role, drawn mainly from Departmental officials already working in the North West.

9. Although there are some arguments on merits for Option A, it has two major disadvantages - of cost and timing. The timing argument is crucial since the extension of the Secretary of State's appointment is probably for one year only

and it would be difficult to complete a major regional reorganisation within that timescale. There is also the danger that a separate Regional Office might be burdened by routine casework unrelated to inner city initiatives. A separate Regional Office would certainly cost more than a task force of the kind suggested as Option B. Option B is therefore recommended to Ministers, although Option A need not be ruled out for reconsideration at a later stage.

10. The main features of Option B as recommended to Ministers are as follows -

a. the remit of the task force should be to assist the "territorial" Minister in co-ordinating and stimulating the efforts of central government, local government and the private sector and generating new initiatives; it should not take over or duplicate existing executive functions; the Department of the Environment considers, however, that to be effective the task force would need to be responsible for certain key functions, for example the urban programme, housing investment programme, and possibly selective financial assistance;

b. the task force's first priority should be to support the "territorial" Minister in promoting the best use of resources within the existing policies and delegated financial responsibilities of Departments;

c. it would be open to the task force subject to the general discretion of the "territorial" Minister, to make proposals for modifying policies, or switching resources between programmes; these issues would need to be resolved by Departments centrally; in some cases this might be possible bilaterally (subject to Treasury approval where adjustments between Departmental programmes were required) but in other cases collective discussion might be necessary;

d. the task force should also examine, as a matter of high priority, and as a basis for Ministerial decisions, whether and in what direction and in what amounts additional resources could usefully be deployed for the reduction of unemployment and the regeneration of the economic and social life of the conurbation over the next two or three years;

e. the task force should also have the urgent and continuing duty of assessing the future for the conurbation and the scope for lasting regeneration of it as a viable economic and social entity;

f. the task force would take account throughout of the need to reduce and to avoid any special disadvantage among ethnic minority groups;

g. the Departments providing members for the task force would be the DOE DTpt, DoI and the MSC, although the special statutory position of the tripartite Commission would need to be borne in mind; the DHSS would propose representation by the Regional Health Authority or by the Department itself or possibly both, depending on how the work developed; the DES participation would be by visits from relevant HQ officials; there would be no direct Home Office representation, but liaison would be maintained with the relevant Inspector of Constabulary (at present the Chief Inspector) and ethnic minority matters could be covered by visits from London-based officials if necessary;

h. the total strength of the task force might be up to about 30 staff; it would be up to the contributing Departments to decide whom to put on it, but these should be on a presumption in favour of drawing upon existing staff in regional offices with available experience and knowledge of the problems; there would however need to be at least one new post, probably at Under-Secretary level, heading the task force and

reporting direct to the Secretary of State for the Environment; the incumbent of this post would need to have considerable personal qualities, since he would have to provide leadership and impetus in the Secretary of State's absence and establish good relations with local bodies.

Ministerial and departmental co-ordination

11. If the arrangements for a "territorial" Minister and a central government task force were generalised over other conurbations - and perhaps even if the arrangements were confined to Merseyside - it would be necessary to have standing arrangements for co-ordination among the Ministers and departments concerned in London. Ministers will wish to consider, in the light of their earlier decisions, whether a Sub-Committee of the Ministerial Committee on Economic Strategy should be established, under the Prime Minister's chairmanship, whose members should include the Ministers with functional responsibilities in the field of local government (including the Home Secretary, and the Secretaries of State for Scotland and Wales), the "territorial" Minister (or Ministers), the Chancellor of the Exchequer, the Chief Secretary and the Chancellor of the Duchy of Lancaster. This Sub-Committee would have the task of deciding major issues of policy towards the conurbations, and of resolving differences of view about resource allocation and expenditure which could not be resolved bilaterally.

12. If this Ministerial Sub-Committee were established, it would need to be supported by an Official Committee, which could be under Cabinet Office chairmanship, on which the departments whose Ministers were on the Ministerial Sub-Committee would be represented. The leader of the Merseyside task force (and leaders of any other conurbation task forces which it was decided to set up) would be invited to attend meetings of the Official Committee.

Resources

13. The Secretary of State for the Environment proposed in his report (pages 19 and 20) that extra resources should be made available next year and the year after on Merseyside and in the other conurbations "in alleviating conditions and getting people off the unemployment register in ways which secure

long term benefits"; he suggested that it might be necessary to spend on Merseyside a net £100 million a year, after allowing for savings in unemployment benefits, to reduce the number of unemployment by 20,000 people, though he acknowledged that his figure was not based on any analysis in detail of how the money would be spent to achieve that result.

14. The main argument in favour of this proposal is that unemployment is unlikely to be reduced significantly in Merseyside, and probably other conurbations, over the next two years unless money is spent on public sector projects which will both create new jobs directly and generate activity in the private sector. Although there may be some scope for making better use of resources within existing programmes, and for switching resources between programmes, it is likely to be limited and therefore unlikely to have a major impact. It is also argued that the extension of the Secretary of State's special responsibility for Merseyside would lack credibility unless extra resources were available for necessary public works and to provide leverage to stimulate private sector activity.

15. The main argument against the proposal is that it cannot be shown at this stage that a given amount of extra resources will provide commensurate benefits either in Merseyside or in other conurbations. Although some work has been done on Merseyside to define the nature of the problem, to work out a strategy, and to identify deserving projects, more work needs to be done before extra resources are committed there. In any event, a substantial allocation of additional resources for Merseyside alone would stimulate pressure for similar treatment elsewhere, not just in other English conurbations but also on Clydeside which is generally recognised to have problems and levels of deprivation similar to those on Merseyside. Substantial extra resources for several conurbations would present major difficulties for the control of public expenditure.

16. It is difficult to take decisions on whether to make additional resources available until more work has been done on whether and in what directions they could be committed so as to make a contribution to the reduction of unemployment and the regeneration of the region. It would be one of the major remits of the new task force to develop a strategy for dealing with the problems of Merseyside and to formulate precise and properly assessed proposals. The possibility of extra expenditure should help to promote co-operation locally, but too great an emphasis on the possibility of extra resources for Merseyside would create pressures for similar treatment elsewhere.

17. The Government is already confronted with the prospect of the Metropolitan Counties, or at least some of them including Merseyside and the GLC, seeking to increase their expenditure substantially and immediately in consequence of their new cheap fare policies. Some of the Metropolitan authorities are also considering substantial additional expenditure on creating new jobs. These and similar proposals will involve Ministers collectively in special consideration of public expenditure on Merseyside and the conurbations in any case. Although of less direct relevance, it should also be remembered that Ministers will shortly be considering future policy towards the Mersey Docks and Harbour Company and the extent to which further funds should be provided to secure the continued survival of the Port.

18. Subject to the need for proper formulation of proposals in due course, the main options before Ministers are:

Option A to agree to provide substantial extra resources for Merseyside alone, possibly amounting to additional expenditure (net of social security savings) of £100 million a year for two years;

Option B to agree to provide substantial extra resources for Merseyside and other conurbations (this would involve additional public expenditure, net of social security savings, of £500 million - £1 billion);

Option C to provide no additional resources for Merseyside or elsewhere.

There are also two intermediate options:

Option D to make no firm commitment of additional resources for Merseyside at this stage, but to leave open the possibility that some additional resources might be made available for that area, depending on the work of the task force;

Option E as Option D but to leave open the possibility that some additional resources might be made available not just in Merseyside but also in other conurbations, depending on further work done on their likely contribution to the reduction of unemployment and regeneration of the areas (the arrangement for handling this work locally in areas other than Merseyside, and centrally, would need further consideration).

Specific matters

19. On the specific matters action is already in hand or could be put in hand, as follows:

a) Service industries and small businesses

The Secretary of State for Industry is already looking into the scope for putting more emphasis on incentives for employment in the service industries, and his Parliamentary Under-Secretary of State (Mr MacGregor) has special responsibility for co-ordination of help for small businesses. The Secretary of State for Industry might be invited to consider the scope for increasing help for service industries and small businesses in Merseyside in particular, in consultation with the Secretary of State for the Environment.

b) Dereliction

(i) There is much derelict and underused land on Merseyside which might be brought into economic use. Land Registers and the Merseyside Development Corporation provide two important ways in which this can be done. The Secretary of State for the Environment is considering - in consultation as necessary with colleagues who sponsor nationalised industries - how obstacles to faster progress can be overcome.

(ii) An area of special concern is the redundant land owned by the Mersey Docks and Harbour Company (MDHC). Under the financial arrangements agreed when the company was reconstituted in 1974, any proceeds from the sale of the MDHC's assets go to its bondholders. It would be for the Secretary of State for Transport to examine in consultation with the Secretary of State for the Environment, whether there are ways, short of legislation, in which the redundant dock areas could be released for development.

(iii) Much work is needed to clear up dereliction generally on Merseyside and this could provide jobs for the unemployed. The new task force should be asked to look into this.

c) Training

The Secretary of State for Employment could be invited to consider, in consultation with the Secretary of State for Education and Science, the scope for developing more training in skills on Merseyside.

d) The Labour Market

The Chancellor of the Exchequer has undertaken, in consultation with the Central Policy Review Staff, to consider how to improve the working of the labour market so as to absorb into it more of those at present unemployed.

Summary

20. Ministers are invited to consider:

a) which of the Options A, B, C or D in paragraph 6 above relating to Ministerial responsibilities should be adopted;

b) whether they approve the proposed Option B for a new Central Government presence on Merseyside, as outlined in paragraph 10 above;

c) whether they agree with the proposals for Ministerial and departmental co-ordination in paragraphs 11 and 12;

d) which of the Options A, B, C, D or E in paragraph 18 above relating to resources should be adopted;

e) whether they are content with the work on specific matters, either in hand or proposed, which is outlined in paragraph 19 above.

Extract of a meeting between the Prime Minister and the Chancellor of the Exchequer on Wednesday 16 Sept, 81, at 1715 hrs.

Top Copy.
Cost Mach. Pt 4.
Future CSD/HMT.

Merseyside

The Prime Minister said she had been thinking again about the idea of sending individual Ministers to the North East and the West Midlands as well as to Merseyside. She was coming round to the view that other regions would think it very unfair if only Merseyside was given a Minister. The Chancellor repeated the arguments that had been made at the meeting of the small group of Ministers that considered Mr. Heseltine's paper against allocating Ministers to other regions. It was left that no new action should be taken for the time being.

CONFIDENTIAL

TPK VB

Regional Vol

15 September 1981

The Lord Chancellor sent the Prime Minister a minute dated 11 September setting out his views on the Secretary of State for the Environment's recent report on Merseyside. The Prime Minister has read the paper, and she has asked me to say that she was very grateful indeed for it.

TPL

CS

Michael Collon, Esq.,
Lord Chancellor's Office.

CONFIDENTIAL

FROM:

COPY NO: 1

THE RT. HON. LORD HAILSHAM OF ST. MARYLEBONE, C.H., F.R.S., D.C.L.

LORD CHANCELLOR

HOUSE OF LORDS,
SW1A 0PW

STRICTLY CONFIDENTIAL

Prime Minister

Merseyside

The vigorous and constructive report of the Secretary of State for the Environment as the result of his visit to Merseyside more than justifies his appointment, invites comment and criticism and, of course, demands action. But I feel myself that I would like to put a few comments on paper, not because I can possibly equal his present understanding of Merseyside, but because, having been faced with similar problems some years ago, there are one or two general reflections which I would like to share with the recipients of his very stimulating document.

A. Administrative structure of any action on the lines proposed

As clearly emerges from the Secretary of State's document, what is needed in Merseyside (as it was in the North East) is a general and coherent improvement of the quality of life there. This will be found to apply to any other region in which this technique is used. But this has certain inescapable consequences. The first is that the area concerned cannot be limited artificially to what I might term the narrow area of blight alone. It must include districts not covered by the blight which may still produce outside the narrower limits the very growing points which are required for the benefit of the blighted area itself. The responsibility for Merseyside by itself is thus probably too narrow. We need to think of communications, educational facilities and industrial diversification in terms of opportunities in a wider territory.

STRICTLY CONFIDENTIAL

My second observation is that since the remedy must be to produce a coherent plan for a total improvement in the quality of life, the plan and the structure to introduce it must be inherently interdepartmental. The Minister must have at his command a small team from several interested departments to visualise improvement as a whole. The clear fact is that people are leaving Merseyside at the rate they are because it is such a beastly place to live in and not simply because of unemployment. This may be partly due to purely physical factors (inferiority in housing, school structures, lack of opportunity for higher education (not just universities) or even the breakdown in law and order in itself. Some factors may relate to transport (depth of water in the port, road bottlenecks, access to rail and air links). Others may include absence of local amenities, (sports centres, cultural opportunities). If the appointment is to be prolonged a look should be taken both at the area involved and at the provision of an interdepartmental supporting staff.

B. The danger of competition between areas

This is much greater than might seem at first sight. When in the North East I was constantly faced with criticism from e.g. Scotland, Northern Ireland, Wales, and the North West (including Lancashire and Merseyside): "Why should you be given priority over us?". There are features in the Secretary of State's minute - e.g. at p.10, "A Ministerial presence in each conurbation" - which seem to me to underestimate the danger of inter-regional competition in bidding for resources inherent in such a plan, both reflected within the government by regional Ministers, and from outside by regional pressure groups.

C. The abolition of Metropolitan Boroughs and the GLC

I do not feel competent to pontificate about the Secretary of State's enthusiasm for this. But we should at least be clear what we wish to put in their place. A return to boroughs of say 100,000 to 250,000 inhabitants would hardly fit the bill and will inevitably lead to demand either for closer control from Whitehall (with a consequent increase in the numbers and the powers of the Civil Service) or for more thoroughgoing regional or 'provincial government' (to which, as may be known, I am not inherently disinclined but for which I do not think public or party opinion is yet prepared). Worst of all, in the conurbations, a reduction to Borough size authorities is likely to produce a rash of quangos, since the Boroughs themselves will not correspond to needs in various fields of public administrations. There is a body of opinion in the party and the public which tends to think that however ill-judged our 1972 reforms may have been, another revolutionary change should be avoided, at least for the time being.

D. The need for selective investment

The potential for public expenditure in this field is almost unlimited. It follows that we must be very clear as to the criteria to be applied before we go down this road. Some public investments (removal of some road bottlenecks, or danger spots) can yield immediate and calculable returns. Some cannot. What is quite clear is that we should not seek to shore up things which are dying for certain by injections of public money not justified on economic grounds. If there must be uneconomic investment, let it be on housing, sewers, education or public amenities designed to attract private enterprise and industry. We then at least can budget rationally without listening to bogus or sentimental economic argumentation.

E. Public acquisition and disposal of land

In my opinion we shall not get rid of urban blight or clean up derelict areas without reducing the fee simple of the land to single coherent blocks by compulsory acquisition and then disposing of it in blocks to private development under planning control. What Clore could do profitably in the fifties we can do with far more profit to the public now if (but of course only if) we are determined to act on the lines of some of the suggestions in the Secretary of State's paper. By restoring rational blocks of fee simple to private developers we should not thereby infringe our own principles.

I am sending copies of this minute to the recipients of the Secretary of State's report.

H. of S. M.

11th September, 1981

CONFIDENTIAL

JS

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10 DOWNING STREET

From the Private Secretary

9 September 1981

I enclose the record of the meeting which the Prime Minister held here on Monday 7 September to discuss your Secretary of State's report following his visit to Merseyside.

I am sending a copy of this letter, and enclosure, to the Private Secretaries to those Ministers who were present at the meeting, and to David Wright (Cabinet Office) and Gerry Spence (CPRS). I am also sending copies to the Private Secretaries to the Secretaries of State for Employment, Education, Social Services, Transport, Scotland and the Lord President, since I understand that Sir Robert Armstrong has called a meeting this coming Friday of Permanent Secretaries from their Departments, as well as from the Departments of those Ministers who attended the meeting, to discuss further action on the report.

T. P. LANKESTER

CS

D.A. Edmonds, Esq.,
Department of the Environment.

SUBJECT
cc Master

CONFIDENTIAL

NOTE OF A MEETING HELD AT 10 DOWNING STREET ON MONDAY 7 SEPTEMBER 1981 AT 0915 TO DISCUSS A REPORT BY THE SECRETARY OF STATE FOR THE ENVIRONMENT FOLLOWING HIS VISIT TO MERSEYSIDE

Present: The Prime Minister
Home Secretary
Chancellor of the Exchequer
Secretary of State for Industry
Secretary of State for the Environment
Mr. J.R. Ibbs
Mr. N. Strauss
Sir Robert Armstrong
Mr. P.L. Gregson

* * * * * * * * *

The Secretary of State for the Environment said that his visit to Merseyside had given him an overwhelming impression of a community in decline and, in his report dated 13 August, he had made suggestions to check that decline. But there were other areas with similar problems. These problems could not be tackled without significant extra resources. While he envisaged working within existing departmental statutory and accounting arrangements, it would be important that any new resources should not simply be added to existing programmes. The Prime Minister should designate a Cabinet Minister with special responsibility for each of the conurbations, and he should have a significant degree of discretion on the deployment of existing and additional resources within the conurbation for which he had responsibility. Differences of view could then be sorted out by a group of the Ministers concerned, chaired by the Prime Minister. Only in this way could the efforts of central Government, the local authorities and the private sector be stimulated and coordinated constructively and effectively.

In discussion, the following main points were made:

(a) The first priority was to concentrate on Merseyside, because of the expectations aroused by the Secretary of

/ State's

State's visit. Ministers could not, however, neglect other areas. It was clear that there would be Parliamentary criticism if Merseyside was given extra money because it had had a riot. Ministers were not, however, yet in a position to formulate a strategy for dealing with the other areas.

(b) The provision of extra resources could not be relied on to make things better. In Merseyside, for example, it appeared that the effect of regional industrial incentives over the years had been to weaken rather than strengthen the local economy, because new industries attracted by the incentives had taken labour from existing industries rather than from the pool of unemployed. Many of the area's problems were self-inflicted (e.g. higher labour costs especially in the construction industry and bad labour relations, despite some examples to the contrary). There were some special difficulties over law and order in Merseyside which would not be solved by more Government expenditure. On the other hand extra resources would probably be essential as a lubricant in promoting co-operation locally. Although there was substantial Government expenditure on Merseyside, very little of it was discretionary. It was doubtful whether the special Ministerial remit to Merseyside could be credibly extended without some extra resources, but there was insufficient analysis of how this money could usefully be spent.

(c) The case for extending the special Ministerial remit for Merseyside for up to a year was generally accepted. There were however serious objections to extending the experiment to other conurbations. The main argument for it was to widen the horizons of Ministers beyond their functional responsibilities, but Ministers were keenly aware of the problems of the inner cities. It would be preferable to try and improve the working of central

/ Government

Government on the existing functional basis. While the presence of a Minister might be welcomed on Merseyside, it could be resented, and be seen as interference, in other areas.

(d) If there were to be innovations in Ministerial responsibility for the conurbations, careful consideration needed to be given to the handling of police matters. The participation of Mr. Raison in the visit to Merseyside by the Secretary of State for the Environment had worked well. If the Merseyside Ministerial remit was extended, the Home Secretary would need to consider further how the involvement of a Home Office junior Minister might best be arranged.

(e) It was accepted that departments in the regions had not so far been able to secure maximum value from existing programmes. Part of the explanation was that some national policies (e.g. on new towns) were now seen to have damaged the inner cities. There was, however, a case for better co-ordination at least in Merseyside and for setting up a new office there. It was not clear whether something similar needed to be done elsewhere and regard should be paid to the work done by Sir Derek Rayner on regional organisation.

(f) More thought needed to be given to the strategy in Merseyside and elsewhere. It was arguable that the right policy was to concentrate on growth points rather than to try and create employment (as opposed to merely improving the environment) in the inner city areas.

(g) The most important general lesson to emerge from Merseyside was the need to improve the working of the labour market. More jobs could be created (e.g. in getting rid of dereliction) if the price of labour was not kept artificially high. There might be scope for some experiments on Merseyside.

/ The Chancellor

The Chancellor of the Exchequer said that some work had already been done on the labour market, and he would be preparing a paper in consultation with the head of the CPRS.

(h) There was concern both in Merseyside and more generally that the resources devoted by Government to education and industrial training were not equipping people with the skills they needed.

(i) The proposals in the report for local government reform were very sensitive politically, and Minister would need to discuss them further before any action was initiated.

(j) It was accepted that it would be helpful on Merseyside, and possibly elsewhere also, to put more emphasis on incentives for employment in the service industries. The Secretary of State for Industry said that he would look into this.

(k) The Government's efforts to stimulate small businesses both in Merseyside and elsewhere needed to be better co-ordinated. It was not clear whether the recently agreed arrangements for co-ordination by Mr. MacGregor in the Department of Industry were adequate, and this should be examined.

(l) Following the visit to Merseyside of representatives of the financial institutions, thirty young managers had been seconded by the institutions to examine what contribution the institutions might be able to make. The main objective was to get them immersed in urban problems so as to change their attitudes and those of their parent institutions. It was not, however, clear what would happen when their fact finding, both in the UK and abroad, was completed.

/ (m)

(m) The Policy Unit had drawn attention to work done by the Manchester Business School on inner city problems and had suggested that a report should be prepared. It was, however, important to avoid duplication of existing reports and this proposal needed to be clarified further.

The Prime Minister, summing up the discussion, said that this was not a meeting at which decisions were to be taken. The discussion had suggested certain tentative conclusions, which could form the basis for further work. There was general agreement that the Secretary of State for the Environment should continue, probably for a year, to be the Cabinet Minister with special responsibility for Merseyside. There was not a consensus on the suggestion that other Ministers should be designated as having special responsibilities for other conurbations. It would be neither possible nor right for the Secretary of State for the Environment to become involved in the police situation on Merseyside: that fell within the Home Secretary's responsibilities. The Home Secretary would consider whether to designate a Home Office Minister to keep closely in touch with the police and community relations aspects of the problems of Merseyside. Further thought would need to be given to the way in which the Central Government presence on Merseyside should be strengthened and co-ordinated. It might be appropriate to find means of providing more Central Government assistance for the development of service industries and of small businesses on Merseyside. One of the urgent problems was to deal with the dereliction on Merseyside: it was for consideration whether means could be found of putting to work on the clearance of derelict sites some of those who would otherwise be unemployed. Further consideration would need to be given to whether there was sufficient training in skills available on Merseyside: there might be a case for developing more training in skills, possibly at the expense of the higher education facilities at present available in Liverpool. It would be necessary to consider whether there should be some redeployment of central and local government

capital programmes in the Merseyside area. More generally, and with reference not just to Merseyside, the Government should consider how to introduce a greater measure of freedom in the labour market so as to encourage the absorption into the labour market of a higher number of those who were at present unemployed.

The meeting -

Invited the Secretary of the Cabinet to arrange for the preparation of a memorandum making specific proposals for establishing a Central Government presence on Merseyside and for carrying forward consideration of the various matters identified in discussion and in the Prime Minister's summing up, as a basis for further consideration and decisions by the Ministers concerned.

9 September 1981

CONFIDENTIAL

DRAFT

NOTE OF A MEETING HELD AT 10 DOWNING STREET ON MONDAY 7TH SEPTEMBER 1981 AT 09.15 TO DISCUSS A REPORT BY THE SECRETARY OF STATE FOR THE ENVIRONMENT FOLLOWING HIS VISIT TO MERSEYSIDE

Present:

Prime Minister
Home Secretary
Chancellor of the Exchequer
Secretary of State for Industry
Mr J R Ibbs
Mr N Strauss
Sir Robert Armstrong
Mr P L Gregson

The Secretary of State for the Environment said that his visit to Merseyside had given him an overwhelming impression of a community in decline and, in his report dated 13th August, he had made suggestions to check that decline. But there were other areas with similar problems. These problems could not be tackled without significant extra resources, and these resources should not be added to existing programmes. The Prime Minister should designate a Cabinet Minister with special responsibility for each of the conurbations. Only in this way could the efforts of central Government, the local authorities and the private sector be stimulated and coordinated constructively and effectively.

2. In discussion the following main points were made:

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(a) The first priority was to concentrate on Merseyside, because of the expectations aroused by the Secretary of State's visit. Ministers could not however neglect other areas. It was clear that there would be Parliamentary criticism if Merseyside was given extra money because it had had a riot. Ministers were not however yet in a position to formulate a strategy for dealing with the other areas.

(b) The provision of extra resources could not be relied on to make things better. In Merseyside for example it appeared that the effect of regional industrial incentives over the years had been to weakened rather than strengthened the local economy, because new industries attracted by the incentives had drawn labour from existing industries rather than from the pool of unemployed. Many of the area's problems were self-inflicted (eg higher labour costs especially in the construction industry and bad labour relations, despite some examples to the contrary). There were some special difficulties over law and order in Merseyside which would not be solved by more Government expenditure. On the other hand extra resources ~~might be helpful~~ would probably be essential as a lubricant in promoting cooperation locally. Although there was substantial Government expenditure on Merseyside very little of it was discretionary. It was doubtful whether the special Ministerial remit to Merseyside could be credibly extended without some extra resources, but there was insufficient analysis of how this money could usefully be spent.

(c) The case for extending the special Ministerial remit for Merseyside for up to a year was generally accepted. There were however serious objections to extending the experiment to other conurbations. The main argument for it was to widen the horizons

of Ministers beyond their functional responsibilities, but Ministers were keenly aware of the problems of the inner cities. It would be preferable to try and improve the working of central Government on the existing functional basis. While the presence of a Minister might be welcomed on Merseyside, it could be resented, and be seen as interference, in other areas.

(d) If there were to be innovations in Ministerial responsibility for the conurbations, careful consideration needed to be given to the handling of police matters. The participation of Mr Raison in the visit to Merseyside by the Secretary of State for the Environment had worked well. ~~The Home Secretary said that,~~ If the Merseyside Ministerial remit was extended, ~~he~~ the Home Secretary would need to consider further how the involvement of a Home Office junior Minister might best be arranged.

(e) It was accepted that departments in the regions had not so far been able to secure maximum value from existing programmes. Part of the explanation was that some national policies (eg on new towns) were now seen to have damaged the inner cities. There was however a case for better coordination at least in Merseyside and for setting up a new office there. It was not clear whether something similar needed to be done elsewhere and regard should be paid to the work done by Sir Derek Rayner on regional organisation.

(f) More thought needed to be given to the strategy in Merseyside and elsewhere. It was arguable that the right policy was to concentrate on growth points rather than to try and create employment (as opposed to merely improving the environment) in the inner city areas.

(g) The most important general lesson to emerge from Merseyside was the need to improve the working of the labour market. More jobs could be created (eg in getting rid of dereliction) if the price of labour was not kept artificially high. There might be ~~some~~ scope for some experiments on Merseyside. The Chancellor of the Exchequer said that some work had already been done on the labour market, and he would be preparing a paper in consultation with the head of the CPRS.

(h) There was concern both in Merseyside and more generally that the resources devoted by Government to education and industrial training were not equipping people with the skills they needed.

(i) The proposals in the report for local government reform were very sensitive politically, and Ministers would need to discuss them further before any action was initiated.

(j) It was accepted that it would be helpful on Merseyside, and possibly elsewhere also, to put more emphasis on incentives for employment in the service industries. The Secretary of State for Industry said that he would look into this.

(k) The Government's efforts to stimulate small businesses both in Merseyside and elsewhere needed to be better coordinated. It was not clear whether the recently agreed arrangements for coordination by Mr MacGregor in the Department of Industry were adequate, and this should be examined.

(l) Following the visit to Merseyside of representatives of the financial ~~There was some disquiet about the remit given to the 30 young~~ institutions, 30 young managers had been ~~managers to be~~ seconded by ~~financial institutions. The main~~ the institutions to examine what the contribution of the institutions might be able to make. The main

objective was to get them immersed in urban problems so as to change their attitudes and those of their parent institutions. It was not however clear what would happen when their fact finding both in the UK and abroad was completed. It was not for the Government to try and pressurise financial institutions into investing in projects which they did not regard as commercially viable.

(m) The Policy Unit had drawn attention to work done by the Manchester Business School on inner city problems and had suggested that a report should be prepared. It was however important to avoid duplication of existing reports and this proposal needed to be clarified further.

3. Summing up the discussion the Prime Minister said that, before Ministers could be asked to take decisions, a paper should be prepared by officials, under the Secretary of Cabinet, setting out how the matters raised in discussion could best be carried forward. In particular the paper should make definite proposals about the organisation of a new central Government presence on Merseyside.

3. The Prime Minister, summing up the discussion, said that this was not a meeting at which decisions were to be taken. The discussion had suggested certain tentative conclusions, which could form the basis for further work. There was general agreement that the Secretary of State for the Environment should continue, probably for a year, to be the Cabinet Minister with special responsibility for Merseyside. ~~It was not agreed that~~ There was not a consensus on the suggestion that other Ministers should be designated as having special responsibilities for other conurbations. It would be neither possible nor right for the Secretary of State for the Environment to become involved in the police situation on Merseyside: that fell within the Home Secretary's responsibilities. The Home Secretary would consider whether to designate a Home Office Minister to keep closely in touch with the police and community relations aspects of the problems of Merseyside. Further thought would need to be given to the way in which the Central Government presence on Merseyside should be strengthened and co-ordinated. It might be appropriate to find means of providing more Central Government assistance for the development of service industries and of small businesses on Merseyside. One of the urgent problems was to deal with the dereliction on Merseyside: it was for consideration whether means could be found of putting to work some of those who would otherwise ~~have been~~ be unemployed ~~on the clearance of derelict sites.~~ Further consideration would need to be given to whether there was sufficient training ~~available~~ in skills; there might be a case for developing more

on the clearance of derelict sites

available on Merseyside:

in skills
training, possibly at the expense of the higher education facilities at present available in Liverpool. It would be necessary to consider whether there should be some redeployment of central and local government capital programmes in the Merseyside area. More generally, and with reference not just to Merseyside, the Government should consider how to introduce a greater measure of freedom in the labour market so as to encourage the absorption into the labour market of a higher number of those who were at present unemployed.

The Meeting -

Invited the Secretary of the Cabinet to arrange for the preparation of a memorandum making specific proposals for ~~changes in the central and regional organisations of central Government~~ establishing a Central Government presence in Merseyside and for carrying forward consideration of the various matters identified in discussion and in the Prime Minister's summing up, as a basis for further consideration and decisions by the Ministers concerned.

JU

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Secretary of State for Industry

7 September 1981

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

Prime Minister

You wanted to see this paper by Edwin Brooks.

Dear Tim

INNER CITY PROBLEMS

At the Prime Minister's meeting earlier today, my Secretary of State agreed to circulate the attached article by Dr Edwin Brooks, the former Labour Member of Parliament for Bebington.

Copies of this letter go to John Halliday (Home Office), John Kerr (Treasury), Richard Dykes (Employment), David Edmunds (Environment), Robin Ibbs and Andrew Duguid.

Yours ever

Ian

I K C ELLISON
Private Secretary

Whatever his geographical pretensions, the new Member of Parliament soon finds his mental map of Westminster becoming as distorted as a mediaeval Orbis Terrarum, with the Division Lobby instead of Jerusalem dominating as the first-order central place. Periodically he will advance from the Ultima Thule of the backbenches to combat the monstrous beings on the Other Side, but it is unlikely that such crusades ever help him map the real corridors of power and communication. These remain unobserved on the blessed isles of Whitehall, where mandarins converse with multi-nationals in an ecumenical rather than a Manichean spirit.

The analogy need be pursued no further to make the central point that politics is the theology of a secular society, and that the role of the professional politician serving a mass party is different in kind from that of the professional scholar loyal only to truth. The distinction implies no necessary dishonour, for students of the <u>science</u> of the possible are not invariably best fitted to practice the <u>art</u> of the possible; but an incessantly gladiatorial confrontation may ultimately undermine the rationality upon which democratic consensus rests. An excessive sense of righteousness, in other words, is ultimately as damaging to the political arcan as it is to the academic cloisters.

It would be comforting to hope that the academic in politics would thus be doubly insulated against the simplicities of a two dimensional moral world, but there is unfortunately no such guarantee. Nevertheless, if the geographer-politician does not invariably behave as befits a dispassionate academic geographer, this is not to say that his professional training does not influence his political perceptions or that there are not spatial dimensions to public policy. This chapter will therefore concentrate upon two sensitive issues which have not received the critical treatment they merit from professional geographers: first, the policies of regional subsidisation conducted by successive British governments after 1945 to combat high unemployment in the Development Areas; and secondly, the geostrategic pattern which followed the Second World War and which has decisively changed Great Britain's status as a world power.

Geographers would not dispute that these are legitimate areas of concern for their profession, and indeed they have published many valuable studies of regional policy in Great Britain and elsewhere. (1) However, it seems fair comment that most geographers have neglected the role of geopolitics and military geography in the post-war world. The imperial Diaspora of the British, the results of which lie thick in vintage copies of the Geographical Journal, has retreated to more introverted and domestic concerns. The United Kingdom has lost an Empire and her geographers seem to have lost interest in imperialism, whether of the past of the present. Indeed, we often seem to abandon any historical perspective, rarely feeding into our models the likelihood that the recent outbreak of succession states upon the Earth's surface will prove to be as ephemeral as that other rash of succession states which appeared in the East European shatter-belt in the wake of an earlier episode of imperial collapse.

British Geographers ~~have~~ may show less complacency at home towards the political mores and basic strategy of regional policy, but only cautiously, and with excessive politeness, is any fundamental critique advanced, and exceptions to the rule stem from the Marxist rather than the liberal democrat. Yet the latter has a no less urgent need to be iconoclastic, and to ask the embarrassing political questions.

Unemployment and the scale of delimitation of priority areas

During the last fifteen years the role of government in the United Kingdom, at national and also local level, has become increasingly decisive in physical and economic planning. At the national level there was elaboration of regional development policies which first became powerful in 1945, and which had as their primary aim the elimination of serious unemployment in any region of the country. In the 1960s State intervention in industrial location policy gained much greater impetus and massive injections of public finance to private industry came to be regarded (particularly by the Labour Party) as a perfectly proper way for central government to shoulder its responsibilities to the national economy.

At the local level the role of government became no less crucial in physical planning, particularly within the urban areas of each authority. Although comprehensive planning was discouraged, or alleged to be hindered, by the anachronistic boundaries inherited from the 19th century, there was nevertheless a major programme of land-use planning, such as slum clearance and highways development, which steadily

transformed the landscape of both town and countryside.

In short, the national emphasis on an areal approach to factor deficiencies in the economic field was paralleled at the local level by an areal approach to factor deficiencies in the social field. But the functional link between these two aspects of government was weakly recognised and co-ordination was seldom attempted. Instead, policies have been like ships passing in the night, with little departmental pressure to form convoys.

A particular casualty of this fragmented policy-making was unemployment, which in many crucial respects (especially during the 1960s) arose more from social than from economic causes. It is true that there are semantic problems involved in this distinction, but it can also be claimed that Whitehall's structure of government responsibilities - the separate bureaucratic hierarchies of decision-makers - rests upon a deep-seated and almost automatic assumption that social and economic policies can be visualised and planned separately. Furthermore, the traditional delegation of powers to local authorities itself ensures a marked difference of emphasis and focus - as well as personalities - at the national and local scales of planning respectively.

However, such executive duality is daily confronted with the unitary responsibility of the Treasury for overall fiscal and monetary management as expressed through the major spending Departments of State. These, such as the Department of Education and Science or the Department of the Environment, in turn shape priorities and the allocation of resources at local government level. Against this background of ultimate financial stranglehold from the centre, a more explicit liaison between decision-makers at the two levels of government in the formulation of a common and social strategy would seem sensible, if only to test the extent to which classic economic problems such as unemployment might respond to unconventional social remedial treatment.

Yet in our crude regional approach to the eradication of unemployment, we have, for years, been chasing a mirage. Industrial policies for the regions should devalue unemployment statistics, and even forget them altogether in many instances. Alternatively, governments should stop trying to introduce jobs fit for workers into the regions, and instead ensure that the workers are made fit for the jobs cajoled into their locality. Regional unemployment is often less

a matter of economics - of structural adjustment, say - than of sociology and psychology; it is a problem of human resources, especially educational and cultural, measured in behaviour and social attitudes.

The emphasis should thus be switched to the individual or the small social group rather than to large regions; that is, we need a 'pointillist' technique for dealing with poverty and unemployment rather than the broadbrush regional strokes of post-war British policy. The latter, with all its simplistic anachronism, was probably a key factor in producing the crisis of stagflation which gripped the country in the early 1970s and which by mid-decade paradoxically threatened unemployment on a more serious scale than at any time since 1945. These matters need to be put provocatively if only to dislodge the inertia of political orthodoxy (especially on the Left) towards regional policy.

Disenchantment with the conventional regional remedy in no sense implies that unemployment and poverty are unimportant. On the contrary, it is the continuing (often concealed) waste of human talent which should make us sceptical towards the policies of the last thirty years.

Let us consider the conventional wisdom about regional industrial policy. Basically it affirms that locational liberty must be constrained in the interests of regional equality and national fraternity. Inequality in Great Britain is conceived broadly in terms of a poor Palaeozic North and West and a rich post-Palaeozic South-East. The economic geography of the country is thus a modern version of the old cultural dichotomy between Highland and Lowland, with an income gradient falling steadily and sometines steeply towards the Celtic fringe.

This peripheral poverty in the British Isles is seen as part of a wider West European pattern, with a rough symmetry between the British gradient of poverty and that which falls away to the south east, towards the Mezzogiorno. In other words, the perimeter of the European Economic Community (E.E.C.) tends to concentrate the poor, and the embryonic European regional policy has been conceived via a juxtaposition of a rich core and a poor periphery. So a model well known to students of Third World countries underlies (somewhat ironically) our approach to regional inbalance within the developed world of the European Communities. Moreover, the close correlation between the regional concentration of the poor and that of the unemployed seems to confirm this core-periphery pattern, and policies of regional assistance, including central government subsidies, are concentrically emphasised outwards.

Seen in this way, the regional problem of the E.E.C. is not unlike that of modern Brazil. In both cases there is a relatively rich and affluent core, in the E.E.C. along the Birmingham-Milan axis and in Brazil along the Rio-Sao Paulo axis, with a hinterland of relative poverty to which growth industries are unlikely to go without persuasion or coercion. As an extension of the analogy, Merseyside would therefore correspond to an Indian Reserve in the Amazon basin, given protected status for the sake of its impoverished, culturally backward and unemployed or underemployed natives. Regional policy is in both cases a form of income redistribution, involving a horizontal transfer territorially rather than (as with a progressive tax system) a straightforward vertical transfer between social classes. Again, there is a parallel between the Brazilian paternalistic wish to bring assistance which might launch poor Indians upon sustained economic growth and the expressed intention of successive British governments since the war that the Development

Areas should eventually succeed in sustaining themselves independently after the period of infant industry protection.

However, any analogy between Merseyside and the Xingu Indian Park has several flaws. In particular, the Indians are ethnically homogeneous, with all members of the group facing similar cultural handicaps in coming to terms with the rich Brazilian core. Merseyside, by contrast, contains internal zones of affluence which compare favourably with those in the more prosperous regions of the European industrial heartland; and this sub-regional diversity should make us question whether blanket regional subsidies and other protective devices are the right way to help the 'poor Indians' within the wider Merseyside community.

The Whitehall apologist might reply that the planned diffusion of affluence from the growth region to the non-growth region via broad national strategy should trigger off a secondary impulse and encourage local diffusion of wealth and job opportunity to the weaker members of the assisted region as a whole. But we might legitimately be sceptical of any such benign outcome; there is too much friction hindering the transmission of wealth and opportunity within a society of manifestly unequal members. Instead of subsidies filtering down to the deprived, or benefiting them in the long run by social osmosis, the spoils tend to go to the rich sectors within the assisted region, thus reinforcing the earlier plea for a more pointed rather than a broad-brush treatment in remedying economic inequalities.

At the heart of the Government's problem is the explanation of unemployment itself, and of the poverty and degradation which it provokes. Why are people unequal in this index of social success, and what can be done by environmental measures to overcome their possibly related handicaps of inequality, including those of heredity?

When politicians discuss the eradication of unemployment, they often seem to have an image of a pool of mobile labour in which float individuals of identical specific gravity. An investment in a region generates ten thousand jobs, say, and since all men are presumed to be equal this is held to off-set unemployment of similar size. This naive approach was seen during the early 1960s on Merseyside, when local politicians equated the number of jobs about to be introduced by the motor industry with the number of those unemployed. Presumably the only difference they detected between the employed and the unemployed was that the former happened to be in work and the latter out of work, and they assumed that the dole queues would contract in direct ratio to the expansion of jobs. This proved an extremely glib assumption.

But before examining why some people remain unemployed, we should critically examine the familiar statistics of 'unemployment'. Are the published figures of people out of work a meaningful scientific indicator of regional economic imbalance, distress or poverty? Indeed, what precisely does measured unemployment show? Here admittedly there has been a dawning realization by some decision-makers that published unemployment statistics are a very imperfect indicator of economic malaise; for the figures omit concealed unemployment and fail to reveal the short-time working or lack of opportunities for overtime which play havoc with family incomes.(2) They are equally useless in revealing the extent to which workers are in jobs which offer them, even in the best of times, a miserable wage little better than the State benefits they might draw as recruits to the army of the unemployed. In any case, poverty and frustration are not simply the product of lack of work as such but rather of the absence of jobs which are enriching in the fullest sense.

But my academic quibbles about the meaning of unemployment pale into insignificance compared with the passions aroused by that term which politicians refuse to utter in polite company - the 'unemployable'. It is understandable that social workers should be reluctant to use the term and flay those who lack similar scruples; for once we label a person in this derogatory fashion, his self-image may become so downcast and defeatist that the label is retrospectively validated. Nevertheless, we must recognize that there are people within our society who are incapable of holding down jobs (at least of the sort which modern technology creates) for more than a short time at best. We have no difficulty in adjusting to this disconcerting fact when we consider those overtly handicapped, physically or mentally. The autistic adolescent or the youngster suffering from spina bifida clearly fall into the category of unemployable, or employable only in a sheltered environment. In such cases it is seen as 'progressive' for local authorities to provide sheltered workshops, special transport facilities, or one-to-one ratios between the handicapped children and their teachers. In short, we admit the reality of a class of people for whom paternalistic policies are a pre-requisite of survival itself. The analogy drawn earlier between our own society of inequality and that of the Brazilian Amazon remains valid. 'Backward' Indians also require protection if they are not to be swept aside by those with greater competitive skills.

But in our society we do not create such 'reserves' for other than the overtly handicapped or the anti-social. We then call them hospitals for the sub-normal, H.M. Prisons, Borstals or Approved Schools. Such places of refuge or incarceration are part of the fabric of our society but we rarely see them as a particular territorial version of the old socialist precept, 'to each according to his needs'. Yet when people in all their rich variety respond to free locational choice, a general sifting mechanism manifests itself territorially in terms of individual

propensity. We are familiar with this process in migration studies, where we expect to find that the typical migrant is younger, more ambitious, more able and more risk-taking than the non-migrant. Equally we know about worsening dependency ratios and the growing proportion of the elderly, the infirm and the ill-educated within the areas from which the more mobile have fled.

This process of territorial sifting is also taking place within sub-regions, conurbations and, particularly, the inner city, which is generally being abandoned by the mobile and foot-loose owner-occupier.

In other words, social vertical sifting is translated into geographical horizontal sifting. This phenomenon is common to those societies such as the British which have no legal restrictions upon social and/or territorial mobility of the sort found in the rigidly stratified societies of antiquity or those of contemporary communist states such as the Soviet Union or China. In democratic open societies where equality of opportunity has become a political canon, any real community of the unequal is made impossible by a process which encourages those with superior skills to escape the unwelcome proximity of their less well-endowed neighbours. Areas evacuated by the socially mobile eventually become the preserve (rather than the statutory Indian reserve) of the socially immobile, a territorial sump for the rejects of meritocracy.

In the United States this process has gone even further than in the United Kingdom, with the inner city relegated to the bottom of the intra-urban hierarchy as the refugee (or tacit concentration) camp for the drop outs, drug addicts and various others - not least the unskilled Blacks - perceived to be 'inferior' by the pace-setters of society. Thus the core-periphery contrast which, at the macro-regional level, is common to both Western Europe and Brazil, has become inverted at micro-

regional level within the cities of the developed western world; the residential core is surrendered to the poor while the suburbs become the home of the rich. Of course, this is a highly simplified and schematic depiction of a complex urban reality, [illegible] but it is not misleading to identify such a broad pattern of intra-urban sifting within a conurbation such as Merseyside.

Closer inspection shows that the inner city 'sump' is but one example of a set of deprived sub-regions of which others may be found severed and possibly quite remote from the inner city proper. The council estates bordering Liverpool are akin to Indian Reserves in that a paternalistic authority has created a legally distinct environment of rented and subsidized housing for those too poor or insecure to move into the world of owner-occupation. Within such areas of the initially deprived further sifting occurs once the educated children of formerly disadvantaged parents climb the social ladder. In time this continued winnowing of social chaff within decaying neighbourhoods produce the urban equivalent of the astronomer's black hole - a region of total collapse. For example, in the North End of Birkenhead a group of high rise council flats built in the late 1950s to replace the former slums had themselves degenerated by 1975 to the point of no return and were having to be evacuated completely.

In this urban situation a version of Gresham's Law operates. Bad families drive out good, making it more and more difficult to attract the type of tenant who could improve the squalid neighbourhood image. Such cycles of degeneration have already run their course (to eventual demolition) in several American cities, e.g., St. Louis, and they seem likely to remain endemic to liberal meritocratic societies.

Growing awareness of this problem led in the 1960s to the creation of Educational Priority Areas in the inner parts of various cities in Great Britain.(3) Again, this is not unlike the special help given by the Indian Foundation in Brazil for education within tribal reserves. The difference, however, is that in Great Britain such areas of social priority have emerged as a consequence of territorial withdrawal by the more affluent, whereas in Brazil the reserves occupy areas which are penetrated by rich interests anxious to develop natural resources.(4)

But before pursuing this train of thought, let us return briefly to the measures used to tackle unemployment in Great Britain. The growing scale of state intervention and subsidy was defended by the argument that the under-used labour resources of the assisted areas would, when fully mobilized, encourage higher national production. Full employment policy was integral to the re-structuring of regional economies which would eventually lead to a maximizing of economic growth.

Unfortunately this optimism has not been vindicated. Post-war unemployment has remained far below the level of this inter-war period but there has demonstrably been no British equivalent of the 'German miracle'. Instead, a disappointing rate of economic growth steadfastly accompanied 'full employment' (in the sense understood by Keynes and Beveridge), suggesting that central government had a poor return on the regional subsidies and locational restraints deployed to hold the unemployment rate below the level of 3-4 per cent.

The situation in the early 1970s became dangerously worse, combining a Keynesian rate of full employment with (at best) zero economic growth and unprecedented inflation.(W.A.P. Manser, 1974) (5) The sharp deterioration reflected global conditions to some extent and was found in all industrialized countries, but its exceptional severity in the United Kingdom marked the culmination of a process of economic decline extending

over decades and even generations. It seems likely that the gathering post-war crisis in the United Kingdom was due less to minor fluctuations in a full or overfull employment rate than to the overmanning, the gross inefficiencies, the managerial incompetence, the built-in overtime working and the antiquated adversary confrontations which beset the country. To put it bluntly, and to paraphrase a Labour politician who committed hara-kiri by so accusing the farmers, governments have too long feather-bedded senile industrial invalids and given a particularly cosy and enervating bolster to the Development Areas in particular. Unwillingness to accept so-called high unemployment in the regions has enabled inefficient sectional interests to pull out the begging bowl rather than to set their own houses in order and, by political blackmail, to perpetuate their failings at the expense of the taxpayer and consumer. This action remained politically realistic as long as the latter could nevertheless expect rising real income each year, but vanishing national buoyancy will inexorably shrink disposable income. The resulting 'scissors' crisis of penal (and politically impracticable?) taxation will undoubtedly be a challenge to the art of the democratically possible.

In this deteriorating situation a redoubled call for increased regional subsidies will doubtless be heard. But before treading that beguiling path, we should consider whether intensification of past policies may make the underlying condition worse rather than better. At the very least, we should ensure that there are parallel changes in labour's ability to respond to the new job opportunities which such subsidies and intervention stimulate.

The frictional problem involved was seen on Merseyside with the arrival of the motor industry. Far from the new jobs mopping up the unemployed, the labour was mainly poached from old industries incapable of offering such high wages. One example was the Liverpool Corporation

his service, which was permanently weakened by the haemorrhage suffered.(6) Such denuded enterprises were henceforth unable to carry on efficiently, incapable as they were of offering the high wages which the motor industry could pay good 'employable' labour. The arrival of the motor industry in effect shuffled the available hands, leaving the registered unemployed - particularly the unskilled - facing an even worse situation than hitherto in that potential employers were increasingly hard hit by the income expectations generated locally. In short, the multiplier effect was upon wage inflation rather than the unemployed.

If this is the effect of subsidizing growth cuckoos in the regional nest, one is tempted to suggest that money might be better spent subsidizing the unemployed to stay on unemployment benefit. Less cynically perhaps, could we extend the concept of sheltered workshops to the long-term unemployed and/or the unemployable? Protective segregation has become a method of helping the overtly handicapped (e.g., the Remploy system or the Grenfell formula) and it might offer constructive help to the more insiduously handicapped who would otherwise stay on the scrap heap permanently.

But the problem is more deep seated than simply coping with the so-called unemployables. Even more fundamental is providing jobs fit for human beings. In other words, the need is not simply for jobs as such, like the dead-end employment which so many children enter after school, (N.Y.E.C., 1974), but for jobs which permit spiritually satisfying as well as materially affluent lives. (7)

It is appropriate in this connection to recall the Educational Priority Area concept, which seemed to offer a promising approach to the wider social and environmental problems of which unemployment statistics may be only a crude sympton. In short, politicians should aim for the protection and

habilitation of vulnerable human beings, particularly in those areas where the socio-economic problems of tomorrow are daily being matured in the homes of today. Deliquent parents create delinquent children, while a delinquent peer group can equally deform the children of a neighbourhood throttled by the pressures of anti-social conformity. Sub-cultures of the socially alienated form and grow like malign tumours. What constructive thought arises is quickly stifled by the squalor, the frustration and even the depravity of a social situation in which child, family and community are debased.

Politicians tend to minimize this problem of the urban ghetto, perhaps because of its highly sensitive implications, genetic and racial as well as social and economic. As an example of current coyness, we may recall the decision of the Labour Government of 1966-1970 to defer the higher school leaving age, a socialist 'betrayal' which led Lord Longford to resign from the Cabinet in disgust. Yet when the age was eventually raised it provoked such a breakdown of discipline in many schools that compulsory attendance has since been honoured more in the breach than in the observance. Hordes of children now roam the streets of Liverpool when they should be at school, and truancy has reached epidemic proportions in some neighbourhoods. As a result of this breakdown of the legislative intention (notably in the very areas where its benefits were mainly intended) we have a situation worse than before. At least in the bad old days children who left school at fifteen could go into a new job legally, whereas today an employer is unable to hire them until they reach the statutory age of sixteen. As a result many semi-literate and anti-school youngsters wander the streets, virtually encouraged to drift into a criminal sub-culture because they see how easy it is to break the law. Yet few politicians have yet faced up to the disciplinary implications of collapsing law and order in the gang patches of their constituencies.

Earlier reference has been made to the tax payer's subsidy to industries moving into the Development Areas to rectify marginal and often unimportant inequalities in unemployment rates. Meanwhile, as this money continues lavishly to be poured into company coffers, social rehabilitation in the cities is starved for funds from both national and local sources. Expenditure on the scale current in regional industrial subsidies would, if spent on social development within our cities, transform the economic situation in a decade. Instead of a few hundred pounds being doled out for an urban aid scheme, we should be thinking of expenditure running into tens of millions of pounds to revitalise the battered neighbourhoods and derelict sub-regions of the conurbations.

The reality is parsimony and a grudging attitude to the quality of urban life. Expenditure on new housing in down-town areas has often been nullified by the persistence in adjacent streets of vast tracts of desolation, dereliction and squalor, hardly calculated to lift the spirits or the expectations of the children growing up in such so-called renewal areas.

This advocacy of social priority spending is not just a sentimental plea. On the contrary, much of the answer to unemployment itself should be sought in the inner city and other islands of the deprived. A zonal approach to welfare may have some defects, in that areal remedies risk missing the strictly deserving. But if the areal approach to rehabilitation is open to objection within the relatively small urban sub-region, it is far more objectionable when applied in a blanket fashion to regions on the scale of current Development Areas.

In advocating a 'pointillist' approach to government subsidies the aim is to find a more effective, individually refined approach to social and economic planning. Local government, despite its mid-seventies reform, still fails to meet this challenge adequately,

or the new Metropolitan Districts are too big for the voice of the deprived (and often inarticulate) communities to be heard effectively. Nevertheless, it would help if the planners and politicians could be persuaded to see the linkages between varying endowment, opportunity, educational status and income within their recognised 'problem areas'. Geographers have an instinct for such synthesis, and the techniques devised for showing the multi-dimensional spatial geometry of the city might yet have political value in discouraging the single factor approach. But as the Marxist might ruefully say, a grasp of the dialectic does not automatically produce a steeled revolutionary, and it is equally likely that principal components analysis will not by itself promote the egalitarian society. That, however, raises a quite different sort of principle.

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4 September 1981
Policy Unit

PRIME MINISTER

TOXTETH: RESPONSE TO THE PAPER "IT TOOK A RIOT"

You are discussing Michael Heseltine's paper with colleagues on Monday.

Your immediate concern will be to decide the upper limit on any money to be made available for Toxteth and similar problems; and Ministerial responsibility for tackling those problems.

The question of how to tackle those problems, so that we don't end up wasting taxpayers' money as has happened in the past, is less immediately urgent but just as important. Michael Heseltine asks - rightly in our view - for a fair degree of discretion. The attached paper contains some thoughts which may be helpful to Michael and his officials, but which we thought might also be of interest to other colleagues who will be discussing Michael's paper.

I am copying this minute and our paper to the Home Secretary, the Chancellor, the Secretaries of State for Industry and the Environment, to Robin Ibbs and Sir Robert Armstrong.

JOHN HOSKYNS

STRICTLY CONFIDENTIAL

3 September 1981
Policy Unit

TOXTETH: RESPONSE TO THE MINUTE "IT TOOK A RIOT"

This minute is intended to supplement Michael Heseltine's paper of 13 August.

1. INTRODUCTION

1.1 I was asked to accompany Michael Heseltine on his visit to Liverpool, but was unable to do so. However, we had already sent Norman Strauss to spend a day with the Manchester Business School's working group on the inner city problem in late July at the suggestion of Professor Douglas Hague.

1.2 We distinguish two different (though overlapping) requirements: first, the Government must be seen to respond, in political terms, to a problem like Toxteth; second, there is a more complex, longer-term exercise in actual "problem-solving". This paper is concerned with the latter.

2. THE NATURE OF THE PROBLEM

2.1 It is a "systems" problem

2.1.1 The question is how Government gives the kiss of life to a dying sub-economy. It is not a simple task of the "gap-closing" kind, in which a road is built to meet a transportation need, or a sewer system is replaced because it's wearing out. We are not even talking about an administered system. It is more like stabilising an unstable ecological system, an immensely complex self-organising system which can never be totally understood and whose behaviour does not respond predictably to Government orders or subventions.

2.1.2 Indeed, one of the characteristics of a Toxteth is that if it is treated for long enough as an administered system, it loses the capacity for organic recovery. It is as if an Italian earthquake disaster area was still being administered by Government agencies supported by the Red Cross 20 years later. Life never returns to normal.

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2.2 Lessons of past experience

2.2.1 The tendency of central Government, when faced with a problem it cannot understand and has no organisational experience or skills for solving, is to redefine the problem, to reduce it to an abstraction which can be set down on a piece of paper and tackled with the only real resource at Government's command - public money. The tendency of local government is to spend that money building things.

2.2.2 All we can say with any confidence is that Governments' record in the past in addressing such problems has been unsatisfactory. This may be because Governments have failed to develop an approach that works, or that such regional decline is sometimes irreversible unless a genuine economic change (eg North Sea oil industry in the North-East of Scotland) brings recovery. We probably do know some of the things we should not do (see Annex A, a paper by a research fellow at Manchester Business School).

2.2.3 We are therefore considering a research and development project leading to the building of a prototype. The only knowledge we have is that previous expensive prototypes have crashed.

2.2.4 There seem to be three different approaches to the problem:

(1) Conventional Government injections of cash, which all experience suggests make the problem worse.

(2) A policy of "benign neglect" which is very difficult to sell politically but is probably less wasteful and damaging than (1) above, because it does not destroy an area's "immune responses" and thus its ability to recover of its own accord.

(3) Some new, as yet undeveloped and untested approach in which lda's (less developed areas) can, with the right input of skills, organisation and money from the Government, lift themselves up by their own bootstraps.

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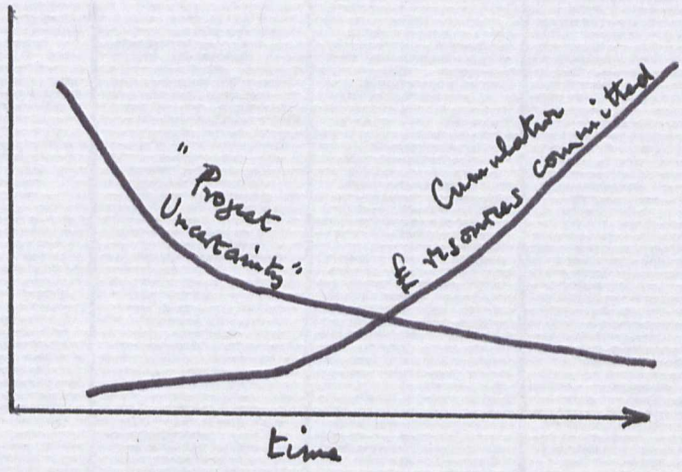
3. A POSSIBLE APPROACH

3.1 Think first, spend later

It is obvious, in any complex and innovative project, that thinking is cheaper than doing. Time spent thinking it through, at the outset, is seldom wasted:



3.2 Understand the problem

3.2.1 The first step would be to "map" the cause-effect decline process as thoroughly as possible. Annex B was prepared by a team on the Manchester Business School graduate course on Government-business relations in 1979. The decline process can be powerful enough to consume endless subventions from Government without a hiccup, with no discernible effects. Such a map cannot be precisely "correct", nor does it automatically crank out the solutions to the problem. What it does do (and the Department of Environment may have done similar work of much higher quality) is to suggest an all-at-once picture of a typical "can of worms" problem which seems to have no beginning and no end, where every effect turns out to be a cause, every cause itself an effect. All the important problems confronting Governments tend to be of this type.

3.2.2 Such a map can yield important insights into what is actually happening, why the problem gets worse (ie is self-reinforcing) and why past Government initiatives have been so ineffective. Of course the components of such a map may differ from one distressed region to another; but such a map can always be drawn.

3.2.3 It may be that a few key links in the causal chain of decline can be identified and broken by specific policy measures, cash injections, pieces of legislation or organisation change. Any successful strategy has to trigger the transformation of the system from the unstable to the stable state. Some of the preconditions for that might be:

(1) Local political stability (Michael's paper mentions the problem of triennial elections as a destabilising factor).

(2) Sufficient talent available to plan and manage the transformation process (is it still available on the spot or near at hand? Or does it have to be imported and, if so, for how long? Could the import of talent work?)

(3) The freest possible market in labour, wage rates, housing, new building, land.

(4) An adequate level of infrastructure (whatever that may turn out to mean on closer inspection) to permit private enterprise and private initiatives to start (eg cleaning the Mersey if that is a key to new investment which is not stopped by other obstacles; and if the cost is justified).

These preconditions are obvious enough. But the causal analysis may show that there are other key enabling measures, which are not obvious in normal commonsense terms, but without which the decline process simply cannot reverse. Similarly, some of the commonsense measures which people instinctively "know" must make sense, have perverse effects. (This was probably first recognised in the controversial - and by no means generally accepted - work of Professor Jay Forrester of MIT with his Urban Dynamics Model, in the Sixties, which suggested that state funds injected into decaying urban areas ended up, though a complex "ecological chain", destroying the housing they were meant to restore.)

3.3 Create the freest possible market in "solutions"

3.3.1 There is, as far as we can see, no institutionalised learning process within Government. Governments tend, through habit and accumulated experience, to tackle difficult problems in ways which

have previously failed. Michael's paper is clearly trying to head off that danger. But the tendency ("What did we do last time?") will remain very powerful. We should continue, therefore, to encourage as much thinking as possible from potential problem-solvers on the ground: local businesses, business schools, universities, community leaders and social workers etc. Many different approaches will have to be evolved and tried by people motivated by pride of authorship and direct interest in the results. This is very much in line with the suggestions made at the bottom of page 16 and the top of page 17 of Michael's paper.

3.3.2 On page 17, under "urban programme", he suggests that grants might be paid to bodies other than local authorities. To what extent would it be possible to encourage "competitive bidding" for such grants? When Norman Strauss met the local social workers and Manchester Business School staff working on urban problems, he found two predictable things. First, many of the special interest groups represented were more concerned with political power than with finding solutions. They assumed that Government, not they, were the supplicants. In effect they tried to say "You, the Government, want to give us money. But we will lay down the conditions on which we're prepared to accept it". Norman stopped this drift by pointing out that they had got the whole situation the wrong way round. Second, these groups were clearly on the verge of political strife between themselves. This led us to two thoughts:

(1) The Government might invite these and other groups (however defined) to make proposals for solving their own problems, much as an entrepreneur might make a proposal to a source of venture capital.

(2) To the extent that competing interest groups can resolve their own differences first, and form consortia to make proposals, then their prospects of getting funds may be improved and the size of funds might be larger.

The aim is to motivate those with first-hand experience of the problem, enriched by other technical skills not available on the spot, to work up proposals for solving the problem rather than simply proposals for spending taxpayers' money. It also guards against political activism, as suggested at the top of page 6 in the Heseltine paper.

3.3.3 If this competitive bidding approach is practicable, it reduces the risk of Government finding itself in a familiar no-win situation; ie having given away large amounts of money for very superficially worked-out schemes, it is then blamed for under-funding, when those schemes fail. If competitive bidding is possible, the Government would end up like a banker with a portfolio of different projects. The richer the mixture, the greater the involvement of local knowledge and specialist talent, the better the chances that some of the projects in the portfolio succeed. However, some projects will fail, but that will not be seen as Government failure.

3.3.4 However, this "bottom up" approach does have implications for organisation and project management. The next section offers some thoughts on these.

3.4 Project management and organisation

3.4.1 The merging of the various Departments' regional offices, as suggested in the Heseltine paper, must make sense. However, we believe that the programme requires a central capability; an Urban Renewal Committee under one Cabinet Minister in London. We do not favour different Cabinet Ministers having responsibility for different geographical areas. This would reduce the amount of cross-project learning, inter-project comparison and competition; and perhaps even encourage a not-invented-here barrier reflecting the predilections of different Departments which were in the lead in different areas.

3.4.2 We require the best possible central capability, not in order to centralise, but because we want to de-centralise. Project proposals would come from the bottom up and we want the best possible project appraisal process, and the ability to monitor performance. This would require a small full-time team in London, including outsiders as well as officials (eg consultants or business economists, some operations research or systems analysis skills, someone from the Manchester Business School group relations team to work on the problem of getting vested interest groups to co-operate on the ground). This team would work to the Urban Renewal Committee.

3.4.3 This supporting team would have, in addition to project appraisal and monitoring, the task of collecting and diffusing ideas and

knowledge. It could invite, through the URC, ideas, papers about the problem of urban renewal. Regular and public conferences could be held involving those working on projects and outside experts (including, for example, people with American experience).* These conferences would serve the following purposes:

(1) They would speed up the diffusion of ideas and knowledge, and thus produce a steeper learning curve.

(2) They would expose as publicly as possible (for the conferences would be open to the media) those who were playing political power games rather than trying to solve problems.

(3) They would go some way to dispelling the predictable view that the Government's whole approach to the urban problem was simply a public relations exercise. The acid test is whether the urban renewal programme would come to be seen as being outside party politics. To the extent that this happened, the present Government would of course win politically valuable common ground. But this would only happen if the Government's commitment to tackling the problem was genuine rather than cosmetic.

4. THE FIRST STEP

4.1 So far, the "management consultant approach" suggested in this paper is very closely in line with the Heseltine proposals, with perhaps greater emphasis on initial analysis of the decline process and some additional ideas (which may or may not prove practicable) for getting greater commitment and experimentation on the ground.

4.2 Our main concern is with what we would call "project set up". We are not sure what work is currently in hand, but our own experience (and especially my own "project-orientated" background) suggests that the greatest danger is of insufficient preparatory thinking and planning.

4.3 For example, some 50 managers have been offered by private sector companies - local business and City financial institutions. How will they be organised? Do they include people with project management skills? If not, who is in charge of the project as a whole or the various sub-projects (it is most unlikely that any civil servants will have the right skills)? What will their induction training

* Alan Walters recommends the Baltimore experience.

consist of? It must obviously cover what is generally known about the problem of urban decay and the Liverpool problem in particular; but are we ready to explain to them the thinking behind this particular attempt to solve that problem; the project structure, review points, organisation, proposal-evaluation and monitoring, communications etc. All this may well be in hand and to the right level of professional competence. But it would be very sad if we brought too many people on board before the game-plan had really been thought through and documented, so that there was then a sense of confusion and loss of confidence, with media commentators no doubt waiting hungrily for the first symptoms of an impending fiasco.

4.4 We would therefore urge, unless it has already been done, that the first step is to put together a team of people (officials and outsiders, on the lines suggested in section 3.4.2 above) to prepare a proper project plan. Our experience is that such work almost always reveals major questions - whether of timing, manpower resources, money - which had been completely overlooked. Such a plan would not be perfect, and would inevitably have to be modified as it progressed. But it is very easy to find examples, in complex business projects, where, in one case, the "action" starts very early but the whole project is later aborted, and another, where it started more slowly after painstaking thinking and planning, but finished smoothly and ahead of schedule. The very first step, therefore, is to decide the composition of such a team. We would be very happy to help in that task.

5. CONCLUSION

The most important attribute for Government in an exercise like this is a degree of intellectual humility. We probably don't know just how little we know about how to solve problems like Merseyside - if indeed they are soluble at all. So we have to start from the assumption that Whitehall does not have a monopoly of wisdom, should not be permitted a monopoly of attempts to solve the problem, and that solutions, if they exist, will have to be painstakingly assembled from the different skills and varied experience of a lot of people, many of them outside Government.

Annex A

SOLVING PROBLEMS - OR SHOVING PROPOSALS

The riots in our big old cities, and the response by the law and order lobbies have left all those who want to solve the problems of those cities in disarray.

The Metropolitan councils have demanded £6,000,000,000 to solve the problems of their cities. Yet Toxteth has fifteen youth clubs already, and every neighbourhood in every city has resident community workers, youth leaders, youth clubs, neighbourhood advice centres, community relations councils, councils for voluntary service, adventure playgrounds while a vast amount of concrete has gone into multi-purpose leisure centres, clinics, old people's clubs and the like.

It may be cruel to mock at the efforts of the councillors of our major cities, but £6,000,000,000 isn't going to solve problems of the kind that we have witnessed in our major cities, because the councillors have said what they intend to do with that £6,000,000,000 and their premature declaration of badly-thought out solutions are just a re-hash of the measures that have already failed to make the inner cities come alive.

A fair amount of research and practical testing has been done of various methods of problem-solving in large organisations. It is interesting that the need to introduce into our cities the skills that solve complex organisational problems does not figure in the request of the big cities for their £6,000,000,000. If, somewhere in their demands, the councillors had said "We recognise that our methods of solving the problems of our cities have made things worse rather than better, and we want some money in order to hire from successful organisations the people who have shown themselves capable of identifying the underlying issues in complex situations of severe conflict and then obtaining co-operation from the previously hostile and suspicious parties to working out and implementing appropriate, original, creative and effective solutions", then at least a part of that £6,000,000,000 would be well-spent. But the dreary litany of new housing, help for industry and infrastructure is simply a shopping list drawn up by the Chief Officers who have already shopped the public purse into near penury.

A couple of years ago Senior Officers of the City of Manchester were appearing before the D.O.E. Inspector at the inquiry on the Structure Plan for Greater Manchester. They asked for more resources to 'improve' the Inner cities.

They wanted to 'improve' housing, 'improve' the roads, 'improve' leisure facilities, and this 'improvement programme' would, naturally cost many millions of pounds. And, equally naturally, those Departments of the city with the largest numbers of staff would need the largest amounts of money for 'improvement' of the inner city.

As a witnessed at the Inquiry I was able to question them, and so I asked to what end all these improvements were directed? What was the vision of the future of the City that this money was to be spent in creating? 'Improving' separate elements of a city may well destroy the city a side effect - as the 'improvement' of major highways has done in Birmingham and Glasgow and Liverpool - to name but the most obvious.

Further, I asked, who had been responsible for drawing up the vision of the future, if not the elected councillors? Surely, in a democracy, the principle task of the elected councillors, is to formulate, or cause to be formulated, a coherent vision of the future of their city, so that the policies for each particular department can be seen to contribute to that overall vision. Otherwise, sadly, the policies of individual departments would be seen to be just that - separate, empire-building bids that served mainly the professional and bureaucratic ambitions of the officers and the illusions of grandeur of the chairmen of their council committees.

I never did get an answer. However, sad to say, some of the people of Toxteth, Moss Side and elsewhere, have provided one. There has been no vision of the future, because that's not part of the Council's shopping list and never has been. You can't put a price tag on visions or the future, and its only by putting a price tag on the bottom of a report tht there will be a possibility of either justifying past actions ("We've already invested £125,000,000 in this part of the city") or of attacking the Government ("We need £6,000,000,000 to solve the problems of our cities and the Government is denying us what we and our unhappy citizens are desperately in need of - more and more and more money").

Obviously, some money is needed. But the promiscuous demand for billions of pounds is a descent into infantilism rather than a serious adult response to complex socio-political-economic issues. (And I write as a Labour voter who is well to the left of the party on almost every issue).

So, how should we go about solving these horrendously complex problems that have eventually led to the eruptions in our major cities?

Well, althought admittedly on a smaller scale, many organisations have been faced with horrendous problems. Many have been in deep conflict with their employees, their customers, their suppliers and other people, while at the same time they have had great technical and economic difficulties. It has to be said that rarely have the people who led the organisation into the mess been able to change their ways and lead the organisation into a better future.

However, where the 'old gang' did stay on at the top they brought in totally new people with new ideas to change the organisation for them - AND GAVE THEM UNSTINTED BACKING. The new people were not necessarily a large number. Sometimes only one person was hired, or a group of consultants were used and their advice taken. Rarely, or ever, was there a root and branch clear out of the 'old gang'. But, inevitably, one or two or some of them got out because they couldn't stand the new way of doing things introduced by the new people.

They, the new people started by sketching, in broad outline, their vision of the organisation's future. Having sketched in the broad outline, the new people asked the people of the organisation to fill in the details, modify, amend, clarify that vision. And 'the people' included everyone who had a role to play in achieving a successful future. In this cities this would mean not only youth leaders, and education officers and teachers, but also YOUNG PEOPLE. It means not only planners, engineers, housing officers, and social workers, but also the residents of the most deeply troubled areas. And employers, and trade unionists. And policemen and academics.

Creating that shared vision needs a complex and carefully managed process of discussion and creative thinking. It is not a question of producing a blueprint and fighting for it, of putting up a budget and justifying it.

The process needs skills and resources and a little time. Here is where the qualities of the new leadership are important. If they can strike the right balance between a coherent sketch of the future and an open process through which the people who are part of that future bring it to life, then that is high quality leadership.

Once that shared vision has been worked out the nature of the problems of the present can be much more clearly defined and the path to solving them much less difficult to discover. However, the processes for defining the problems of the present times and finding solutions that will lead towards the desired vision of the future must still be one in which the new leadership creates the very broadest of outlines and provides the means by which 'the people' work out the detailed proposals for implementation.

And, of course, as the problems of the present are more carefully defined, and the proposals for the future worked out through a shared process of problem-solving, that shared vision of the future is constantly under review, and is not a static dogma, but a dynamic set of evolving goals.

Thus, in the most successfully turned-around arganisations the way out of failure and mistrust into success, and trust is not a series of one-off events, but a continuous, widely-spread, integrated, ever more creative and sophisticated process that is shared from the boardroom to the typing pool, from the grandest to the humblest.

How do these ideas, relate to our shattered cities?

Most of the 'old gang' will still be there for the foreseeable future. The leaders, Committee Chairmen and Chief Officers of our big city councils, the Under-Secretaries and Assistant Secretaries of the Departments of Environment, Education Transport and the Home Office, are not going to walk away from the mess that their policies of the recent past have led us into.

However, they can bring in some new men and back them to help them and the people of the cities to find achievable visions of the future, and share in the solving of the problems that stand between them and that desirable future.

Where could these new men - and new women - be found? They could start by asking people like us at the Manchester Business School to identify men and women in this country and abroad, who have successfully turned around large and small organisations from disaster to success, from decline to expansion, from stagnation to dynamism. That 'success' must, of course, mean something more than a quick burst of asset stripping or employee-shedding. It must be success over a wide range of factors: human, organisational, technical, financial, administrative, developmental and so on.

Such people do exist. Their track record is known, though not to the general public or the political leadership at local or national level. Some of them would be honoured to be asked to bring their skills and experience to bear on such horrendously difficult, yet immensely important problems. If our political leadership locally and nationally is to fulfil its responsibilities they will need such men and women. The alternatives are simply more of the remedies that created this fine mess we are now in. And who needs them?

The obstacle to the introduction of men and women of the kind I have described is that there is nothing in it for the existing leadership <u>in the short term</u>. They would have to go through rather painful processes of thinking through and rethinking, their ideas for the future. The reflex instant solution shoved down the throat of the community by the professional, via the political, leadership carries with it quite a lot of benefits for those leaders: more staff, bigger budget, larger, more important committee chairmanships, national and international conferences, visits, reports etc.

However, there are surely some Council leaders who recognise that the solutions to the problems of the past week have to be worked out <u>with</u> - rather than over the heads of - the actual people who live, and are growing up in the mess that is called 'the inner city'. Their most valuable contribution to the present situation would be to look for the new people who could help the residents of the inner cities to take a real share in an open, integrated process for

working out a vision of the future (even in times of economic hardship and low employment) so that they, the young, the old - and the City Council, and the Government agencies - can work towards that future and develop new goals through continuing to use open, integrated processes for reaching effective solutions to their present problems.

Such an approach to the problems of the inner cities may not bring rewards in the next two weeks, but it will provide good and lasting solutions within a very few years. At present no other measures will achieve anything other than a continuation and a deepening of the present crisis.

You pays your money and you takes your choice. But please, at least think about the choices and take the time to discuss them.

July 1981

Roy Madron,
Research Fellow,
Participation Research Unit,
Manchester Business School.

Annex B

APPENDIX 1

MODEL OF INNER CITY PROBLEMS

Historically the inner city has suffered a selective migration of the better off and more mobile towards the suburbs. (Figure 1).

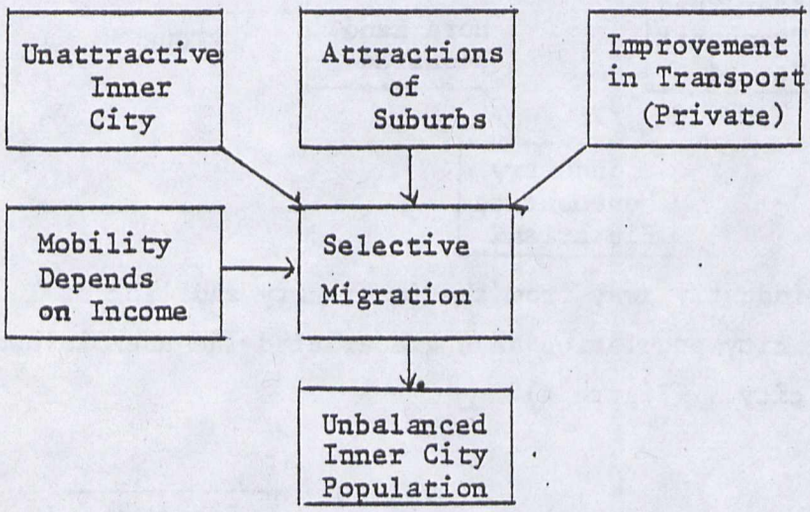


FIGURE 1

At the same time, the growth of commuting to the city centre and the use of city centre services by suburban dwellers has encouraged the development of radial routes to the detriment of inner city dwellers who's journey to work may cut across these established routes. (Figure 2)

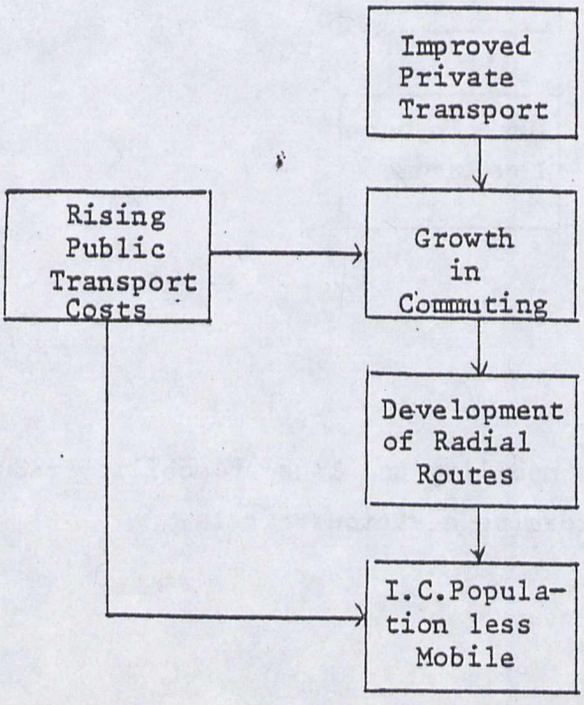


FIGURE 2

The changing pattern of industry brought about by economies of scale demanded more land for industrial expansion and better access to trunk roads. (Figure 3)

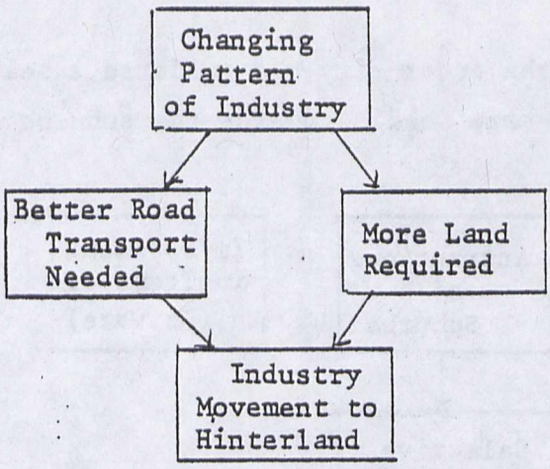


FIGURE 3

The movement of industry away from the inner city and lack of mobility of the inner city population have exacerbated the unemployment problem in the inner city. (Figure 4)

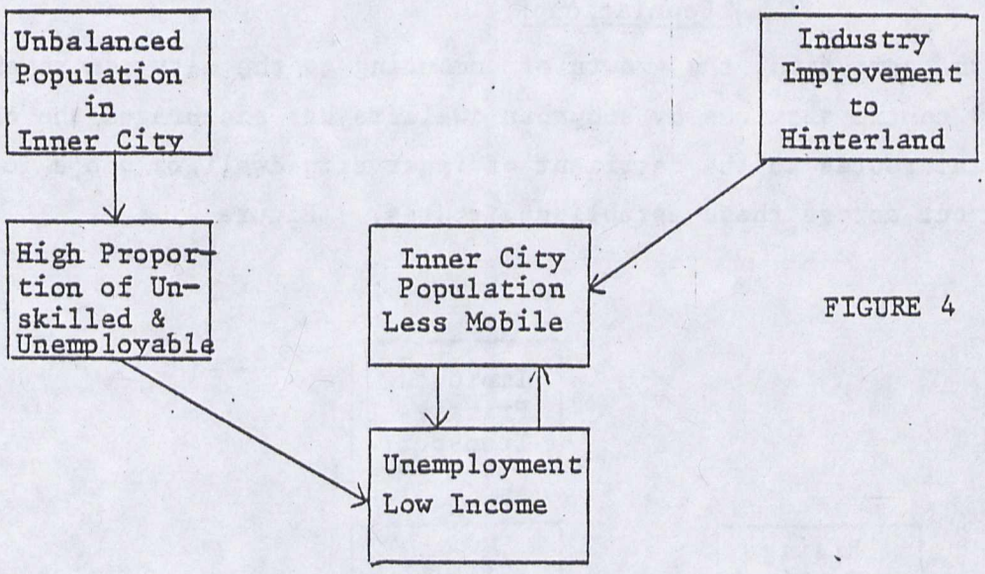


FIGURE 4

Note that low income reduces mobility and lack of mobility reduces employment opportunities - forming a vicious circle.

Unemployment and low income within the inner city areas contribute to the decline of its physical fabric and necessitate expensive and occasionally disruptive intervention by the public authorities. (Figure 5)

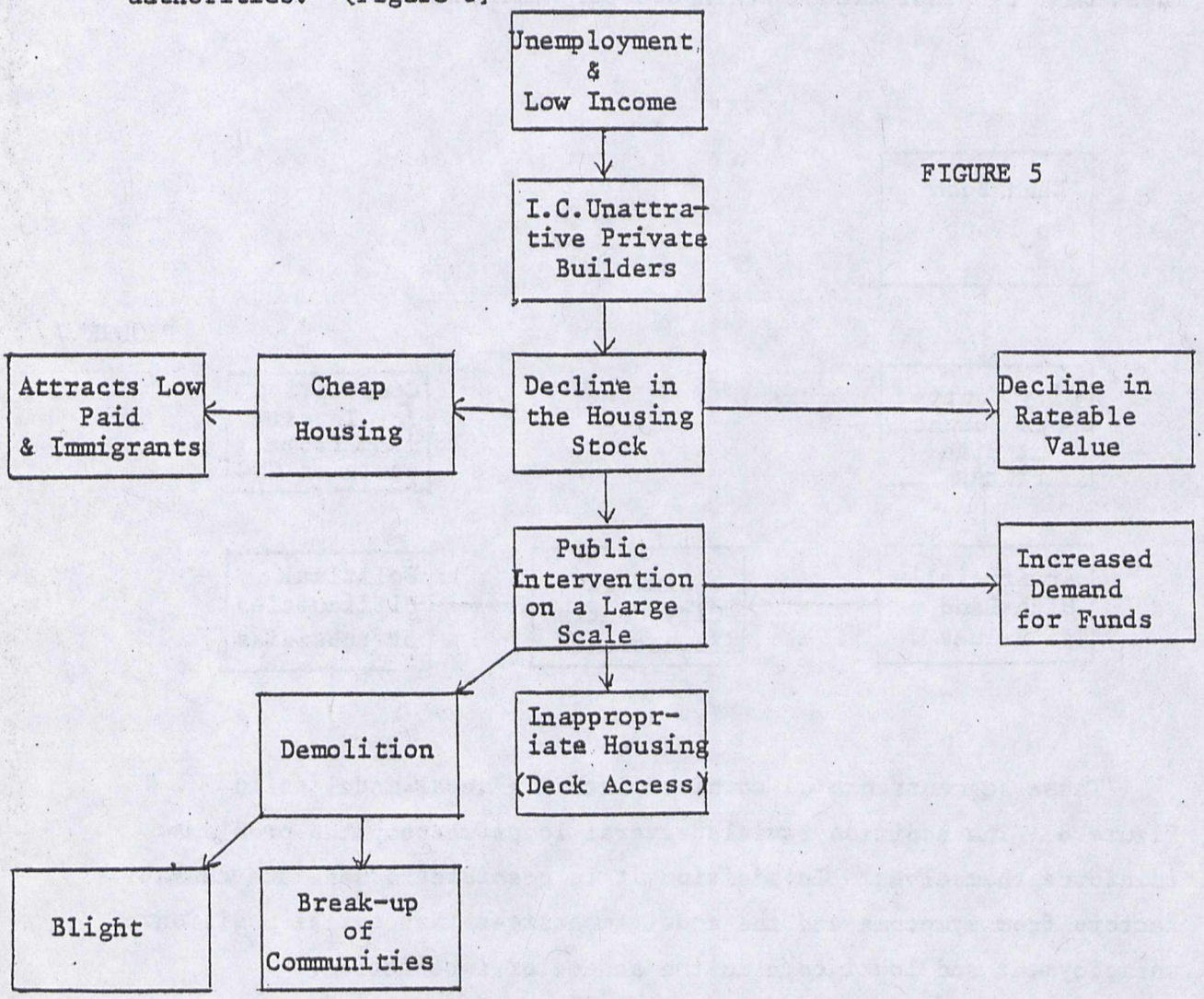


FIGURE 5

The inappropriate or poor housing together with the unemployment and other stresses of life in the inner city lead to underachievement in education, which captures some of the next generation in the poverty trap. (Figure 6)

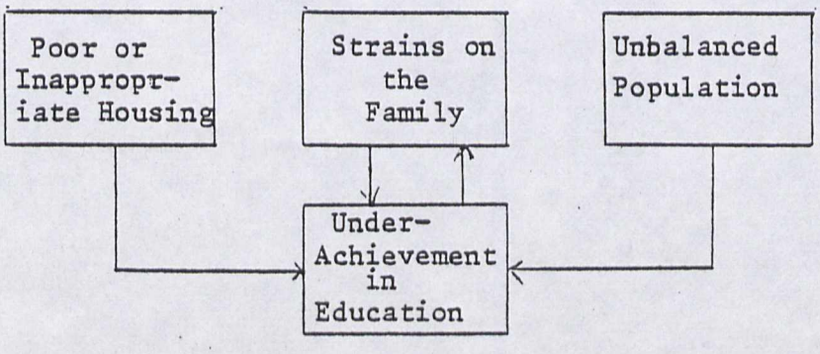


FIGURE 6

In the city centre, commerce is more prevalent than industry but the growth of commerce is limited by land prices and the competition for investment by other areas within Greater Manchester.

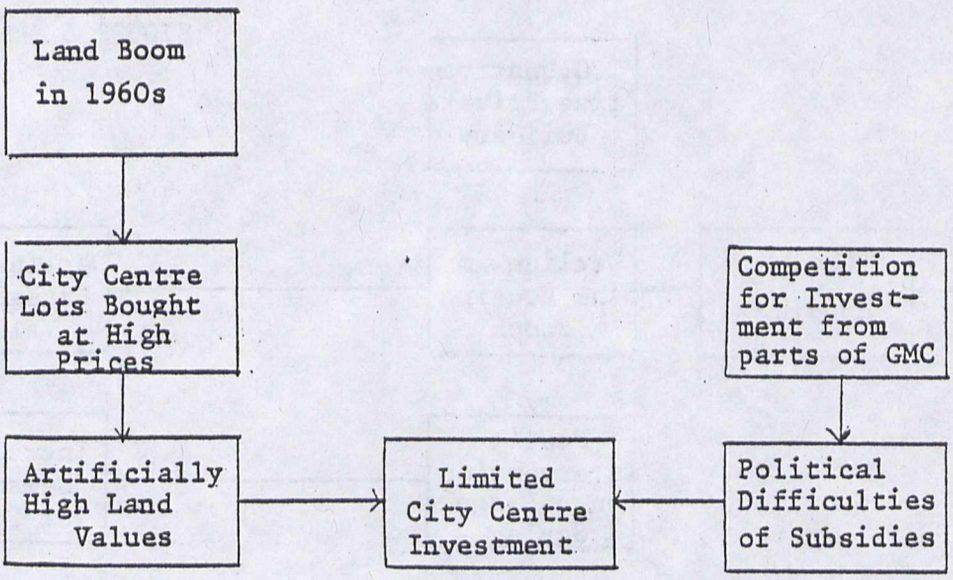
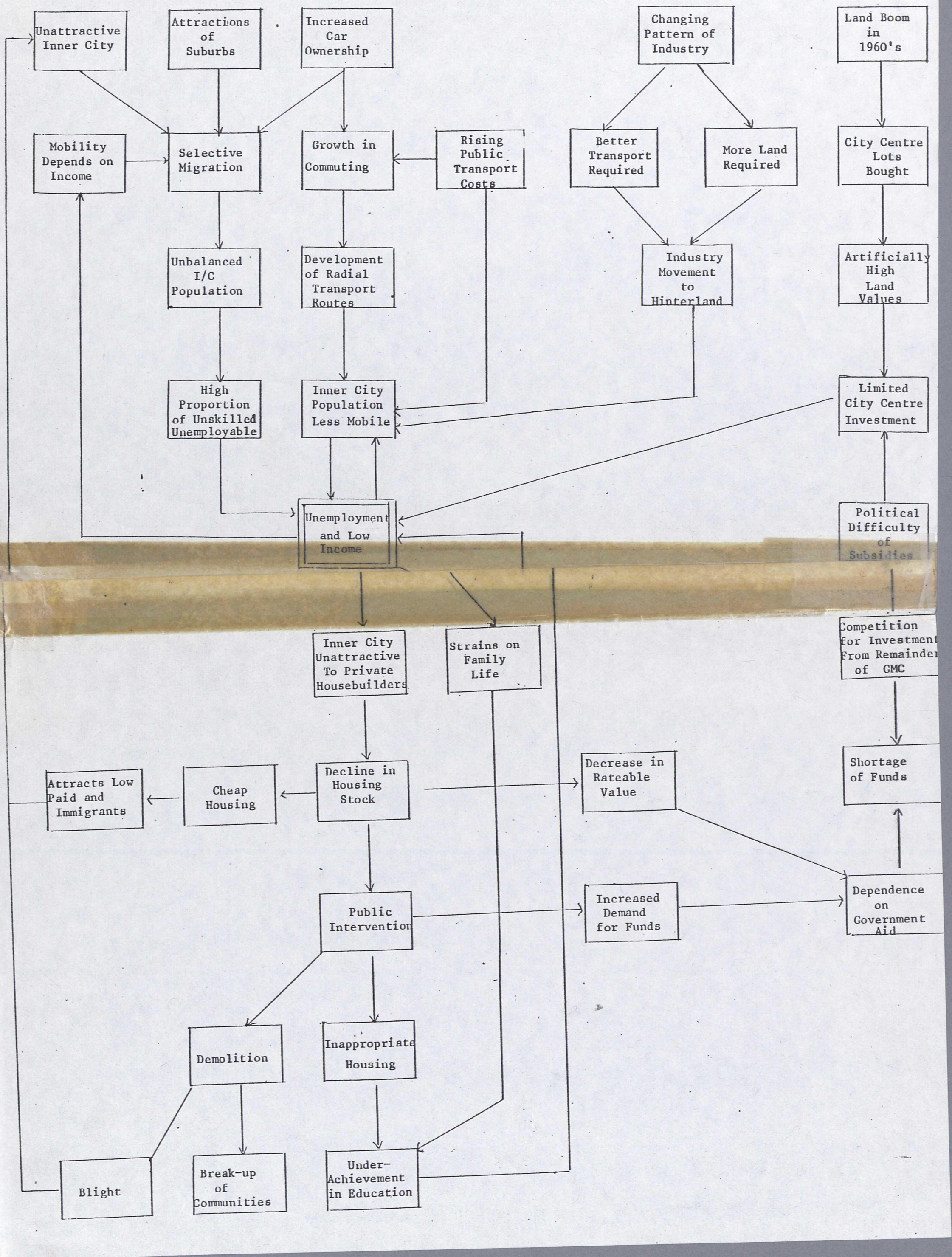


FIGURE 7

These segments can be combined into a general model as in Figure 8. The addition reveals several loops whereby the problems reinforce themselves. In addition it is possible to separate causative factors from symptoms and the model emphasises the central position of unemployment and low income in the scheme of interaction.

FIGURE 8 GENERAL MODEL OF KEY VARIABLES IN THE INNER CITY PROBLEM



Cyp to Mr Hoskyns.

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

PRIME MINISTER

MERSEYSIDE

You asked for my thoughts on Michael Heseltine's report on Merseyside.

2. The report raises many issues, some general or capable of generalisation, others special to Merseyside; but it does not place them in the context of a longer-term strategy either for Merseyside (on which the CPRS report made proposals), or for inner cities in general or for the economy as a whole. No distinction is drawn between those matters which call for an urgent response and those which can be considered over a longer time-scale. And many of the proposals, notably those pointing towards additional expenditure - which must especially concern me on that account - are not yet formulated with sufficient precision to justify definite decisions either for or against them.

3. As I see it, we shall not be able to go far at Monday's meeting. We might have some discussion of strategic issues - some I mention below - but primarily I think we should aim to establish a framework of thinking for the further work and decisions which are needed - some very rapidly - and some administrative machinery to give the necessary impetus.

We need to identify principles

4. We must establish some principles against which recommendations for action can be assessed, and take a view on where we want to go in the longer term.

/5.

5. Current regional policy, on which large sums of public money are spent, is biased towards manufacturing industry on a geographical basis founded on past economic patterns. Michael's report raises issues - as did the CPRS report - about the relevance of the present structure of regional incentives to our current circumstances - whether, for example, greater importance should now be accorded to service industries, and to social as well as economic problems of inner cities. These questions go wider than Merseyside. Political difficulties in changing the system are formidable. But we need to get to grips with the problem. This has implications for urban policy. Should our aim be to stabilise the inner cities - as Michael and the CPRS have suggested for Liverpool - or is this to pump water uphill? Should we go rather for "managed decline"? This is not a term for use, even privately. It is much too negative, when it must imply a sustained effort to absorb Liverpool manpower elsewhere - for example in nearby towns, of which some are developing quite promisingly - as well as some real attention to the community and townscape that is left behind.

6. Again, are we considering how better to apply the resources currently available, or a massive injection of additional public spending? It must be mainly the former. Michael's report could be taken to imply the latter. I do not rule out some limited new provisions, properly assessed as good value for money; but there can be no question of a TUC style shopping list. I hope your meeting will establish that firmly.

7. Michael has spoken to Leon Brittan and me about radical ideas - at which he hints in his report and which he has broached on other occasions - intended to offset additional capital spending by savings on pay or other current spending. As you know, I do not dismiss these ideas, on which some work has been commissioned; but they do raise large practical difficulties.

/8.

The wider context

8. Merseyside is an extreme example of what happens when the labour market - amongst others - is prevented from functioning properly. For example, the appalling record of construction costs on Merseyside means that there has been poor value from capital expenditure there. Unless this can be remedied we risk wasting much effort and money.

9. Wider economic thinking is needed on this aspect, which is by no means confined to Merseyside. With this minute I send you a copy of a paper which has been prepared by Treasury officials in the light of discussion with me, and which lists some ideas of a kind I think we should explore. Most of the paper is written in general terms, but much could be applied to the particular problems of Merseyside.

10. This paper has not been discussed with other Departments. If any of the suggestions in it are to be pursued, it would be necessary to bring in colleagues, particularly Keith Joseph, Jim Prior and Patrick Jenkin. Indeed it would be for them to take the lead.

11. I have reservations myself about some of the ideas, for example:-

(a) I think that there may be more scope for action on Wages Councils than the paper suggests, and that developments since the previous decisions of E Committee should lead us to reconsider those decisions;

(b) I doubt whether the Arbitral Court is likely to be practicable, but it is worth canvassing in public discussion, in order to focus attention on the damage done by excessive real wages;

/ (c)

(c) I have doubts about what is said in the paper regarding Child Benefit, not least because it would add to public expenditure; as you know, I am more inclined towards the opposite approach - by reining back the growth of supplementary benefit children's rates.

12. Nevertheless, I think that the paper contains the ingredients for a useful package of measures to make the labour market more efficient. I would put most weight on the ideas in paragraphs 30(h) and (i), linking job-creating public works and any additional employment subsidies to lower wage rates, as with the Walters scheme for young people.

13. Some of these ideas - perhaps particularly the ones to which I've just referred - could be tried out on Merseyside; and there may be lessons too from George Younger's GEAR project (which has made some visual and economic impact on parts of Central Glasgow). But some of the more promising ideas are applicable only on a national, or at least regional, scale. Even those capable of local experiment may better be tested in an environment less adverse than Merseyside.

Next steps

14. All this suggests that we need to take any decisions on steps for immediate action in the context of a proper appraisal of the linked issues of regional and urban policy. Alongside this we need to bring forward proposals specifically designed to improve the operation of the labour market, with a view to better use of existing resources. Much of this work will be of general application but it will also bring out ideas which can be tried out locally, whether in Merseyside or elsewhere.

15. Such a study would range across Departmental boundaries as in any event do many of the ideas already in the reports. This points to an official group, probably organised and chaired by

/the

the Cabinet Office.

16. Clearly this is essential if we are to embark on any major reorientations of policy on a national scale. That need not prevent immediate steps to follow through what Michael has already begun on Merseyside. Indeed, on some aspects an early positive response is obviously of big importance.

17. The official group could also be asked to work up in precise and specific terms any proposals for immediate action, especially those requiring expenditure, so that Ministers can consider them on the basis of a properly assessed appraisal.

18. Meanwhile, Michael's initiative with the financial institutions is already under way, and should continue - although here too we shall need moreprecision pretty quickly. We could decide now to continue his "godfather" role for Merseyside, and agree too on the suggested rearrangement of regional offices in that area. It may be better to let this experiment run further before deciding on Ministerial "godfathers" elsewhere, or other restructuring.

19. These thoughts were developed before I saw John Hoskyns' note to you of 2 September. I look forward to seeing his paper.

[Approved by the Chancellor and signed in his absence]

G.H.

4 September 1981

MEASURES TO PROMOTE EMPLOYMENT

Introduction

This paper considers a number of proposals, within the broad framework of the MTFS, aimed at increasing employment by making the labour market work more effectively. They are, broadly speaking, all designed to promote employment by putting downward pressure on wages and pricing more people into jobs.

2. Two broad objectives can be distinguished:

i) to help the transition to a lower rate of inflation. The more effective market forces are in setting wages, the faster inflation will fall and the less unemployment there need be during the transition process;

ii) to reduce unemployment and promote economic growth in the longer term by creating a more efficient and more responsive labour market.

3. Lowering real wages would make it possible to accommodate a higher growth in output within the constraints implied by monetary and fiscal policies (the national cash limit). Thus a reduction in the real cost of employing labour should in time lead to an increase in employment and therefore output. Real wages would be able to rise as the economy grew.

4. Although the longer term health of the economy requires a more flexible labour market and better ways of determining pay, the policies necessary to do this may do little to increase employment in the next year or so. It is arguable, however, that policies which could produce a rapid increase in employment without doing lasting damage to counter-inflation objectives simply do not exist.

5. The measures considered here can be grouped into those which are designed to:

I Attack institutional arrangements which underpin the present too-high level of real wages.

II Increase the effective labour supply, ie the numbers on the unemployment register, willing to work at a particular wage level. this will mean that more of the demand for labour is satisfied and will put downward pressure on real wages.

III Increase the demand for labour without putting upward pressure on real wages.

6. The measures vary in type; some have a PSBR cost, others no major PSBR implications. But none of them offers an easy political option. Indeed, some are highly controversial. In particular, because they are directed at getting real wages down, they are very likely to encounter strong union opposition. Also, taken in isolation, individual measures may do only limited good. But packages could be constructed where, from an economic point of view, different elements reinforce each other to produce significant benefits over the longer-term. It would also be possible to assemble them as important elements in a political programme of employment opportunity.

I. THE FUNCTIONING OF THE LABOUR MARKET

7. A number of institutional arrangements tend to underpin the existing wage structure and thus help sustain real wages that are too high. These vary considerably in type from the powers enjoyed by unions in collective bargaining and in controlling apprenticeship requirements, to statutory burdens imposed by Government fiat. The scope for removing, or reducing the impact of, some of these institutional obstacles to a more effective labour market are considered below.

Industrial Relations Legislation (Annex 1)

8. (i) This is already scheduled for discussion in 'E' this month and is not considered in detail here.

(ii) The objective must be to shift the balance of power in industrial relations more in favour of the employer. A strong degree of Ministerial commitment would however be necessary for action in this area. A package to attack the main immunities currently enjoyed by unions could be effective in limiting the powers of unions to enforce high wage settlements through major 'set piece' confrontations. To this extent it might be successful in putting downward pressure on certain benchmark wage agreements, eg. in the public sector, and hence real wages generally.

(iii) One idea worth pursuing in this area is discussed in Annex 1(A). It is suggested that a senior Ministerial Committee be set up to consider the ideas developed in the coal study for withstanding major public sector strikes.

Wage Councils (Annex 2)

9. (i) The wages set by these Councils to some extent represent a perceived minimum wage in the economy and thus exert upward leverage on wages generally.

(ii) E Committee has decided not to abolish or change the coverage of Wages Councils; and Ministers collectively are unlikely to wish to pursue this possibility further.

(iii) But there is every reason to encourage the Councils to take into account the consequences for employment in the trade concerned when setting wage levels. We suggest it is desirable to go further than issuing letters giving advice to this effect: we recommend that Orders be made to include such an instruction within the terms of reference of the Councils. It would not be consistent however to pre-set any restrictions eg. by stipulating a fixed proportional relationship between adult and youth wage rates.

(iv) Outside the Wages Councils there may also be scope for extending the principle of fixing wages on the basis of promoting employment. One such scheme would involve the experimental establishment of an 'Arbitral Court' which could determine wages on the basis of this criterion, when private sector wage disputes were voluntarily brought before it. The Court would have the power only to award either the employer's offer or the employee's claim, (but not to split the difference) according to this criterion.

(v) We have in mind a pilot scheme in the first instance in Merseyside where labour costs per unit of output are thought to be particularly high; (and the court would have to take into account this implied low productivity). Inevitably such an arrangement would be controversial. But where wages were settled amicably or by national agreement they would not be referred to the Court. It is more likely that small firms would be the main clients; and the Court could be useful in keeping down wages in such firms and thus making Merseyside a more competitive region. (Small firms in Merseyside

seem to have relatively weak vertical links with major UK industrial companies).

(vi) The scheme would probably involve minor public expenditure on administration expenses.

Plant Bargaining

10. (i) There is limited scope for plant bargaining where the Government is the direct employer - Central Government services and the National Health Services - because there are no identifiable profit centres to which local wages can be related. However there is a good economic case for setting regionally differentiated wage levels to reflect local labour market conditions. MISC 54 suggested that further work should be done on this idea.

(ii) In the private sector, it is very difficult for the government to achieve much - though an example set by regionally differentiated wages in the public sector might be instrumental in moving private sector firms in the same direction. But in the short term any impact would be minimal. There seems little scope for a useful Government initiative here.

Statutory Burdens

11. (i) One idea which has been put forward is that of suspending certain statutory burdens when agreed between employer and employee. This could only apply to new employees. Were such an arrangement introduced for existing employees it could lead to higher money wages as employees sought wage compensation for the removal of existing benefits.

(ii) The idea of a selective arrangement was covered in the preparatory work done on the enterprise zones. It was found to be simply impractical and politically unacceptable to suspend such statutory burdens as Health and Safety Regulations. We suggest that similar considerations apply to other burdens such as the redundancy arrangements or unfair dismissals procedures. Any attempt to create two classes of employee in identical jobs in the same factory would be most strongly resisted.

(iii) But changes in this type of burden for all employers do offer scope for useful initiatives. One idea is a modified redundancy pay arrangement for small firms. This could be particularly useful in removing the psychological constraint on employing more people which small firms argue is a feature of this scheme. A number of options are available: perhaps the simplest would be to confine redundancy payments in firms employing say less than 20 to the proportion curently contributed by Government. In other words whereas the employer and Government at present split the cost of a standard award based on length of service and pay, for small firms there would be an award limited to the present contribution from Government based on the same pay and service criteria. This would remove an important contingent liability on small firms (and has no public expenditure implications).

II. SUPPLY OF LABOUR

12. Measures to increase the incentive to work are designed to put downward pressure on wages and hence promote employment in the long-term. Raising the incentive to work increases the number of people on the register who are willing to work at a particular wage level. That in turn, for given labour demand, puts downward pressure on real wages.

13. This requires action in three main areas. First it means attacking institutional factors, which cause involuntary unemployment by raising the supply price of labour artificially. For example benefit levels can represent a de facto minimum wage; this prices out jobs (and hence people) where the value added by the labour is below the value of benefits, and can exert upward distorting leverage throughout the wages spectrum with a similar effect. Second it means action to discourage 'voluntary' unemployment - prolonged searches for work, particularly by the newly unemployed, cushioned by the benefits available. And third it means action to improve the quality of labour supply by training so that more skilled people are prepared to work at any particular wage level.

14. While the present pattern of benefits, given the interface with the income tax regime, does discourage people from taking work in certain circumstances, not a lot is known about the scale of the problem. Most economic commentators do not believe it

is very large; but Professor Minford - focussing on the leverage/ minimum wage problem - believes that the effect is rather more substantial and has been growing in recent years (despite a falling benefit income ratio in the UK since the early 1970's). Moreover his work suggests that action to reduce benefit levels (taking into account the consequent scope for fiscal adjustment) could have a significant and fairly rapid impact. He concludes that a 10% across-the-board cut in the real value of benefits could reduce unemployment by 500,000 in 2 years. Other evidence suggests that the impact of such a reduction, via the incentive to work effect alone, would be to raise employment by 75-100,000 over a rather longer term period. We are uncertain about the size and timing of the further repercussive effects on real wages coupled with any scope for fiscal adjustment but doubt whether they would produce the orders of magnitude suggested by Professor Minford. (A separate note is being sent to you on this later).

15. But there is a case for action in this area despite uncertainties about size and timing. Two main proposals are considered here: a cut in benefit levels generally (with selective cuts in particular benefits examined separately) and the possibility of stronger action to enforce the availability for work rule as a condition for the receipt of benefits eg. by reviving the Beveridge principle. Another possibility - raising the tax thresholds - is being considered as part of the work on the macroeconomic strategy.

Cutting Benefit Rates

16. (i) The first proposal is an across-the-board cut in short-term benefit rates - specifically unemployment and supplementary benefits.

(ii) No action is possible on those benefits until the November 1982 uprating. The obstacles are well known and while it might be possible to make some cut in benefit levels and hence widen the gap between benefits and wages, it is difficult to envisage a major reduction in the benefit (even if accompanied by changes in tax and NIC thresholds).

(iii) It might be possible to cut SBs and not UBs as a second best alternative

An option would be to cut long-term supplementary benefits to bring them into line with unemployment benefits. But such a change would be highly controversial.

(iv) One useful change might be to bring child benefit rates and (the higher) SB payments for children into line. It would be politically unpopular to reduce child SB rates and cost ineffective to raise child benefits. The cost of a general increase in child benefits would be much less if they were made taxable; but this would be a step backwards in terms of simplifying the tax system and could well resurrect pressures to bring back child tax allowances. A more promising approach might be to concentrate help for families with children by improvements in FIS.

(v) Withdrawal of entitlement to SBs from 16 year olds would be a highly controversial policy change in its own right. If it were decided to go for a substantial expansion of training for this group however it could be defended as a necessary way of saving money by establishing a lower level of allowances. (Annex 3).

(vi) There are clear obstacles to action to reduce benefits in any way. But a longer economic term objective however must be to widen the gap between benefit rates and the take-home pay of the low-paid

Stricter Availability for work rule (Annex 4)

17. (i) Beveridge envisaged that after a period of unemployment the conditions for receiving benefit would be much stricter. However if benefit was to be refused, he considered it essential that employment or a retraining place be available.

(ii) Beveridge never envisaged, however, that such a scheme could cope with large numbers unemployed for a considerable period of time. At present the high level of unemployment and the cost of providing retraining facilities would make it difficult to provide enough places (even just for the long-term unemployed, some 600,000 persons). The introduction of such a scheme - in the name of a return to the Beveridge principle - does not seem feasible, because of its high cost.

(iii) A much more modest but promising proposal is to increase the number of Unemployment Review Officers (UROs) to give more force to the regulation that those registering must be available for work. A

recent Rayner Report on this subject recommended an increase of 300 in their number: but the Government opted for an increase of only 50 last month. The cost of employing the extra UROs is estimated at £3.5 m.

Training (Annex 5)

18. (i) The D/Em "options for reductions" in the public expenditure review include lower expenditure on training. In view of the importance we attach to training, such a cut would be counter-productive in supply side terms. But there is a potential conflict here between our general stance on the current expenditure review and other Treasury objectives. Any concession would thus need careful handling.

(ii) As recognised in the New Training Initiative, it is desirable to remove existing restrictive apprenticeship practices and introduce certain principles for training:

- objective standards (rather than time-served) as the basis of qualification;

- universal acceptance of these standards, irrespective of the form of training;

- the removal of age or other artificial barriers; and

- the length of training courses to be determined only on the basis of what is required to reach the objective standard.

(iii) The Government may be able to build on this 'New Training Initiative', in NEDC to secure these reforms. There may also be scope for action where Government itself is the employer - eg. MOD and the PSA.

(iv) However there could be local union opposition which might prevent anything concrete being achieved. But there may be scope for using the MSC's financial leverage, through its financial support for apprentice and other training, to secure desirable changes. Schemes involving a wage ceiling might be considered.

III. DEMAND FOR LABOUR

19. Previous sections of this paper have suggested that an increase in the number of training opportunities, while highly desirable in itself, cannot be undertaken sufficiently quickly or cheaply to hold out the prospect of a 'Beveridge-type' solution to the problem of the long-term unemployed. There are some 600,000 such people on the unemployment register; that number is projected to grow substantially over the next year. Inevitably there is pressure for more public expenditure to provide jobs for such people. Some Ministers are also pressing for labour subsidies as a solution to this particular problem.

20. In the past there have been two broad types of measures used to increase employment directly by raising labour demand - the creation of jobs in the public sector through public works schemes (often though not necessarily accompanied by a higher PSBR) and labour subsidies for private sector employers.

21. Pure job creation in the public sector does of course remove people from the unemployment register: but if those employed receive the going wage rate for a particular job, then such measures can have no helpful impact on the level of wages. Indeed the reverse is true: by taking people off the register and thus narrowing and tightening the labour market, such measures put upward pressures on wage levels. To that extent despite a positive short-term benefit, they can, in the absence of other measures to make the labour market more efficient, have an adverse longer-term effect on employment. Similar considerations apply in the case of labour subsidies to private sector employers: where the employer pays the going rate, there is no downward push on wages but rather upward pressure due to the tightening of the labour market.

22. Consequently in putting forward proposals for dealing with the long-term unemployed, we have tried to build on the Walters scheme and devise arrangements which not only do not have these perverse effects on wages but rather help to get real wages down. To do this a wage ceiling condition is an essential feature of such schemes - wages for the jobs created must be below the current going rate, they

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might for example be based on benefit plus £x. With such a condition incorporated, these schemes can have not only a beneficial short-term impact on employment but also put downward pressure on wage levels and hence promote employment in the longer-term*.

23. There are several attractive features to this type of arrangement. The schemes can be focussed on a specific target - for example the long-term employed. Second the schemes create jobs at low PSBR cost because only the margin above benefit rates (plus administrative, and overhead costs) represent additional public expenditure, although there may be some minor complications about FIS payments. Third, although some of the jobs under the scheme substitute for existing jobs, the new jobs created would carry lower wages than those for which they were substituting. The greater this substitution effect, the larger the impact on real wages in the economy. In short, the bonus with such schemes is that they promote employment in two ways: directly by creating jobs and indirectly by attacking the excessive level of wages.

24. The expected impact of such schemes in the long-term would be to reduce the real wages of the unskilled (who form the majority of the long-term unemployed) more than other people. We believe this would be particularly valuable: the large number of unskilled among the unemployed may be seen as an indication that their wages are too high.

25. But there are drawbacks. By subsidising unskilled labour, enterprises with low capital/labour ratios and unskilled employees may be kept going when the introduction of higher technology and reduced (more qualified) labour requirements would be in the long-term interest of the firms concerned.

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*Schemes which provide employment in either the public or the private sector at wages related to benefit rates represent a response to the "Len Murray point." But such schemes are bound to have some net cost. In the first place there will be additional administrative and overhead costs. Second there will be further net costs if it is decided to offer people some additional inducement over the above benefit rates in order to get them to accept the job. Third even if the enforcement rules were so strict that it was possible

(footnote continued at bottom of next page)

CREATION OF PUBLIC WORKS JOBS (ANNEX 6)

26. (i) The proposal is for the creation of public works jobs on a selective basis offering pay of benefit rates plus expenses and a modest incentive but significantly lower than would otherwise be the rate for the job to the long-term unemployed, who-to minimise resistance to the proposal - would be the only group eligible to take up the jobs.

(ii) Such a scheme would of course create employment directly, and given the proposed wage level, at a public expenditure cost, less than conventional job creation measures. To the extent that a "ring-fence" could be drawn around the projects concerned, there would be only a limited adverse initial impact on wages from a tightening of the labour market generally.

(iii) In time, however, the projects would begin to replace conventional public works programmes. The labour involved would in effect substitute for those receiving the going rate for the job and some useful downward pressure on real wages would also result with an eventual second-round gain to employment.

(iv) If introduced nationally, it would no doubt be quickly perceived as an attack on real wages and there is likely to be strong union opposition. But it could be mounted as an experimental scheme in the first instance, for example a new type of Community Enterprise Programme in the Liverpool area. The cost would be very limited: for 2,000 jobs, and on an average premium of £6 above benefit, it would amount to around £½ - ¾mpa plus administration and overhead expenses.

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*to pay people no more than they received on benefit, there would still be a net cost. This is because of the secondary effects on the labour market.

Whatever the scheme it is inevitable, therefore, that there is some net cost. On the other hand many schemes produce an output which can be set against this.

(v) Looking to the longer-term however, the more wide-ranging the scheme, the greater the beneficial secondary impact on real wages. In particular, if the jobs done under the scheme were identical in most respects to existing jobs in the public sector, there would be the greatest impact on real wage levels. There would however be stronger opposition from unions to a national scheme from unions. On the other hand, confining eligibility to the long-term unemployed might make the schemes more popular.

(vi) An objection to wider schemes is that jobs created by local authorities would undermine our attempt to reduce local authorities expenditure and manning levels. Even if schemes were funded wholly by central government, we might be accused of inconsistency. Similar arguments may apply to other sectors where these jobs could be created - the National Health Service, nationalised industries etc.

(viii) One further refinement would be to stop benefit payments for those who refuse to take jobs on these schemes. But this is probably an unrealistic proposition for a pilot scheme. Forcing people to choose between accepting a job at a rate of pay below the standard rate for that job or losing their benefits will be widely regarded as a penalty. Any such scheme would be controversial. But it is particularly unlikely to be politically acceptable if the penalty is applied less than universally - it would otherwise be seen as victimising the unemployed in a particular area. Unless the number of projects underway was sufficient (in association with the labour subsidies and any expansion of training) to offer all the long-term unemployed a place therefore this type of restriction is not feasible.

LABOUR SUBSIDIES (ANNEX 7)

27. (i) A scheme which would be closest to that proposed for the public sector would be one in which employers were encouraged to create new jobs at low pay - again and for the same reason as before - for the long term unemployed. The arrangement might be either that the employer paid the employee the benefit rate, plus an allowance for his extra expenses, while receiving a subsidy equal to the benefit rate from the Government, or that the Government continued to give the employee benefit with the employer merely topping up to cover expenses. A modest incentive could also be added.

(i) A subsidy on these lines would be unlikely to leak into higher wages. But the scheme wouldinvolve some displacement of existing workers by subsidised workers. Such substitution could be reduced, though not eliminated, if firms were required to show that the job was additional to the existing complement. On the other hand, the greater the extent of substitution the greater the downward pressure on the level of the real wage.

(iii)Another possibility is something closer to Professor Layard's proposal. A subsidy would be available to each firm which could show that its labour force had expanded during the period in question. However, as with the Young Workers employment subsidy, a ceiling would be imposed on the wages of workers eligible for the scheme. This might, for example, be set at some point within the lower quartile of earnings - which probably represents the sort of earnings which the long term unemployed would, in any case, expect. The object would be to stop at least part of the leakage of the subsidy into higher wages (whereby part of the subsidy payment to the employer was passed directly by him to the employee) and to reduce real wages. A scheme on these lines could be expected to lead to some overall increase in employment, albeit at significant public expenditure cost. Nevertheless it too would produce some substitution, and again this may be welcomed as a means of reducing real wages.

(iv)A scheme on the lines of the first variant could be applied on an experimental basis in a limited area. The second variant would most obviously be a national scheme. The cost of a Layard scheme - <u>without the wage ceiling</u>, which we are not recommending - is estimated at £250m by DE for the creation of 100,000 jobs. But a scheme incorporating a wage ceiling would cost considerably less.

RAISING OF LOWER EARNINGS LIMIT (Annex 8)

28. (i) The proposal is to raise the lower earnings limit at which employers NIC and NIS and employees NICs become payable.

(ii) There are two main economic arguments for raising the lower earnings limit. First, raising the threshold for employers NIC and NIS would reduce the cost of labour to the employer and hence bring

about more employment. Second employees' earning less than the raised LEL would find themselves better off: this would increase the incentive to work at the lower end of the labour market.

(iii)It would be necessary to raise the LEL by a considerable amount to bring about a large rise in the numbers earning less than this limit. Under present arrangements this would remove the entitlement to certain NI benefits for the persons concerned and so be highly controversial. Consequently a big increase in the LEL would probably have to be accompanied by measures to change the basis of the present system. Those who would otherwise lose access to NI benefits by this move would have to be allowed to retain their present entitlement. Such a change however would weaken the link between contributions and benefits upon which the whole system now rests and this could prove expensive since it is the contributory principle which prevents universal payment of benefits.

(iv) Another administrative obstacle to a large change is the non-linearity obstacle. Under the present arrangement, someone earning £26 per week pays no NI contributions; at £27 per week contributions become due in every £1 earned. A big increase in the LEL would shift this problem higher up the wages spectrum. One solution to this would be to move to an incremental basis for contributions, so that they become payable on every £1 earned over the above the LEL only. This would be a very significant structural change in the national insurance contribution system and would require a substantial increase in contribution rates, coupled perhaps with an increase in the upper earnings limit to keep the NIF in balance. (This area has been under separate consideration in the work of the TASS Group) Such a change - excluding the effect of any increase in the LEL-would mean that some £4 billion (equal to 8% on contribution rates) would be transferred from middle to low paid workers and thus affect incentives for middle management.

(v) A switch to an incremental scheme is however probably a essential condition for a large rise in the LEL; for the reasons given above that calls into question the whole proposal.

(vi) Raising the LEL and reducing rates (either on NIS alone or NIS & NIC) are alternative ways of reduing the NIS/NIC burden. Each £1 increase in the LEL cost; that is equivalent to a.01% reduction in the rate of NIS.

Conclusions

29. A package of measures, which might be called an employment opportunities programme, could be assembled from the measures set out in this paper. This should be done in a way such that they reinforce each other. There are several aspects to this:

i) It would be preferable to act on both the supply and demand for labour, rather than one or the other in isolation. Action on supply alone would have the beneficial effect of reducing real wages, but might tend to increase unemployment in the short-term. Action on demand alone, unless accompanied by the kind of wage ceilings we have suggested, would run the risk of raising real wages. It would be appropriate to put some measures designed to make the labour market work better into any package, but many of them will be controversial. It would, therefore, be wise to associate the whole package with other, more popular, measures.

ii) It would make political, as well as economic sense, to combine action to tighten up the job test for benefits with the greater provision of employment in public works, possibly an extension of job creation subsidies linked to a wage ceiling, and in so far as practicable, with additional training facilities. This could be presented as a response to the Len Murray question.

iii) It would be wise to associate some of these measures with wider policies such as any scheme for the regeneration of Merseyside. For example, expenditure projects designed to create jobs could be linked with labour market efficiency measures.

iv) It is worth considering ways in which these measures could be complemented by tax changes, such as a real increase in the NIC/NIS or income tax thresholds.
Real improvements in thresholds would reinforce the effects of changes in benefit on the supply of labour by improving the income: benefit ratio. Increases in the threshold for employers' NIC and NIS would reduce the cost of employing labour, especially the cost of employing relatively unskilled labour. Both would, therefore, reinforce the measures considered above, and would also sugar some of the pills.

v) Some of the measures might be experimental, initially at the local level eg. job creation in Merseyside.

30. Specifically, we recommend detailed consideration of a package of measures comprising:

a) the issue of orders to require Wage Councils to take account of the effect of its recommendations on employment in the trade;

b) an experiment with an Arbitral Court in an area, such as Merseyside, enjoying special government help, to act as an appeal body if employers and employees, either generally or in assisted activities, were unable to agree on wage rates. Such a body would be instructed to take account of the effect of a settlement on the prosperity (and hence employment) of the area;

c) the introduction of an element of regional differentiation in central government and NHS pay;

d) changes in redundancy pay arrangements to relieve small firms of their contingent liability for redundancies;

e) stronger enforcement of the eligibility test for benefits out of work. An increase in the number of unemployment review officers to the level recommended by Rayner;

f) an increase in the gap between pay in and out of work by:

i) a general, but probably small, reduction in benefit levels;

ii) some increase in child benefit if it were feasible to keep the cost down by confining the increase to lower income families, ie by clawing it back from the better off;

iii) raising of the lower earnings limit for NICs (combined with a real increase in income tax thresholds);

g) At least partial exemption of training programmes from public expenditure cuts (though this will need careful consideration in the context of the tactics for the whole public expenditure exercise);

h) public work job creation measures if linked to the payment of wages at levels equivalent to the payment of benefits plus work expenses, ie below the "rate for the job" (though if extended beyond the Merseyside scheme this might be seen as undermining our present tough stance on RSG and public expenditure generally).

i) the linking of any additional private sector employment subsidies to payment of wages at those levels.

31. The most attractive, in our view, would be items (h) and (i) above, both of which are designed for the long term unemployed and both of which would incorporate some eligibility test. We see f(iii) as being effective and also popular, although rather expensive. It also raises the question of the contributory principle underlying the National Insurance Scheme. As a condition for implementing these measures, we think it would be right to insist on action on ideas, such as (a) and (b) designed to get more realism into wage determination. We also think it would be worth trying for (d), which we believe to be valuable in its own right.

BRIEF ON INDUSTRIAL RELATIONS LEGISLATION

Description

The objective is to reduce the ability of unions to obtain wages above market clearing levels by shifting the balance of power in wage bargaining more in favour of the employer. The most direct way of doing this would be to change the law governing the immunities enjoyed by trade unions; it is this immunity from legal redress which underlies their considerable economic power. Restricting those immunities correspondingly shifts the balance in favour of employers.

Implementation

2. It has already been agreed that there will be a Bill on industrial relations in the next session. A range of legal changes to constrain union behaviour are available from relatively minor tinkering on closed shop regulations (as Mr Prior would like) to highly contentious measures such as powers to enable the selective dismissal of strikers or the complete removal of unions immunities from liability to prosecution for civil conspiracy.

3. If the objective is to attack effectively the main source of economic power enjoyed by the unions, the following package of legal changes is thought to be the minimum required:-

(i) Amendment of section 14 of the 1974 Trade Union and Labour Relations Act to bring it into line with section 13. This is designed to make unions liable for any action of their officials to which immunities do not apply eg secondary action beyond that permitted in the Employment Act 1980;

(ii) Amendment of section 29 of this Act to narrow the definition of a trade-dispute where these restricted immunities would apply. A suitable amendment could restrict the definition to employee versus employer disputes ie take out inter-union squabbles and political strikes (where the position is unclear);

(iii) A new requirement that these restricted immunities for a more narrowly defined range of industrial action would only apply if agreed procedural arrangements had first been exhausted (or ACAS involved in the absence of such an agreement.)

4. Taken together, these legal changes would establish a regime of legally enforceable procedural agreements. Employers faced with an unofficial strike in breach of procedure would be permitted to sue the union concerned; (whether they

would choose to do so is another matter.) However were these changes implemented, the position would still stop short of that under the 1971 Industrial Relations Act which made collective agreements ie including the wage settlement, legally enforceable for registered unions. (It was not generally effective however because few unions registered). Legally enforceable collective agreements are standard in the US and many continental countries.

Assessment

5. This package is probably the minimum set of legal changes necessary to have any major impact on the present conduct of union/management negotiations.* There are of course other options not involving changes in the law such as a Government or CBI fighting fund or action to curb public sector strikes. But it is doubtful whether these would be as effective in shifting the power balance as the suggested legal changes.

6. There is considerable support for this type of legal package amongst employers. But that support is by no means unanimous:- several large companies have publicly voiced opposition to any such major legal changes, though their private views may be rather different. Last week the TUC promised outright opposition to any direct restriction of present immunities. The attitude of the general public is difficult to assess: but the extent of support for measures which might prove confrontational has probably fallen since early 1979, in the face of recent quiescent industrial relations linked to high unemployment.

7. However the problem lies not in implementing these legal changes but in gaining the public and union acceptance that is essential if the change is to be permanent. (The continental arrangements work because they are generally accepted and no longer challenged head-on.) Against a background of outright TUC opposition and half-hearted support from industry perhaps the best that can be hoped for is a troublesome transitional period before the new laws come to be accepted.

8. How vigorous the union opposition will be during such a transition and whether it will amount to outright refusal to comply with the new laws is difficult to assess. Ultimately a political judgement on whether a disruptive transitional period can be borne is required. But there is no reason why the 1972-4 experience should be repeated: actual opposition, leaving aside the stance in public, could well be muted not least because high unemployment will dampen its force.

* Even then its impact should not be exaggerated: last years steel strike, the Civil Service dispute and the threatened Rail Strike have all been taken forward after the exhaustion of agreed procedures.

9. Two ways of helping to gain the necessary acceptance of these changes might be to continue with Mr Prior's piecemeal approach - for example by leaving section 29 of the 1974 Act untouched meantime at the cost of reduced impact on the conduct of industrial relations; and offering a major quid pro quo - for example on legislated industrial democracy.

ANNEX 1A

CIVIL CONTINGENCIES

Description of measures

An improved capacity to withstand industrial action by key bargaining groups would make a major contribution to achieving greater flexibility on pay, and therefore in the labour market. This is a difficult area, but better long-term planning of the Government's response to such action might help.

Implementation

2. The existing Civil Contingencies Unit (CCU) is oriented primarily towards the protection of life and limb in civil emergencies. This role obviously overlaps with the question of resistance to major strikes, but is distinct from it. Rather than seeking to expand the role of CCU, it would probably be better to establish new machinery to facilitate Ministerial oversight of measures designed specifically for strike resistance.

Assessment

3. CCU have plans to safeguard the population during strikes in the key industries, which are reviewed from time to time. But there is in practice little political or Ministerial imput to the preparation of these plans, so that basic political questions, like the role of the armed forces and the organisation of the relevant industries, tend not to be fully probed. There is also a concentration (which is no doubt inevitable given the civil emergencies content) on short-term expedients rather than on laying long-term plans to deal with basic weaknesses in the capacity to resist.

4. The recent coal study has shown that there is a lot more useful work that can be done on the question of strike resistance beyond the normal CCU planning. This is not to say that such specific studies will necessarily give a more positive answer, at any rate in the short or medium term. But they are more likely to bring to light the sort of decisions which Ministers would have to take in order, ultimately, to get into a better rather than a worse bargaining position.

5. The choice of machinery would of course be a matter for the Prime Minister. But a senior Ministerial Committee to give regular direction to the work would seem to be a necessary ingredient. This would not

only put in hand new work, on the lines of the coal study, but would also provide a focus for any existing thinking on, for example, ways in which key parts of major industries might be kept running in a strike.

CONFIDENTIAL

WAGES COUNCILS

Description of measure

The aim would be to ensure that Wages Councils took account of considerations of supply and demand in considering wages. In particular, they might be precluded from prescribing minimum wages for young people which were more than a specified proportion (say one half) of those applicable to adults doing similar jobs.

Implementation

2. The Government has already announced its intention to introduce a subsidy for employers who take on additional young people at wages less than £40 a week. This may in any case necessitate some modification of Wages Council legislation in respect of young people. It would no doubt be relatively straightforward to extend the necessary legislation so as to modify further the powers of Wages Councils to determine minimum rates of pay for young people. Alternatively free-standing legislation could be promoted.

Assessment

3. Wages Councils specify rates of pay for young workers (16 and 17 years of age) and adult rates which apply in most cases from the age of 18 (though in some cases the adult rate does not apply until 19, 20 or 21 years of age). The adult rates vary from £42 a week to £54 a week (with the majority around the £46 to £50 mark). The rates for young workers vary from £32 to £40 at 16 and from £38 to £50 at 17.

4. The total number of young people (under the age of 18) covered by the Councils is not known, but cannot be more than a few 100,000. More important is how many young people are not working who could work if it were not for the Councils. This, of course, is not quantifiable.

5. It would probably be better to remove young people from the scope of Wages Councils entirely rather than to attempt to prescribe a special new minimum for them. Wages Council rates for 16 year olds are already around three-quarters of adult rates. If this proportion were

substantially reduced it would be difficult to argue that Wages Councils offered any significant protection to young people, and there would therefore be little advantage in keeping them within the scope of Wages Councils at all. Complete freedom from restriction would also offer the maximum potential employment effect.

Conclusion

6. This measure overlaps with the Walters Scheme, and a cautious approach would be to see how the latter worked before moving further in the direction of deregulating young people's wages. But if a bolder approach were desired, the introduction of the Walters Scheme could be used as an opportunity to legislate toremove young people from the scope of Wages Councils.

REMOVING THE ENTITLEMENT OF YOUNG PEOPLE TO SUPPLEMENTARY BENEFIT IN THEIR OWN RIGHT

Description

Young people over 16, but less than, say, 17 would cease to be eligible, as they are now, for supplementary benefit. This proposal is already under consideration. It has evolved in the context of the suggested comprehensive scheme for unemployed people to replace the YOP. This note assumes that it is not for consideration as a free-standing change.

2. The comprehensive scheme has been specified on the basis of two options, A and B. Both envisage the withdrawal from 16 year olds of independent entitlement to supplementary benefit. (It is therefore not the case that Mr Prior has proved resistant to the proposal.) The difference between him and the Chancellor of the Exchequer concerns the level of allowance that would be paid to 16 year olds. Mr Prior favours option B which assumes that young people are no longer dependent on their parents after leaving school. They would therefore receive an allowance while on a training course sufficient to cover their living expenses. Because the allowance would also need to cover travelling expenses etc. it would be higher than the existing supplementary benefit rate of £15.25 (and perhaps as high as the existing YOP allowance of £23.50). If they declined to sign on for a training course, however, they would receive no State benefit.

3. Option A (which is favoured by the Chancellor), assumes that the young unemployed are dependent on their parents for the first year after leaving school at the minimum age. Parents would continue to receive child benefit and if appropriate, dependency additions. Trainess would therefore not need an allowance sufficient to meet living costs or a high as supplementary benefit. The allowance might be fixed at around £8 (the current lead of the YOP allowance over basic rate supplementary benefit).

Administration

4. Legislation would probably be required to remove the entitlement of the selected age group to supplementary benefit. It would be difficult to put either Option A or Option B (but especially Option B) into effect unless appropriate training courses were pretty well universally available; and it would take time to achieve this. DEm and MSC consider September 1983 the earliest feasible date.

Assessment

5. The case for removing the right of young people to supplementary benefit is strong, although it is likely to meet with significant political opposition. The main arguments in favour are:

(i) that young people are essentially trainees rather than independent economic units in their own right.

(ii) that it would reduce the financial discentive to staying on - or returning to - full time education.

(iii) that it would lower the wage level at which it became attractive for a young person to accept work.

(iv) that, as part of a comprehensive scheme, it would reasonably reduce allowances to young people in exchange for universal provision.

6. However, it is probably unrealistic to consider the proposal except in the context of greatly expanded training provision for young people. Such an expansion would cost large sums of money. The Manpower Group report gave the following estimates.

Full year gross costs at 1981-82 prices

Training Scheme with Option A:	£1030 m
Training Scheme with Option B:	
(i) training allowance £20:	£1164 m
(ii) training allowance £23.50	£1240 m
YOP with existing guarantees	£ 850 m

7. Mr Prior and the MSC have argued strongly that Option A is not feasible because of the opposition it would engender among young people and the trade unions. We consider these arguments exaggerated.

ANNEX 4

BEVERIDGE AND THE LONG TERM UNEMPLOYED

Proposal

1. The availability for work rule now applied to the unemployed seeking social security benefit is neither a particularly stiff test nor strictly applied. Beveridge, in his 1942 Report, certainly envisaged that after a period of unemployment the conditions for a receipt of benefit would be much stricter. To provide compulsory training to the longer term unemployed as a condition of continued receipts of social security benefit would to some degree be in line with what he envisaged; a reduction in the level of benefit after a lengthly period of unemployment would encourage job seeking and a more forceful approach to the 'availability for work' rule would help to remove the work shy from benefit.

Administration

2. If applied country-wide for all long term unemployed the proposal on training would require substantial resources:-

(April 1981 - thousands)	Unemployed over 26 weeks	Unemployed over 52 weeks
under 25s	228	105
25 - 54	280	250
all ages	594	489

If established initially in one region, say the North West, the numbers would be:-

under 25s	23	10
25 - 54	31	19
all ages	63	36

3. The scale of this scheme would probably prohibit adaptation of existing premises etc. It could, however, especially if applied to the young, replace some of the existing training schemes for the unemployed. The scheme would, presumably, need to be administered by the MSC. It is open to question how long a beneficiary would be required to remain in training. But to achieve anything positive it

would probably need to be at least 6 months. If paid only at the standard rate of social security benefit, there would be small benefit cost (though some of those in training might, presumably, otherwise have found work). There would, however be as yet unquantified capital and current costs for the provision of buildings and staff. The scheme would require major new legislation and a substantial logistical exercise in establishing the centres.

4. A reduction in the short term rate of Supplementary Benefit would provide a financial incentive for the unemployed to seek work more actively once entitlement to unemployment benefit ends after 312 days. This could be achieved either by not uprating Supplementary Benefit at the annual uprating exercise or by actually cutting the level of Benefit at that time. Either course would probably only require secondary legislation if it applied to all recipients of short-term Supplementary Benefit, but primary legislation if intended to discriminate, for instance, between those who received SB from the first day of unemployment (those without contribution conditions) and those who moved to it after receipt of UB.

5. To enforce the existing availability for work rules more strictly would require more staff. It might also be possible to introduce some more specific tests, paper evidence, for instance, that a claimant has seriously applied for jobs. The changes could probably be introduced administratively.

Assessment

6. It would not do to rest on Beveridge for justification of these measures. Beveridge makes the maintenance of employment and the prevention of mass unemployment a pre-condition of a satisfactory scheme of social insurance. However, while he says that payment of unconditional cash benefits as a right is satisfactory only for short periods of unemployment and therefore proposes a condition that after a certain period benefit should be conditional on attendance at a work or training centre he goes on to say that this proposal is impracticable if it has to be applied to men by the million or the hundred thousand. It is impracticable, he suggests, partly because

the only satisfactory test of unemployment is an offer of work, which breaks down in mass unemployment and partly because the cost may become insupportable. Beveridge suggests a six month period before training should become a condition, but also suggests that this period might be increased in a time of recession.

7. Nor would it do to rely upon him for a reduction in the short term rate of Supplementary Benefit. Beveridge envisaged that entitlement to unemployment benefit would have no time limit while an unemployed man was genuinely seeking work. So the prospect of moving to a lower level of benefit after a period of unemployment is not one he envisaged. But in any case, whether he intended a lower level for national assistance than for contributory benefits is rather unclear, at some points he seems to be saying that they should both be at subsistence levels and others that contributory benefits should be higher. However, at most he saw National Assistance for the great majority of beneficiaries as simply a chance of topping up the contributory benefits when there were exceptional costs.

8. Beveridge envisaged training as a way of restoring the morale of the unemployed, rather than having any economic objective. Compulsory training of this sort might well have that affect. But would not, in itself justify expenditure of the scale envisaged. What then would be the purpose behind the scheme? Potentially, such an arrangement could have a number of other purposes, for instance:-

(i) reduce the attractiveness, for the work shy, of unemployment;

(ii) provide genuine training in new skills (when it would enhance or replace exising more limited schemes).

Whether or not it satisfies any objective test of need, Supplementary Benefit is seen as a minimum support level and as such has been price protected. Cutting the level of Supplementary Benefit would have some rationale to justify abandonment of that level of support. This would involve establishing an objective test of the minimum level of support. This implies sponsoring some research into minimum standards of living.

9. The Rayner Report on payment of benefit to the unemployed noted that in practice the requirement to register for work was a mythical test of willingness - only 3% of claimants interviewed said that a Job Centre put any pressure on them to find work (5% in areas where jobs were still easy to find). The report therefore recommended that registration should become voluntary and as a test of availability, be replaced by more active intervention by increased numbers of Unemployment Review Officers. The Report recommended that the number of UROs should be increased by 300. The Government decision on this Report was announced on 30 July. In that statement the recommendation on voluntary registration and on tightening the test of availability was accepted, but the number of additional UROs was reduced to 50. This reduction accepted the view of the Manpower Services Commission that employment of an additional 300 UROs would be wasteful, objectionable, and at the expense of the positive functions of the employment service.

10. As a separate exercise, DHSS have extended their action to prevent fraud and abuse. This exercise has produced substantial savings. The additional 447 UROs employed are estimated to have saved £22.5 million in benefits. This is, however, less than was at first thought achievable and, with rising unemployment, the efforts are becoming less cost effective. There were protests at the time these measures were announced but additional staff employed on tax evasion would have a greater PSBR effect. It is argued that those forced into work by the UROs simply displace others. DHSS accept this displacement affect but think it is limited.

F

REFORM OF APPRENTICESHIPS AND SKILL TRAINING

There is widespread agreement that the system of skill training in the UK is rigid, conservative and slow to respond to the requirements of individuals or the economy. At a national level the need for reform is broadly accepted by the CBI and the MIC. But at a local level the attitudes of both employers and unions often represent a road block in the way of reform.

2. The problems are exemplified, but not limited to the apprenticeship system. In many cases this has become a form of restrictive labour practice, collectively agreed and maintained by the two sides of industry. The system itself is inflexible because of age barriers and qualification base on time served rather than achievement of standards. More than this, there is excessive emphasis on initial training at the expense of upgrading and retraining in later life. Access to some skilled jobs is artifically restricted to people who have had apprentice training whereas other, possibly cheaper ways of acquiring the same skill are potentially available.

What can be done to achieve reform?

3. The first option is to press ahead on a voluntary basis, attempting to persuade employers and unions that reform is in everyone's interest. This is essentially the approach embodied in the New Training Initiative on which comments have been invited by the end of September. It has been suggested that the momentum of this approach could be stepped up by involving the NEDC which has a good deal of knowledge and expertise in this area. This may well be an idea worth pursuing, provided any remit to NEDC called for suggestions and ideas rather than further analysis of the problem (there is no shortage of this). The effectiveness of NEDC involvement could be increased if the subject was put before the Council, and discussion was focused on the need to agree certain specific principles. These might be:-

i. the laying down of objective standards for skill training as the only basis for judging qualification

ii. acceptance that anyone who has achieved these standards, through whatever form of training, is universally accepted as qualified to do the work in question

iii. the content and length of training courses to be determined solely on the basis of what is required to meet accepted standards

iv. the removal of all artifical barriers (eg. age) against access to training or retraining.

4. A further way in which Government might be able to speed reform, without resort to legislation, would be to use its own involvement as trainee and employer more effectively. As the CPRS has pointed out[1] the apprenticeship system is as firmly entrenched in MOD? the PSA and HMSO as anywhere in the private sector.

5. A further option is the use of financial leverage within existing Government funded training provision. The most obvious candidate is the direct grants of around £40 million a year and channelled by the MSC through the ITB's to boost apprentice intake. It has always been hoped that such grants might encourage reform. But instead they have served to shore up the existing system. Consideration could be given to making the grants conditional on agreed reforms. The impact of this might, however, be little more than symbolic. Of the 350,000 young people currently serving apprenticeships only some 25,000 are covered by MSC grants.

6. Action to secure reform going beyond the sort of things outlined above would probably involve either the legislative stick or the financial carrot. There are major difficulties attached to both. An extension of legislation could involve the Government taking on an unacceptable degree of responsibility for the supervision of training and the setting of targets. However, the current review of the future of the ITB's, on the basis of which the Secretary of State for Employment will announce proposals later this year, could provide a framework for legislative change. The objectives of any new legislation might be to establish statutory machinery for determining standards and duration of apprentice type training courses; to compel to employers and unions to accept this; and to outlaw discriminatory eligibility for certain jobs based on age, form of training etc.

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[1] "Education, Training and Industrial Performance", 1980.

CREATION OF PUBLIC WORKS JOBS

Description

The proposal is for the creation of public works jobs on a selective basis, offering pay in excess of benefit rates but lower than would otherwise be the rate for the job. There might be penalties in the form of reduced benefit entitlement if a job was not taken up.

2. One such scheme, related to the availability for work rules and the Beveridge proposals is examined in a separate note.

Administration

3. The MSC could administer such a scheme (which has some similarities to their existing Community Enterprise Programme) under existing powers. If there were close links with the benefit regime (eg if refusal to accept a place entailed loss or reduction of benefit, or if payments by the MSC were based on individual benefit entitlement) there would need to be appropriate liaison arrangements with DHSS.

Assessment

4. A more limited scheme on similar lines to those in the proposal was recommended by the CPRS earlier this year. It would involve the redefinition and expansion of the existing Community Enterprise Programme (CEP). The CEP currently provides job opportunities on voluntarily sponsored projects for the long term unemployed over 18. Priority is given to areas of high unemployment and local authorities are the main sponsors. The MSC pays a grant to cover administrative costs, wages and some materials costs. Participants receive a negotiated rate for the job, not exceeding £ a week. There is currently provision for 25,000 places.

5. The scheme could be adapted to meet the proposal by a) changing its financial basis, and b) increasing the number of sponsored projects (presumably among local authorities if the criterion is the creation of public works jobs).

6. In principle, it should be possible to replace the negotiated wage under the existing scheme with a payment conceptually similar to the YOP allowance, i.e. benefit plus a relatively small premium to cover expenses etc. The CPRS estimated that with a £6 premium over benefit the average gross cost of a CEP place would be almost halved, thus releasing resources for a major expansion of the scheme. It is unlikely that, in practice, the premium could be as low

as this; the YOP allowance currently has a £8 lead over supplementary benefit. Determining the right level of premium presents considerable difficulties. It may be necessary to consider differential rates based on the benefit entitlement of individual participants.

7. The CPRS believed that many of the longer term unemployed would welcome the opportunity of a regular job benefitting the Community without the degree of financial incentive offered under the CEP. However, this view may well be optimistic and it could be argued that the offer of community work should be regarded as equivalent to the offer of a job for the purpose of testing availability for work. Refusal to accept Community work could then involve witndrawal of benefit. This would require legislation as described in the note on the Beveridge idea.

8. The reactions of the unions and the local authorities would be crucial to the success of such a scheme. The public sector unions are already sensitive about the idea of public jobs "fenced off" from the ordinary labour market, especially to the extent that the activities involved have been affected by public expenditure cuts. But there is a case for putting the unions on the spot and seeking to ensure that, if unconstructive attitudes are taken, the responsibility if known to lie with them rather than elsewhere. The reaction of the local authorities could potentially be more troublesome. The scheme would depend on a substantial build-up in the number of Community projects they were prepared to sponsor. They could not be compelled to do this without far-reaching new legislation. But some of them might be very reluctant to accede to overt central government interference in the wages they were able to offer and the penalties for non-acceptance. Many authorities might also refuse to pay less than 'the rate for the job'.

9. The costs of such a scheme would naturally depend on the number of places offered and the lead over benefit rates.

7. Further financial incentives would run counter to the principal that industry should accept greater responsibility for training. To achieve a universal impact would almost certainly entail a significant public expenditure commitment. But it might be worth exploring small scale pilot schemes, whereby grants (or tax or NIC rebates) were provided to manufacturing companies which agreed to take on new trainees on a more flexible basis. Such a scheme could be subject to a wage stop.

EMPLOYMENT SUBSIDY SCHEMES

Description

1. Professor Richard Layard has suggested that a subsidy should be offered to firms which expand their labour force and give jobs to the "long term" unemployed (ie those who have been out of work for more than 6 months). The scheme would have limited duration (perhaps 2 years), and would apply to the private sector only, and probably just to manufacturing. The main objective would be to reduce the total of unemployment, but the scheme would aim also to redistribute employment opportunities which would exist in any case so that more were taken up by the long term unemployed.

2. We have also considered two variants. The first aims to integrate the proposal with the schemes discussed earlier to put greater pressure on the unemployed to return to work. The second incorporates a wage step in the manner of the new school leavers employment subsidy.

Administration

3. The scheme would be administered by the Department of Employment's regional offices in broadly the same way as the school leavers' employment subsidy. Extra staff would be required, though there would be some comparatively small offsetting savings in the benefit service.

Assessment

(a) The Layard Proposal

4. A marginal employment subsidy would no doubt encourage some firms to expand when they otherwise would not. It would without doubt be a better way of increasing output than a subsidy which was available on all employment. This is because it would produce a significant reduction in marginal costs, whereas the same expenditure on a general subsidy (or NI remission) would be spread much more thinly and would have the same, small, effect at the margin as on average. The fact that marginal costs were significantly reduced would mean that in markets where firms can discriminate between customers, or where they faced by a given

world price, their competitive position could be significantly improved. In particular, the subsidy would improve the position of UK firms in export markets and in competition with imports (though this would, of course, tell against it in the eyes of the EEC).

5. Professor Layard is right to suggest that the immediate net cost of the scheme would be less than the gross cost because of savings on unemployment benefits. But there would be secondary costs resulting from the need to finance the subsidy. Moreover part would inevitably be wasted, going either to people who would have been taken on in any case ("deadweight") or else to people whose employment will force others onto the unemployment register ("displacement"). The Department of Employment's own calculations suggest that at least half of the money will be wasted in these ways - and a higher figure than theirs could be suggested, particularly since in the short run those firms which would have expanded anyway are likely to dominate applications for subsidies. The Small Firms Employment Subsidy, which was conceptually similar, was estimated to have had deadweight and displacement amounting to 75% of the apparent reduction in unemployment. If the subsidy per head were reduced to take account of deadweight and displacement, it is unlikely that the net cost per person off the register could be much reduced, since a smaller subsidy would be likely to have a lesser impact on employment.

6. The Layard proposal is for a scheme lasting for only two years. If there were no time limit, it would be important to take account of its longer term effects. As we have seen, a marginal employment subsidy will produce an initial improvement in competitiveness, but as trade flows respond this will tend to be removed by an increase in the exchange rate. The need to finance the subsidy would then stop domestic prices from moving to restore competitiveness to its improved position, as would be the case if the initial improvement were the result of higher productivity. In the end, therefore, the initially beneficial effects will be removed, while some adverse effects, like the possibility that the subsidy will "leak" into higher wages, will remain.

7. Clearly, given the uncertainties about how it will work, it is extremely difficult to estimate the overall effectiveness of a scheme on these lines. One estimate from the Department of Employment, based on the theoretical model devised by Professor Layard, is that a £50 a week marginal wage subsidy would be

claimed on behalf of about 100,000 workers, and that the reduction in the unemployment register would be about 50,000. The gross cost would be in the order of £250m.

(b) Variants

8. The Layard scheme would do nothing about the need to secure a reduction in real wages: indeed the subsidy could itself be the cause of higher wages. We have examined the possibilities for schemes which seek to overcome these objectives by applying a wage ceiling to subsidised private sector jobs. Two variants have been considered.

9. The first relies on the stricter enforcement of benefit rules by UROs. It is the kind of scheme which could, if so desired, be introduced on an experimental basis in a limited area. The aim would be to get private sector employers to make job offers to the unemployed which they would have to take if they were not to lose their benefits. The employment would thus be provided on a basis analogeous to the public works jobs considered in the previous section. The administrative arrangements might be either that the employer paid the employee the benefit rate, plus an allowance for his extra expenses, while receiving a subsidy equal to the benefit rate from the Government, or that the Government continued to give the employee benefit with the employer merely topping it up to cover expenses. The subsidy would be paid for a limited time in respect of each employee, say a year.

10. In order to overcome union resistance these jobs should ideally be additional to those which already exist. However, it is inevitable that the scheme would offer opportunities for the displacement of existing by subsidised workers. At the very least the subsidised employee would tend to be replaced by a new recruit from the unemployment register at the end of a year. But in addition some firms would probably be able to disguise existing jobs as new ones. Such substitution could be reduced, though not entirely eliminated, by requiring stricter proof of additionality. On the other hand the greater the extent of substitution the greater the possibilities for putting downward pressure on the level of the real wage.

11. The second variant is closer to the Layard proposal. It would probably be a national scheme. A subsidy would be available to each firm which could show that its labour force had expanded during the period in question. However, a ceiling might be imposed on the wages of workers eligible for the scheme. This might, for example, be set at some point within the lower quartile of earnings - which probably represents the sort of earnings which the long term unemployed would, in any case, expect. The object would be to stop at least part of the leakage of the subsidy into higher wages which might otherwise be expected. A scheme on these lines could be expected to lead to some overall increase in employment, albeit at significant public expenditure cost. Nevertheless it too would also produce some substitution, though again this may be welcomed as a means of reducing real wages. Indeed the scheme could in effect be seen as one of the means of publicising the need for lower real wages.

12. There are, however, practical arguments against a wage stopped scheme. There would first be the difficulty that to avoid abuse the scheme would be applied to the whole of gross remuneration. But this problem apart, there would be much greater difficulties in setting a ceiling to a scheme covering the whole range of adult workers than, for example, in one covering young workers only like the school leavers employment subsidy. It is clear that a single wage ceiling would introduce distortions. If it was set too low there would be the danger that only the least productive sections of industry would qualify. Indeed there is the possibility that within any one industry the effect of the subsidy would be to offset the market forces operating on the least efficient firms, in this case their more efficient rivals would be the losers.

ANNEX 8

RAISING THE LOWER EARNINGS LIMIT

Proposal

The lower earnings limit (LEL) for National Insurance contributions is the level of weekly earnings below which contributions are not levied (currently £27). Once this level of earnings is reached, however, contributions are levied on all earnings from the first £1. Thus for weekly earnings of £26 there is no contribution, for weekly earnings of £27 there is a contribution of nearly £6 (21.5%, made up of 7.75% (about £2.10) from the employee and 13.75% (about £3.70), including the Surcharge, from the employer.

Raising the LEL by more than that required by legislation would reduce employers' costs for the very low paid or part time earners and increase the net take home pay for that group of workers.

Administration

The LEL is set by Order each year and is, by the Social Security Pensions Act, 1975, related to the level of the basis State Retirement Pension. Thus when the pension rises to £29.60 next November the LEL would normally rise to £30 the following April.

Raising the LEL by more than the standard formula would mean breaking the link with the pension and would require legislation. If the LEL were to be raised from next April it would mean a time table something like that of the last Social Security Contributions Act, which received its first reading in late November and received royal assent on 29 January this year.

Raising the LEL by £1 would cost at least £10 million in lost revenue. There is not however, a straight line relationship. Raising the LEL by £10 to £40 would cost more than this implies.

There would be a number of consequential affects. These are:-

(a) the full rate of contribution is levied on contracted-out contributions up to the LEL. Without some countervailing action this could bring in additional revenue of £32 million. We have, however, assumed that Ministers would not want to impose this additional cost on contracted-out employers and, for the purposes of calculating the contracted-out rate of contributions would leave the LEL alone;

(b) earnings between the LEL and the Upper Earnings Limit (UEL) (determined also by Order at between 6½ and 7½ times the LEL, currently £200) are used to calculate entitlement to the earnings - related element of the State Retirement Pension. Raising the LEL without countervailing action would reduce entitlement to that benefit. Raising the LEL by a relatively small amount might be tolerable, but if the LEL were raised by substantial amounts it would be necessary to adopt a different method of calculating entitlement to that benefit;

(c) raising the LEL would, under existing legislation also mean raising the UEL (which must be between 6½ and 7½ times the LEL). It is currently £200 p.w. It could be expected to be between £210 and £225 from April 1982. An increase in the LEL to £40 would increase the UEL to between £260 and £300 p.w. Raising the UEL by £10 could bring in additional revenue of about £100 million; but would add to the States' earnings related pension obligations, in the longer run, and increase the marginal tax rates of middle managements;

(d) those workers who fell below the enhanced level of the LEL would be removed from entitlement to short term contributary benefits (such as unemployment and sickness benefit); would not build entitlement to the basis state retirement pension; and might also lose some entitlement to the earnings related element of the pension;

(e) it would also have the effect of making the drop in incoming and increased cost to employers once the LEL was reached more marked.

One way of coping with the last of these problems would be to make the LEL a slice exemption, that is, charge no contribution below the LEL and at the standard rate on each £1 of earnings above that. The cost of such a move, however would be very high indeed, of the order of £4 billion in lost revenue if the current LEL were retained, substantially more for a higher LEL. To recoup this loss of revenue to this NI Fund would require an increase in all contribution rates of 4 percentage points.

Assessment

Raising the LEL but at the same time protecting contributors and beneficiaries from the adverse consequences would create substantial

an alies with the present system. These anomalies are not necessarily, intolerable.

A simple increase in the LEL (ie. retaining the current arrangement for charging from the first £1 once the LEL was reached) by £10 from the £30 level likely otherwise to apply from next April to £40 would affect a relatively small number of employees and a small part of employers' NIC and NIS bills, unless changes in employment and wage levels for the very low paid had a knock-on effect on the better paid.

For those paid less than the new LEL there would of course be both increased demand for labour and an increased incentive to work, so that one would expect some extra employment. The effect on incentives, however would be quite small. The ratio of income out of work to income in work would only show a small change. Nor would the problem of the poverty trap be significantly eased: much the most serious problem is for those earning between £42 and £72 a week (at least for a couple with two children). Even if the LEL was raised as high as £72 the effective marginal rate of tax would only drop from about 104% to about 96%.

It is uncertain whether pre-tax wages would rise or fall: employers would be more eager to attract this type of labour, but employees would not require such a large gross wage to achieve a given net income.

Those earning wages as low as this are likely in the main to be young people and part-timers. So one would expect the extra employment to be amongst these groups. Conceivably this could be at the expense of adult full-timers: it would be cheaper for an employer to pay two part-timers £30 a week than one full-timer doing equivalent work at £60 a week.

The measure bears some similarities to the Walters scheme for a £15 subsidy to young people earning less than £40 per week, especially if £40 is where the LEL were to be set. The reduction in contributions is on a smaller scale - £8.38 (employers and employee together) for someone earning £39 a week - and there is no limitation on the age or experience of the employee. The measure is thus less "targeted" on a particular problem group. But one argument used in support of the Walters scheme was the knock-on effect on the wages of other groups.

On the same argument it is possible that those earning just over the new LEL might come under pressure for a reduction below it, or . . . be replaced with others prepared to work for less than it (indeed, employees ought to be indifferent between a wage of £42 and one of £39, just as now they ought to be indifferent between £25 and £27). This might in turn apply pressure higher up the scale. But it is hard to imagine why pressure of this sort should be expected to restore market-clearing wages if a recession of the scale we are currently experiencing is not expected to do so. This tends to suggest that even a very substantial increase in the LEL would have little beneficial effect on employment or real wages.

Especially if coupled with a matching increase in the UEL this might have some political attractiveness since it would tend to re-distribute income to the very lowly paid and would have a positive, albeit small, incentive effect. On the other hand it would create substantial anomalies within the Social Security System, would remove some from entitlement to contributory benefits (though in return for higher take home pay). The closer the LEL come to the level of full time adult male pay the more likely it would be to create substantial anomolies within the basic structure of pay and might have the effect of making two quite distinct bands of pay.

As far as concerns a move to a slice exemption for the LEL, the loss of revenue would be very high and would need to be re-couped for substantially higher rates of contribution (shifting the UEL upwards would probably not produce anywhere like the additional revenue needed) the burden of which would, necessarily, fall primarily on middle income groups. It is difficult to see that it would be worth retaining contributions as a test of entitlement when most low paid would pay little if any contribution. There would be little point in retaining a contribution distinct from tax. The pros and cons of a move away from contributions are displayed in the TASS report recently put to Ministers.

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Qa 05663

4 September 1981

To: MR LANKESTER

From: J R IBBS

Merseyside

1. The Secretary of State for the Environment's report contains a large number of proposals affecting a wide range of policy areas, differing in time scale, in their significance and in their implications for expenditure. The Prime Minister may find it helpful for her meeting on Monday to have the attached summary. Its primary purpose is to distinguish between issues which could be decided immediately and those (the great majority) on which further work is required. It also gives some indication of those for which substantial additional resources are likely to be needed. Although this list is formidable, it is unlikely to be exhaustive; other Ministers may have further suggestions to offer.

2. While the problems discussed by Mr Heseltine are complex, I think that in Merseyside the problem of economic decline of the area overshadows them all. Male unemployment is already over 20 per cent in the County as a whole, and around 50 per cent in some of the inner areas. The consultants commissioned by Mr Heseltine estimated that perhaps 50,000 - 100,000 more jobs will disappear in Merseyside in the next five years, with only a few thousand being created. They pointed out that only 7 per cent of the public sector budget is aimed at economic development, and much of that indirectly. In my view, a primary aim of any increase in, or redistribution of, resources allocated to Merseyside, must be to regenerate the area's economy. Without this, other resource inputs are likely to be lost in the continuing decline. At present there is insufficient evidence to arrive at a systematic figure for any additional resources for Merseyside - although further work may help. However this need not prevent Ministers from forming a view of an upper limit that might be afforded. The unpalatable truth may be that the decline is unlikely to be halted; if so the harsh implications need to be analysed and faced up to.

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3. The Secretary of State is quite clear about the need to seek to regenerate the Merseyside economy. Two of his proposals are immediate steps in this direction: the role he envisages for himself vis-a-vis Merseyside for a further year, and the creating of a single regional office for the area. Some additional mechanism is needed which brings together all the various parties to minimise duplication and conflict and to ensure effective focussing of efforts. It should be an objective of the Secretary of State's proposed review of the inner city partnership arrangement, to see whether it could be developed into such a mechanism.

4. In order to secure maximum value for money, these changes should be accompanied by a greater degree of flexibility in, and between, programmes at the regional level along the lines suggested by the Secretary of State. Because this would cut across Departmental responsibilities and pose problems for public expenditure control, such flexibility could not be immediately introduced. This need not delay the institutional changes described in paragraph 3 above.

5. In addition to the Government's own role, it is of course vital to harness the resources of the private sector to maximum effect. The specific initiatives announced by the Secretary of State are a start. But the role of the third party involved - local Government - is still unclear. I think it is important to clarify the economic development functions of local government, and to eliminate duplication both between the two tiers, and between local and central government.

Other areas

6. But all these problems are not unique to Merseyside; several other older conurbations are facing a similar decline. The underlying issue is what part Government policies can play in the economic regeneration of these areas, when natural economic forces are leading to a continued local decline. Regional policy as currently defined does something to counteract the forces of decline but the problem - and the instruments for addressing it - go wider. The CPRS is examining these matters on

the basis of a remit from MISC 14.

7. The Secretary of State envisages that his main proposals for Merseyside - including a special Ministerial role - would also be applied to the other conurbations. My own feeling is that this needs further thought. Concentrations of deprived people are not confined to the conurbations; not all conurbations have an economy in chronic relative decline; in some areas the problems of ethnic minorities loom larger than they do in Merseyside. Moreover the problems of deprived people need not all be tackled on an area basis; there may be room for national initiatives targetted to particular groups.

Conclusions

8. Briefly my conclusions are that:

i. the proposals for a special Ministerial role for Merseyside, and for a single regional office there should be supported; the items dependent on local cooperation (listed at Aii in the Annex) should also be encouraged;

ii. an aim of the proposed review of the inner city partnership should be to promote an effective mechanism for concerting economic development efforts in Merseyside;

iii. a high priority in Merseyside should be given to proposals which would lead to the regeneration of the local economy; if further work indicates that within the various constraints the economic decline is unlikely to be halted, the implications must be analysed and faced;

iv. there should be further inter-departmental work on the wider policy proposals of the Secretary of State i.e. those under B in the Annex to this note plus any further suggestions;

v. further thought is required to decide which (if any) other geographical areas merit special attention, and what approach should be adopted for them.

9. I am sending a copy of this Minute and Annex to Sir Robert Armstrong only.

JK

Summary of proposals in the Secretary of State's report on Merseyside

A. Possible immediate action

A(i) For decision by central government

1. Secretary of State to continue with his special Merseyside role
2. Single regional office for Merseyside
3. Review the Merseyside partnership arrangements
4. Ministers for other conurbations (but probably requires further consideration)

A(ii) Dependent on local co-operation in Merseyside

1. Rationalise economic development agencies
2. Link the police with planning inner area policies
3. More community based housing management
4. Specific changes to some of the schools
5. Closer partnership between industries and the University
6. More sports facilities - including using private sector funds

(NB. 3, 4 and 6 may have resource implications locally.)

B. Policy reviews requiring further work (asterisk denotes need for legislation. Further work might reveal that other items also need legislation)

1. Constitutional points
   - *(a) abolish Metropolitan counties
   - *(b) abolish triennial election for district authorities
2. Improve MSC activities
   - (a) involve private sector in job creation by changing MSC rules on private gain
   - (b) expand training opportunities, improve YOP and let it lead to qualifications
3. Race issues
   - (a) better job prospects for blacks
   - (b) Government lead in race relations as recommended by the Select Committee

(c) Local Authorities to do more to eliminate discrimination, including in education

(d) more effective consultation with blacks

4. Police issues

(a) more policing on the ground

(b) more black policemen

(c) better training for the police

5. Education issues - a more active role for DES to ensure, e.g.

(a) more community use of schools

(b) some adjustment of curricula to local prospects

(c) closer tie up between Further Education and training

6. Voluntary organisations

(a) greater continuity of grant aid

(b) pay volunteers' salaries in poor areas

*(c) urban programme grants to be able to be given to organisations without going via local authority

(d) higher level of urban programme grants

7. Private sector involvement

(a) consider how to make best use of managers from financial institutions

(b) consider wider use of public funds as leverage to secure private sector contribution

*(c) allow building societies to build for rent

8. Review of regional and industrial policies

(a) need for co-ordinated area-based industrial and employment policies

(b) more encouragement for small businesses

(c) more flexibility in existing regional policy assistance for service industry

(d) reconsider shifting more Civil Service jobs from London

9. Decentralisation of resource allocation and decision taking

(a) Minister for Merseyside (and any in other conurbations) to have some power to act locally on behalf of colleagues

(b) any extra resources to be at the disposal of this Minister.

C. Proposals for more resources and/or re-allocation

1. Many proposals, some very costly, are likely to result from the policy reviews in Section B – amount unknown until reviews done

2. Higher level of activity in the construction industry

- to improve conditions and get people off the register
- by major public works e.g. clean up the Mersey, renew the sewers, prepare sites
- reverse some of the housing cuts

3. Bend main programmes, especially capital, to Merseyside and other conurbations

4. Any extra funds not to be added automatically to main programmes

Ref: P0528

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PRIME MINISTER

Secretary of State for the Environment's Report on Merseyside etc.

Purpose of Meeting

You no doubt intend this meeting to take the form of a Second Reading debate on the Secretary of State for the Environment's report. More work will need to be done by officials before Ministers can be asked to take specific decisions. But in order to focus this work properly, Departments will need a political steer on some basic issues.

Nature of the Problem

2. You may wish to begin by defining more clearly the nature of the problem which the Government is trying to solve, in particular:

(a) How far is it a problem of economic decline in certain areas, and how far a problem of law and order, and race relations?

(b) Are we concentrating on improving the situation in Merseyside, or trying to develop a new policy for inner cities?

3. On (a), Ministers may well conclude that on the evidence so far there are two overlapping problems. Some places, such as Merseyside, have both problems; some places (e.g. Glasgow so far) suffer from economic decline but have not had riots; some places (e.g. Southall) are not, relative to the country as a whole, suffering from severe economic decline but have had riots. The main emphasis of the report is on the problem of economic decline, although there are comments about the police and race relations on pages 4 and 13 - 15. The relative weight to be attached to these two problems is very much a matter of political judgment. Lord Scarman's report which the Home Secretary expects in mid to late October could have a bearing on that judgment. Given that some action is probably required on both fronts, Ministers will

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nevertheless wish to consider what the balance should be between action related to economic decline and action on law and order and race relations, and whether more work needs to be done on these latter aspects.

4. On (b), the geographical dimension, there is a fundamental difficulty. The Secretary of State's visit was to Merseyside only and the factual material in the report, apart from the unemployment figures for other conurbations in Annex A, is confined to Merseyside. Ministers have also had a CPRS report on that area. But the report's main recommendations are of a general nature. Merseyside has some special characteristics (e.g. the nature of the ethnic minority, the composition of the workforce, the decline of the port, the location of regional headquarters in Manchester, the odd political situation in the City of Liverpool). It would seem risky to base major general policy changes on this report. On the other hand, new help cannot be given to Merseyside without considering the implications for other areas - perhaps not just the conurbations but other inner cities (some of whom have also suffered disturbances and already receive grants under the Urban Programme), and other parts of the United Kingdom (see the Secretary of State for Scotland's minute of 31st August).

5. It may therefore help clarity in discussion to consider first what can and should be done for Merseyside over the next few months, bearing in mind the expectations aroused by the visit and report. The general policy issues will need to be considered over a longer timescale. The remainder of this brief comments on the report's main recommendations under the following headings:

(a) Resources

(b) Machinery of central Government

(c) Local government

(d) Involvement of the private sector

(e) Regional industrial policy

Resources

6. There are three related recommendations on resources: we should "secure maximum value for money from present programmes" (page 7); we should put more resources "into Merseyside and the other conurbations at the

expense of other parts of the country through bending the distribution of the main /existing capital/ programmes" (page 18); we should spend extra money "next year and the year after on Merseyside (and the other conurbations) in alleviating conditions and getting people off the unemployment register in ways which secure long-term benefits" i.e. perhaps "a net £100 million a year, after allowing for savings in unemployment benefits" (page 19). (NB. We understand that this figure relates to Merseyside alone.)

7. No-one is likely to disagree with the attempt to secure maximum value from existing expenditure. Arguably the Government should not commit extra resources without first getting a better return from existing resources or at least understanding why a better return cannot be secured. There may however be some obstacles to change which are difficult to remove, e.g. existing local government structures (see below) and genuine conflicts of priority with national policies such as regional industrial policy (see also below). This problem needs further analysis, both in Merseyside and more generally.

8. The idea of redeploying resources from existing capital programmes in favour of the inner cities is also attractive. But the report does not attempt to estimate what the scope for this might be even within the DOE's own programmes on Merseyside, let alone within other Departmental programmes and in the conurbations more generally. Further work needs to be done to identify what might be feasible.

9. The proposal for extra money is difficult to assess even in the narrower context of Merseyside. The figure of £100 million net is based on the assumption that this might create 20,000 extra jobs and a political judgment that this is the scale of resources to deploy. However it is not clear what strategy for Merseyside underlies this. How viable economically do we believe Merseyside to be in the longer term? What can we realistically expect to achieve over the next two years? Are there in fact worthwhile ways of spending money on this scale which will reduce unemployment? How many of the extra jobs would be temporary and confined to the construction industry? Would the law and order and racial problems be eased? If Ministers believe that extra resources for

Merseyside might be justified, they may nevertheless consider that the bid should be built up from specific proposals related to clear and realistic objectives, and considered against other competing claims on the national economy. Further work is again required.

10. So far as other conurbations are concerned, we are even further away from judging what extra resources might be justified. On the other hand it would be difficult to announce substantial extra resources for Merseyside without arousing resentment or expectations elsewhere. If the conclusion for Merseyside is that no extra resources or only marginal extra resources should be provided, there is no serious problem. Otherwise the further work on Merseyside will have to be paralleled by some urgent study of the need for extra resources in other conurbations or inner cities.

Central Government Machinery

11. Changes in Government machinery can be justified not only to promote operational efficiency but also for psychological and presentational purposes. But this can be counterproductive either at the outset, if the changes appear purely presentational, or subsequently, if expectations are aroused which cannot be fulfilled. Considerations of the machinery proposals will therefore turn partly on how far extra resources are to be made available.

12. So far as Merseyside is concerned, there are two proposals - that the Secretary of State for the Environment's remit should be extended for, say, one year, and that there should be a single regional office in Liverpool (pages 7 and 8). It is not clear whether the single office is meant to be an attempt to move from Manchester and bring together in one location the substantial number of regional officials concerned with Merseyside, or merely to have in Liverpool a small multi-departmental "project team" and whether a new separate unified office is meant or merely the co-location and co-ordination of officials from existing Departments. Any major organisational upheaval would need strong justification. However the provision of a small multi-departmental project team under a co-ordinating official in Liverpool for a year or so could be organised quickly and without great cost. This might also be an appropriate organisational response even if the task was confined to getting maximum value out of existing expenditure and redeploying existing programmes.

13. It is however proposed to appoint Ministers with special responsibilities for other conurbations and also (page 19) that extra money should not be "added automatically to main programmes in the usual way" but that the new Ministers should have "considerable discretion in deciding how it should be spent". Presumably there would also be single local offices in support of these other Ministers. There are some obvious difficulties in these proposals. Since we do not know what if any extra resources might be justified in other conurbations, there is a serious risk of unfulfilled expectations. There is the problem of inner cities outside the conurbations. There would also be considerable confusion if the "conurbation" Ministers were to have financial responsibility for additional expenditure in their areas, thus cutting across the responsibility of functional Ministers - as opposed to acting merely as local stimulators and co-ordinators. There is too the question of how the new territorial Ministers would relate to the police in their areas and to the Home Secretary. Reconciling the activities of the territorial and functional Ministers would in any event require new Cabinet Committee machinery both at Ministerial and at official level.

14. Ministers may conclude that, even if the Secretary of State for the Environment's Merseyside remit is extended, much further study is needed before the same recipe is adopted elsewhere or before any radical innovations in financial responsibility are attempted. Other options which might be worth considering are: one Minister with special responsibility for all English inner cities; a special programme of visits to the conurbations by Ministers with functional inner city responsibilities; the appointment of multi-departmental project teams or task forces in other conurbations without public Ministerial involvement.

Local Government

15. Based on his Merseyside experience, the Secretary of State has made two radical proposals for local government reform - the abolition of the metropolitan counties and the GLC, and possibly of annual elections of parts of district councils. The Home Secretary will have views on these politically very sensitive issues. But it is, in any case, for consideration how far the

Merseyside experience can be generalised. The main question is whether action on this front would help or hinder in the solution of the inner cities problem. It is unlikely that any change could take effect in the life of this Parliament and in the meantime co-operation with key local authorities would be made more difficult.

16. If Ministers decide on a policy of devoting more resources to the inner cities and particularly if there are radical changes in central Government machinery, care will be needed to reconcile this with local government policy more generally (the new block grant, holdback, etc.), and to avoid the appearance of seeking to take responsibility for local issues out of the hands of local authorities.

Private Sector Involvement

17. The report stresses the desirability of involving the private sector more closely in the solution of inner city problems and there is much obvious merit in this. The role of the 30 young managers seconded by the financial institutions (page 9) is not however clear. It looks as if they are primarily engaged in some kind of general study. But it is important that this scarce resource should not be wasted in duplicating findings which have already appeared in the Wilson Report or in published material about the USA and West Germany. It is also unclear how far their activities are intended to be concentrated on Merseyside rather than more general issues of urban development. The Secretary of State might be asked to spell out more precisely what useful work will be assigned to them and what concrete results are expected.

Regional Industrial Policy

18. The report argues that regional assistance has not been well suited to the needs of Merseyside (page 2) and, more generally, that regional industrial policy "should reflect a greater emphasis on areas facing both high unemployment and grave social stress" (page 10). It draws attention particularly to the fact that expenditure on Regional Development Grants (RDGs) is automatic and slanted towards manufacturing industry and that much of the selective assistance goes to the fringes of the Merseyside conurbation rather than the inner

area. The proposals are therefore for more use of selective assistance, more focus on the worst hit parts of the conurbations, and more help for service industries. The CPRS made some similar points in its Merseyside Report and will be preparing a paper on regional policy for MISC 14.

19. The Secretary of State for Industry may point out that the Government is committed not to interfering with RDGs in the life of this Parliament. He may argue that there is little further scope for using selective assistance to distort private sector decisions about industrial location in favour of the inner city areas, bearing in mind that in Merseyside there is already an Enterprise Zone, and Urban Development Corporation, and a readiness by the English Industrial Estates Corporation to provide small factory units in the inner city area if sites can be found. He may however agree that more help could be given to service industries under the existing scheme if extra resources were available and that it would be helpful to get more public sector office jobs to Merseyside. He may also welcome the CPRS study of regional policy even though major changes may have to be deferred until the next Parliament.

Points for Decision

20. You may wish to try and reach conclusions on the following main points:

(a) What the balance of emphasis should be between action concerned with economic decline and action concerned with law and order and race relations, and whether more work is needed on the latter.

(b) Whether the immediate priority should be to settle what can be done for Merseyside in the short term, leaving the more general policy issues for consideration over a longer timescale.

(c) Whether further work on resources for Merseyside should be on the basis of:-

(i) no extra resources (i.e. how to get maximum value from existing resources, and possibly also shifting resources in favour of Merseyside/inner cities within existing programmes); or

(ii) some extra resources, if specific proposals with clear and realistic objectives can be justified; or

(iii) the assumption that £100 million net of extra resources for Merseyside is politically desirable.

(d) Whether central Government machinery changes should be confined for the time being to an extension of the special Ministerial remit for Merseyside, possibly supported by a small project team in Liverpool.

(e) Whether and, if so how, the proposals for local government reform should be further pursued.

(f) Whether the proposals for private sector involvement should be further clarified and developed.

(g) Whether, in addition to the CPRS study of regional policy, there should be a remit to officials to report to Ministers on the general policy issues affecting inner cities with special reference to those identified in the Secretary of State for the Environment's report, but possibly also (depending on (a) above) giving more emphasis to law and order and race relations issues.

Further Work

21. The nature and extent of future work depends on the conclusions reached. It is however likely to go well beyond the responsibilities of the DOE. Some Ministers might welcome an official group under Cabinet Office chairmanship, both to supervise the short-term work relating to Merseyside and to look at inner cities policy generally. You may wish to discuss this with Sir Robert Armstrong, and also the arrangements for further Ministerial consideration of the Secretary of State for the Environment's report (circulated to all members of the Cabinet) and the policy issues raised in it.

P. L. Gregson

P.L. Gregson

3rd September 1981

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From: THE PRIVATE SECRETARY

HOME OFFICE
QUEEN ANNE'S GATE
LONDON SWIH 9AT

3 SEP 1981

Dear Mike

LIVERPOOL RIOTS

I understand from John Halliday, who is at present on leave, that the Prime Minister requested information on riots in Liverpool earlier this century. I attach a brief note, prepared in the Home Office.

Yours sincerely

C. J. WALTERS

Mike Pattison, Esq.

LIVERPOOL RIOTS

Liverpool has suffered from a number of waves of rioting this century, with a variety of causes. The major disturbances prior to the Second World War were as follows:

i) 1909. This had its roots in the latent hostility existing between parts of the Protestant and Roman Catholic communities in the city. This came to a head when it was rumoured, wrongly, that a Catholic procession would involve the carrying of the Host through the streets; this would have been in contravention of provisions of the Catholic Emancipation Act 1829. Counter-meetings and demonstrations were organised by various Orange Lodges and other extreme Protestant factions under the leadership of a Pastor George Wise. The resulting disorder in June 1909 involved considerable injury and property damage. An inquiry was set up by the Home Secretary into the conduct of the police (Wise, who had many supporters on the City Council, complained of the Head Constable's anti-Protestant bias and of police brutality towards Protestants), and the causes of the disturbances. The report cleared the police, and declared the main causes of the riots to have been mutual intolerance, misunderstandings on the part of the Roman Catholic community and the demagoguery of Pastor Wise and his colleagues;

ii) 1919. There were two separate series of riots in 1919. The first, in May and June, was racially inspired, taking place mainly in the dock areas between whites, including a number of Scandinavian seamen, and members of a variety of non-white races, including West Africans, West Indians, Malays and Arabs. The numbers involved were relatively small, but the riots themselves so violent (involving two murders) that, for their own protection, 700 West Indians and West Africans had to be confined in the main Bridewell. The causes seem to have been partly economic; the West Indians and other had been brought over to fill the jobs vacated by conscripts during the War, particularly as sailors and dockworkers. Demobilisation led to a considerable labour surplus, and a large measure of resentment against those considered by ex-servicemen to be responsible for it. The other main cause was simply racial tension: the attached press cuttings, relating primarily to the Cardiff riots, give the flavour of this.

The second series of riots, in August 1919, was prompted by a strike of Liverpool police, and again ex-servicemen were in the forefront. These were larger scale, and resulted more in looting than in violence.

iii) 1931. In September 1931 there were mass demonstrations of the unemployed, designed, according to Liverpool's Assistant Chief Constable, "to intimidate the Public Assistance Committee" into granting increases in the dole. But although thousands of people were involved, there was no serious injury and only minor damage.

iv) 1938. The disorder in Liverpool in 1938 was, as with that of 1909, religious in origin; but it was on a relatively minor scale.

It is thus clearly true that Liverpool has a history of public disorder. But there are two important qualifications to be made to this simple statement. First, the riots (some of which do not truly merit the name) varied widely in severity, numbers and type of people involved, degree of violence and property damage and underlying and immediate causes. Second, Liverpool was no more subject to public disorder than a number of other places. The disorder arising from Fascist meetings in the East End in the 1930s was far more severe than anything suffered in Liverpool in that decade. The disorder during the 1919 police strike was matched by riots of unemployed young people in many parts of London. And the 1919 racial riots were among a number of such in several British seaports, and were surpassed in severity by those in Cardiff, a city suffering similar problems, in which several people were killed; see the attached press cuttings.

HOME OFFICE
17 JUN 19
RECEIVED

Daily Express,

14th June 1919

LICENSED RIOT.

National self-respect is wounded severely by the continuance of black v. white riots in South Wales. A sorry business has been allowed to go on for days, and lives have been lost on each side, while the Government has neglected the stern repressive measures which were obviously needed. The first necessity is that these insane riots—in which men whom we brought over to fight for us are killed for a race prejudice excited by the folly of certain women—should be stopped. The next is that a campaign of education should reveal to white women the well-founded horror in which their intimacy with blacks is held. This is no less necessary because feeling thus aroused has been intensified by the conviction that black men were getting jobs that should have been reserved for demobilised soldiers. We have to put down a tyrannous persecution of races which enjoy the liberties of the flag of our Empire. We have also to remove the causes of inevitable offence.

W. Scott

Sunday Express.

15th June 1919.

STOP THESE RACE RIOTS!

Mob-law is no law. A vengeful, infuriated mob is one of the most terrible things on earth, because a mass of excited human beings will be so swayed by the ruthless mob spirit that they will be collectively capable of committing excesses that would never be dreamt of by the individual. The race riots at Cardiff and Liverpool cannot be condoned or excused by any thinking citizen. It is naturally offensive to us that coloured men should consort with even the lowest of white women. Racial antipathy is always present, the sex jealousy inflames it to a violent, unreasoning wave of emotion. To add to the resentment, it is suggested that the black men are holding white men's jobs. These things account for the riots, but do not excuse them. There has been a sacrifice of life and property, shameful things have been done, and there has been an hysterical attempt to establish the worst excesses of lynch law. The balance of blackguardism has been transferred from the coloured element to the white mob, and it is time that firm action is taken against any unruly rioter who attempts to provoke a breach of the peace.

HIGHLY CONFIDENTIAL

2 September 1981
Policy Unit

PRIME MINISTER

MICHAEL HESELTINE'S PAPER: "IT TOOK A RIOT"

This is just to say that we will be putting in a paper circulated to the colleagues who are attending next Monday's meeting.

We do not think that the Heseltine paper, interesting though it is as a snapshot of the present situation, is an adequate basis for action. There is no causal analysis and it is therefore difficult to know whether the proposals have much chance of working. Even if they do, the organisational approach seems to us unlikely to work well in practice. Our paper will suggest the type of analysis needed and a possible approach for organising what is really an R&D type project and for negotiating with the local interest groups over money they might receive from the Government and how it is to be used. Basically, our approach is that they should bid for funds, putting up proposals for solving the problems; with the Government acting as the banker evaluating those proposals and deciding whether to back them with money; but this means that the Government must have the capability for evaluating those proposals.

We certainly do not think that any "go" decision can be made on the basis of next Monday's discussion. I will be away on holiday next week, but Norman Strauss could sit in at the meeting as he has been most heavily involved in our work on the Toxteth paper.

I am copying this minute to Geoffrey Howe.

JOHN HOSKYNS

file

10 DOWNING STREET

From the Private Secretary

2 September 1981

Original filed on:—
Ind PDI: Meeg with TUC: Pt 3

Dear David

I enclose the record of the Prime Minister's discussion with the TUC about inner city policy, which took place here yesterday.

I am copying this letter and enclosure to John Halliday (Home Office), Terry Mathews (Chief Secretary's Office, HMT) and Richard Dykes (Department of Employment).

Yours ever

Mike Pattison

D.A. Edmonds, Esq.,
Department of the Environment.

subject copy filed on:—
Industrial Policy: Meetings with the TUC: Pt 3.

NOTE OF A MEETING WITH TUC REPRESENTATIVES ON POLICY FOR THE INNER CITIES HELD AT 1500 HOURS ON TUESDAY 1 SEPTEMBER AT 10 DOWNING STREET

Present:

Prime Minister

Home Secretary

Secretary of State for the Environment

Secretary of State for Employment

Chief Secretary

Mr. A.W. Fisher
Chairman, TUC General Council

Mr. D. Basnett
Chairman Economic Committee

Mr. G.A. Drain
Chairman, Public Services Committe

Mr. K. Gill
Chairman, Equal Rights Committee

Mr. C. Jenkins
Chairman, Education Committee

Mr. W.H. Keys
Chairman, Employment Policy and Organisation Committee

Mr. T. Parry
Chairman, Social Insurance and Industrial Welfare Committee

Mr. L. Murray
General Secretary.

Mr. N.D. Willis
Deputy General Secretary.

Mr. K. Graham
Assistant General Secretary.

Mr. D. Lea
Assistant General Secretary.

Mr. B. Barber
Press & Information Officer.

Mr. B. Callaghan
Secretary, Economic Department.

Mr. R.A. Jackson
Secretary, Education Dept.

Mr. P. Jacques
Sec., Social Insurance and Industrial Welfare Department.

Mr. J. Monks
Sec., Organisation and Industrial Relations Department

Mr. P. Ashby
TUC Office

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The Prime Minister

The Prime Minister, welcoming the TUC representatives, said that the state of the inner cities was a difficult, serious and deep problem which successive Governments had attempted to tackle with limited success. Mr. Fisher said that the TUC had issued its document early in July. This happened to coincide with the disturbances in several major cities, and therefore focussed national attention on what the TUC saw as a major problem. When meeting the Prime Minister the previous October, the TUC had hinted that the range of problems facing the country could lead to social unrest in some of the cities. These potential effects of going further into recession, with high unemployment, had now come to reality.

Outlining the key points in the TUC document, Mr. Murray said that the TUC claimed no monopoly of concern or wisdom, but hoped that their suggestions would help to concentrate minds as the Government tackled the problem. The events of July were, in a sense, a distorted mirror image of many of the problems in our society. The TUC, through its various committees, had been working on individual aspects, such as occupying the unemployed, and the issues of ethnic minority education. The shock of the riots had emphasised a sense of alienation and polarisation. It would be less than honest to deny that the TUC thought the Government's policies had contributed to a new divisiveness. Unemployment was a major factor. There had been a diminution in respect of law and order. The TUC had always condemned the use of violence, but did not believe that the police were above criticism. In setting out the proposals for improvements, the TUC had suggested a comprehensive programme, emphasising above all the need to provide work. This involved more resources, but, in their view, the social need coincided with sensible economics. The TUC had never simply believed in throwing money at problems. It would be mainly for the Government to respond to their proposals as action lay within the Government's power. They acknowledged that there was an issue of priorities. They did not believe that mere diversion of resources was the answer, and the document made the case for additional resources. The young unemployed were a special problem. The TUC acknowledged that the Government had made moves to help them with the July package, but aspects of

/this

this seemed misconceived - especially tying some of the support to the wage levels of some of the people. There was also growing criticism within the trade union movement on aspects of the Youth Opportunities Programme. An effective training element was essential. Without this, there was a risk that union support would be undermined. The trade union movement was looking for a comprehensive national commitment, involving Government, unions, and employers. The TUC shared much of the approach of the Home Affairs Select Committee on race relations.

The Prime Minister said that she and her colleagues were about to start discussing Mr. Heseltine's report on his visit to Merseyside and would also be looking at Mr. Scarman's report when that was complete. The day's discussion could not pre-empt specific issues to be looked at in that context, but she would ask Mr. Heseltine to outline his impressions from his visit. She emphasised that he had gone to Merseyside as an example of an urban area with major problems. There was no intention to concentrate on one to the exclusion of others. Many areas shared the problems caused by the decline of traditional industries. The Government had offered certain special programmes, for example on education, for some years, but the problem had still not been solved.

Mr. Jenkins commented that the state of inner city schools was continuing to decline. There was a wide disparity in standards between different LEAs. Population migration worsened the inner city position. The TUC felt that unemployment was at the heart of these problems, and would get worse as new technologies threatened office movement. Young people were left in a hopeless situation if they had no prospects of work after receiving their basic education. The Prime Minister commented that Liverpool had at least two modern schools (Netherley and Paddington) with the best equipment, one of which she had opened herself as Education Secretary. Now those schools could not fill their roles.

/The Secretary of State

The Secretary of State for the Environment said that his report to the Prime Minister and colleagues must remain private, and decisions on it would have to be discussed collectively. Whilst he could not therefore press particular ideas that he might have put to colleagues in the present forum, he could set out his impressions from a two and a half week visit to Merseyside, in which he had been free to find out for himself how people had reacted to recent events and what their pre-occupations were. First, the central problem was a national one, of which the inner cities were only a part. In general, the inner cities could not offer the same quality of life as the leafy suburbs. Those in a position to do so inevitably decided to move out. Those left behind all tended therefore to be the unskilled, handicapped, etc. The local authorities were left to provide for these groups, and the problem was thereby compounded as the areas became increasingly unattractive for other sections of the population. Industry generally was now controlled from London. Even the unions themselves were now centrally organised. Central and local Government seemed both massive and distant. He had been accused of cutting subsidies to these areas. But nothing he had seen changed his view. He was seeking to cut current consumption, so that he could press for restored capital programmes from the resources thus released. The previous Government had already cut capital programmes by half. In the inner cities, the level of rates was a further disincentive to new investment decisions in the private sector. The situation was desperate, and it was international. The traditional approaches to these problems would not reverse the decline, but could only delay the process.

Mr. Fisher commented that public expenditure cuts were blamed for the social tension in the inner cities. In those areas there were often very few jobs outside the public sector. It was not possible simply to turn the tap off and expect no reaction. Mr. Heseltine said that to any policy change there were opposing vested interests, ... yet many local authorities had achieved the Government's 5.6 per cent target. It was this

/kind

kind of effort which could release resources for more creative expenditure. He had not cut the metropolitan counties' share of funds except in reversing the last Government's expansion of spending for London.

The Home Secretary said that it was important to look at the police service in the right perspective. The riots had been a dramatic experience for those in the police and responsible for the police. Other countries had had even worse experiences, but our police service had been facing considerable strains for many years. There was certainly scope for improving police/community relations in some areas, and he would never wish the police to be above criticism but it was too easy to judge the service as a whole on the basis of the instinctive reactions of the rawest recruit. He did not accept that Chief Constables tended to cover up lapses, indeed, in the disciplinary cases which came to him on appeal he often felt that the Chief Constables had been too tough. There would always be mistakes, but in very difficult circumstances. People were quick to criticise, and slow to praise when policing was effective and thoughtful, as - for instance, over the previous weekend in Nottinghill. He had heard from the Liverpool police of the provocation they faced - with officers brought from outside to help - during the protest march against the Chief Constable.

The Chief Constable had judged that he should not apply for a ban. The result of the provocation was to polarise relations between the police and much of their community. Co-operation between the Chief Constables and the police authorities was essential. He was trying hard to calm down the unfortunate breakdown on Merseyside. The right sort of police training was essential, and improved recruitment offered the necessary flexibility for this. There was a great deal to be done. He was also anxious to see more coloured policemen, although this was proving difficult both on grounds of educational achievement and because, in the riots, coloured policemen had often been particular targets.

/Mr. Keys

Mr. Keys said that he was shocked at the hostility shown during the riots. The environment in which many young people were living promoted violence. The Government's policies had very much accentuated the differences. The July package of employment measures was far too little. Young people were losing all confidence. YOP was not expanding in sensible ways. The £23.50 allowance was becoming a matter of ridicule. This problem of offering hope for the young was crucial. Government had to tackle it effectively and quickly. In particular, the present recession must come to an end before too long, and this surely provided an opportunity to invest in the young. Serious efforts needed to be taken on the training front before employers joined unions in losing confidence. The Government also had obligations to the old. The TUC were very much in support of the new training initiative, but this was on the understanding that there would be a statutory underpinning, and that the necessary resources would be provided.

The Secretary of State for Employment said that the problems were deep seated, and could not be resolved simply through by throwing a bit of money at unemployment. He welcomed the TUC's constructive attitude to YOP. The Government were by no means complacent. The youth programmes had had to expand at a tremendous rate, which created problems. A better training element would be the best prevention of abuse. In his discussions with the Environment Secretary, they recognised the need to work on what inner city people could do for their own communities. Resources had been significantly increased. It could yet need more, with better use made of them. He did not think that the YOP allowance was subject to ridicule nationally. There were many more people now going into the programme, and there was still a gap between the allowance and supplementary benefit rates. With improved training, the scheme would continue to work. As regards the statutory underpinning of training, statutory boards would continue in some areas. The MSC had indicated to him where voluntary arrangements might be able to take over in others. The Government was well prepared to meet the need and accepted the challenge. He was keeping in touch with the TUC view, and would work closely through MSC.

/Taking

Taking the discussion back to the wider issues, Mr. Basnett emphasised that the TUC would give top priority to the problems of the inner cities. There was a threat of destablisation of our society in these areas. He had considerable personal knowledge of Toxteth. It was a long standing slum, with chronic unemployment compounded by the decline of the docks and public service cutbacks. Yet it was an area accustomed to mixed ethnic groups. He saw the major problem as that of the young unemployed black, which required positive discrimination. He shared Mr Heseltine's wish to press ahead with capital programmes. Was there a role for Enterprise Boards, as in Greater London, or should there be more partnership areas? Despite all the problems of education, housing, policing, etc., jobs remained central. Public sector jobs could have a role but new industry was needed. In an area like Toxteth, there was great scope for housing projects, for example.

The Prime Minister commented that, whilst Government held the purse strings, union members and others filled the purse. The country had to earn its living. She would love to hold back current expenditure to provide more capital finance. But she could not increase both, when the Government was already borrowing £10.5b. a year. Union members would resist increased taxes to pay for it. Mr. Murray commented that the unemployed would happily increase the tax take if they could find jobs. The Government seems to be taking a static view of the economy. The TUC were working for a dynamic view, with constructive job creation as the priority. Mr. Jenkins commented that the multiplier effect of Government spending would be important. Mr. Fisher acknowledging existing economic problems said that it was time to decide whether to allow the decline to continue, or whether to take steps to reverse it.

/The General Secretary

The Chief Secretary said that finance was only a part of the problem, given the scale of resources which already had gone into the inner cities without producing a real success. Further finance could only be found from taxation, borrowing, or a re-ordering of priorities. But one way to create some flexibility would be through pay. This was an important factor in which the trade union movement could assist if it was so inclined. If the Government had to look to further taxation or further borrowing, this led into the areas of confidence and inflation. The Government already faced problems in continuing the recent downward trend in inflation. The impact on confidence of any reversal could not be over-emphasised. Substantial new borrowing would have a bad effect. But he hoped that the 27 July package had shown that the Government was not taking an unduly rigid view.

The Prime Minister stressed that the Government shared the TUC's anxiety to solve the problem most especially in relation to the young unemployed and the longer term unemployed. The Government's approach had concentrated on three particular aspects: the stimulation of industries which could provide new jobs, by encouraging new businesses and the provision of venture capital: the extension of the job release scheme, to maximise the chances of people moving into genuine jobs; and, for the young, incentives to employers to take on additional young people. She recognised that there were differences of opinion about the scheme outlined on 27 July. But she believed that there were many small businesses who would take on youngsters if this cost them considerably less. The Government were searching for valid approaches to these problems, and were ready to consider all constructive suggestions. The TUC represent people with enormous spending power: the more this could be used to "BuyBritish" the more that the situation would improve.

/Mr. Gill

Mr. Gill drew attention to the arithmetic of the damage caused by the riots when seen against the £500m. of new resources called for in the TUC document. He also asked that the Prime Minister personally should take a strong public stand against racialism, and that the Government should take positive action to assist young blacks.

Mr. Parry drew attention to the great demands made on health and personal social services by the tensions and damage of recent events. There was concern in the TUC on this. Cuts in spending on the personal social services and on the rate support grant added to the pressures. The demands would grow.

The Environment Secretary said that he would be happy to pursue with the TUC their ideas on extension of partnership arrangements, the role of the Enterprise Board concept, and other ideas which they wished to discuss. Mr. Prior said that he would be happy to join in such discussions, especially in the context of making best use of the MSC and its resources. The Home Secretary said that he was ready to pursue the particular problems raised by Mr. Gill, and other points which had arisen in discussion. Mr. Murray said that the TUC would be happy to accept these offers.

Mr. Fisher thanked the Prime Minister for receiving the TUC delegation. He and his colleagues would be available at any time to follow up the matters which had been discussed.

1 September 1981

NOTE: I Gave Spoken to the PM. She has agreed that the initial discussion on Mr Heseltine's report will be confined as MTAP suggests, but that Mr Younger should reasonably take part in any further discussions. 1.

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

WH 2/9

Quite happy for him to come

Prime Minister

Mr Younger wants to ensure that he is involved in inner city decisions. I take it that you would not wish to add him to your initial talk with Messrs Heseltine, Whitelaw, Howe & Joseph.

Prime Minister

I have read with interest Michael Heseltine's report on his Merseyside visit.

MTR 1/IX.

There is much in the report with which I sympathise and agree. In particular, I strongly agree that our concern, in considering all this, should be not so much to respond to violence or threats of violence on the streets, but to assess the underlying causes of recent difficulties, and the real conditions and prospects for people in Merseyside and in other similar conurbations.

My own particular problem is Glasgow which has mercifully been spared the kind of troubles Liverpool has recently been experiencing, but which in other respects has the same range of problems, and on a greater scale, than does Liverpool. We have made our own distinctive arrangements for dealing with these problems through the Glasgow Eastern Area Renewal project (GEAR), and I was glad to learn at a recent meeting that there are now many signs of success.

Michael is airing the possibility of various new approaches in England and I should like to consider what particular steps would now be appropriate to Scottish conditions. I should therefore welcome the chance to take part in any discussions on these matters.

I am copying this minute to those who received Michael's.

G.Y.

31 August 1981

10 DOWNING STREET

1 Mr Parkinson They will have to wait for E on Cabinet MAP.
2 Mr Lankester

12

NIO have put in a plea not to be forgotten in the discussions on the Heseltine report. The gist of their comments was that the announcement of new measures for Merseyside and the English/ Scottish & Welsh) regions / inner cities which made no mention of NI would not help UK / NI relations! It may have taken a riot in Liverpool, does it take civil war in Belfast? was Mike Hopkins quote.

WPS 28/8

[PA wants to retain]

The Daily Telegraph, Saturday, August 29, 1981

MANY BLACK YOUTHS 'REJECT WORK ETHIC'

THE residents of Moss Side were entitled to resent the "mythology" that had grown up about the area, the independent tribunal into last month's riots was told yesterday.

Three probation officers said in a written submission that Moss Side was not much more disadvantaged than any other area of Manchester.

The officers added: "The high unemployment rates among young West Indians represents not just a failure to find work, but in some cases a refusal to seek it."

"Among a significant proportion of black youth there is a rejection of many of the social values and aspirations. A reluctance to subscribe to the work ethic is one manifestation of this. They do not wish to be assimilated within white society nor to accept employment of a low pay and menial nature."

Mr JOHN CRAWFORTH, Mr ALEXANDER MURRAY and Mr RONALD TENCH, who described themselves as probation officers "working on the ground" said their paper was produced at the request of the chief probation officer.

Moss Side had acquired a worse reputation than it deserved, the officers said.

They claimed that when there was friction or trouble in Moss Side young people came from other areas for a "piece of the action."

There was no drugs problem in Moss Side, but people believed otherwise and came to the area to sell or buy drugs. The myths also applied to prostitution and late night drinking. It was a myth, too, that Moss Side's housing led to special problems.

'Get together'

Facilities for recreation were no worse than in other areas, schools were as good physically as anywhere else in the city and teaching was as good.

Earlier, Prof REGINALD EVANS, 75, a former Professor of industrial administration at Manchester University, submitted a paper "action learning and the inner city," which he said was an attempt to get together people in adversity and trouble to learn with and from each other and by their own efforts to tackle their difficulties.

He said it had been adopted in America, Belgium and some hospitals for the mentally handicapped in Britain, but his ideas were rejected by Manchester City Council when he submitted them some years ago.

"I now have some allies, the rioters to reinforce what I said," said Prof Evans.

Mr BENET HYTNER Q.C., the chairman, said it would be necessary to hold further public sittings next week when Mr George Morton, Labour M P for Moss Side, some councillors and other witnesses wished to give evidence in public. The inquiry was adjourned until Tuesday.

THREE FACE BRIXTON RIOT CHARGES

Three residents of Brixton were accused yesterday at Bow Street on charges arising from a special police investigation into riot damage. They were remanded on bail to Sept. 25.

Owen Clive Lobban, 36, of Rattray Road, was charged with attempting to obtain £2,329 by deception from the receiver of the Metropolitan Police and also with being in possession 260 milligrams of cannabis.

Jean Lowe, 21, unemployed, or Nursery Road, was charged with obtaining services by deception and possessing an offensive weapon and Martin Thomas, 19, unemployed, of Railton Road, was accused of dishonestly handling a television set.

Probation officers deride 'Moss Side mythology'

Original filed on:-

Ind PM: Meeting with TUC: Pt 3.

OLO

CHANCELLOR OF THE EXCHEQUER

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

28 August 1981

Mike Pattison, Esq.,
Private Secretary
10, Downing Street

Dear Mike,

You spoke to John Wiggins earlier today about economic briefing for the Prime Minister for Tuesday's meeting with the .... TUC. I attach our brief.

Yours ever,

J.O. Kerr

J.O. KERR

GA/01

PPS/CHANCELLOR

cc PS/Chief Secretary
PS/Financial Secretary
Sir D Wass
Mr Folger
Mr H Davies
Mr Corcoran
Mr Haache
Miss Deyes

NO 10 ECONOMIC BRIEFING

We spoke earlier in the week about the briefing requested by No 10. This is attached. Also attached (but not for copy recipients) is the TUC's "Reconstruction of Britain".

CHKWilliams.

C H K WILLIAMS
EB
28 August 1981

NO 10 BRIEFING ON UK ECONOMY

A. Current economic situation

B. Independent forecasts

C. Productivity

D. Inflation

E. Monetary Developments

F. Public expenditure

G. Aide Memoire of latest statistics

H. TUC's 'Reconstruction of Britain'

H M Treasury
28 August 1981

CURRENT ECONOMIC SITUATION

The safest line to take is:-

"Since the turn of the year there has been an accumulation of evidence suggesting that the fall in output is now over. Manufacturing output has stabilised but with some hint of a pick up in the chemicals and metals sectors, engineering orders have increased, private sector housing starts have increased, CBI survey trends have been improving, unemployment has been rising much less rapidly, and short time working is falling.

Indeed the July CBI Survey shows that manufacturing industry now sees the decline in output behind us, with the prospect for some increase in orders and output in the coming months."

It would be wise to avoid being led into generalised remarks about all indicators no longer moving in an unfavourable direction, and all forecasters expecting recovery in the near future.

Background note on latest statistics

1. FSBR growth 1H 1982 on 1H 1981 of about 1 per cent in GDP and about 1¾ per cent for manufacturing.

2. Evidence suggesting that we are close to the trough of the recession comprises:-

A. Manufacturing

(i) Index of manufacturing production shows a stabilisation of output during 1981. When set against an underlying decline of ½ per cent pa over the last cycle (1973-79) it suggests recessionary downswing is over. Between 1Q and 2Q 1981 chemicals and metals (often regarded as lead sectors) output rose by 3 and 6 per cent respectively.

(ii) The July CBI survey shows

(a) a small positive net balance of firms expecting increased orders and output over the next four months

(b) an improved level of optimism

(c) optimism and prospects are stronger for exports.

(iii) Sharp fall in short time working; hours lost more than halved between January and June (from 8½ m to 3½ m per week. Overtime hours stabilising at about 8½-9 m per week).

(iv) Employment this year declining about ⅓ less rapidly than 2H 1980. (Just under 50,000 pm sa compared with 77,000 pm sa in 2H 1980.)

(v) Monthly average of engineering orders in Jan-May nearly 15 per cent up on 2H 1980.

B. Total output

(i) GDP(O). Latest assessment of total output shows that the rate of decline in the first half of this year was much less than that experienced during 1980. (Output in the first half fell by around ½ per cent per quarter compared with an average fall of 1½ per cent a quarter in 1980.)

(ii) CSO cyclical indicators suggest that economy is near or at the bottom of the recession.

(a) Coincident indicator has been flat since November 1980

(b) Longer leading indicator predicts turn in December 1980 (but within June 1980 - August 1981 range)

(c) Shorter leading indicator predicts turn in April 1981 (but within November 1980 - November 1981 range)

(iii) Unemployment - There has been a marked easing in the rate of increase in adult unemployment. 3 months to August ⅓ that of 1980 Q4 (37,000 compared with 115,000 per month). Flow on to register is down whilst flow off has increased. Number of redundancies has eased.

(iv) Average monthly private sector housing starts in 1981 45 per cent up on 2H 1980.

Line to take and background note on outside forecasts

Factual

(i) Output

(a) Only LBS and Phillips & Drew see an increase in 2H 1981 continuing into 1982.

(b) Most of the major forecasters - including CBI, ITEM, CEPG and arguably OECD - see a further fall in output in the second half of this year.

(ii) Most major forecasters expect unemployment to continue rising, albeit at a slower rate, over next few years.

(iii) Consensus is that year on year inflation will remain above 10 per cent by 1981 Q4 but may fall to single figures sometime in 1982.

Line to take

(i) It is best not to seek support from independent forecasters. The consensus outlook has been deteriorating during the course of this year. To the extent that there is a "consensus" of outside forecast views, it is that output will remain broadly flat up to the end of next year.

(ii) Should the views of independent forecasters be raised, the following defensive points can be made

(a) As the LBS have recently said "there is an unusually wide divergence of views amongst the major forecasters."

(b) we have never claimed that recovery would be rapid (ref FSBR forecast)

(c) most forecasters see some recovery between 1981 and 1982.

PRODUCTIVITY

Difficult to differentiate between cyclical and underlying changes. Whilst hopeful pointers (and anecdotal evidence) can be noted, it is wise to be cautious at this stage.

(i) Aggregate data on manufacturing productivity

(a) Official figures for output/head show a turnround in 1Q 1981 (but productivity at a very low level)

(b) NIESR (May 1981) suggest that output per operative hour increased slightly at turn of the year

(c) BEQB gives an increase of 2½ per cent in output per man-hour, in 1Q 1981 compared with year earlier. But figure buoyed up by steel strike and is little different from 1979. Productivity appears to have performed better than in most other major industrial countries.

(ii) Plant and machinery investment (This is perhaps of more direct relevance to productivity that total capital formation)

"Indeed, investment in plant and machinery during the current recession has so far been holding up remarkably well. Last year's figure, even after adjusting for inflation, was easily an all-time record, almost 5% higher than in 1979, which in turn was 7% up on 1978. And although some slight fall is likely this year, before it resumes its rising trend in 1982, there is no evidence so far to suggest that the fall will be any greater than the dip that occurred during the previous recession". Financial Secretary, 9 July 1981, to the Engineering Employers Federation (Commercial and Economic Committee).

INFLATION

Prices

July year on year RPI increase 10.9 per cent. FSBR forecast is 10 per cent in year to 4Q 1981 and 8 per cent in year to 2Q 1982.

NB. August RPI to be published on September 18 is likely to show an increase in the year on year rate because of unusually small increase in August 1980.

Wholesale output prices up 9½ per cent in year to July. Wholesale input prices up 15½ in July.

(i) Will forecast 10 per cent rate RPI in 4th Quarter 1981 be achieved?

It is too early to say how the Budget forecast of a 10 per cent increase in the RPI will turn out. The fall in the exchange rate since the early part of the year has made the task more difficult, but not impossible. But the year on year rate has fallen steadily this year, and recent monthly increases in May, June and July have been small.

(ii) Prospect for single-figure inflation?

Budget forecast predicted single figure inflation in the first half of 1982. Too early to say what output will be. Fall in exchange rate makes it more difficult.

Pay

Underlying monthly increase in average earnings in pay round just ended about half that in last pay round. Average level of settlements in economy (just) in single figures.

MONETARY DEVELOPMENTS

Monetary statistics have been distorted by the effects of the Civil Service dispute. Recorded £M3 growth over the first five months of the current target period is 6.9% (seasonally adjusted), equivalent to an annual rate of increase of 17.3%. It is difficult to estimate the extent of the distortion, but it is unlikely that the underlying (net of strike effects) growth of £M3 has been outside of the target range of 6-10% at an annual rate.

(i) What are the prospects for recovery from the strike?

Recovery has already begun, following settlement of the dispute at the end of July, but is unlikely to be complete for some months, during which period recorded monetary growth will still reflect strike effects.

(ii) Effect of the new monetary control arrangements?

New methods of monetary control inaugurated on 20 August have no implications for the levels of interest rates or the overall orientation of monetary policy. The new methods will allow market forces a greater role in the determination of short-term interest rates making rates more responsive to market conditions.

(iii) Prospects for interest rates?

Interest rates have come down from their peak last year and are now lower than those in most of our competitors. Further progress in reducing inflation under the MTFS will in due course allow interest rates to be lower still but we cannot isolate ourselves from the effects of the higher interest rates prevailing elsewhere, notably in the US.

PUBLIC EXPENDITURE

(i) Public spending 1981-82 and its implications

Level of spending projected in White Paper (Cmnd 7841) higher than Government would wish. Even so, public expenditure in 1981-82 will be nearly 5 per cent below volume planned by previous Government. Recession has created pressure to increase spending; this has been taken into account in the plans. But Government is committed to restraining public spending, and is looking at its level in the annual review now going on. This involves looking at implications for Government's monetary and fiscal policies.

(ii) Further cuts - a figure in mind?

We have made it clear we consider planned levels of spending too high in relation to our financial and monetary objectives and that in the course of the survey we will give careful consideration to scope for further cuts. Scale and incidence of any reductions will be considered and decided in due time and it would be premature to speculate now about the outcome.

(iii) Can present plans be achieved? Spending out of control?

The recession has brought considerable pressure to increase spending. This was taken into account in our plans.

(iv) Increase capital spending

Need is to reduce total spending. Balance between current and capital spending is one of points we are looking at in the annual review of expenditure.

(v) Raise the proportion of public investment within the total?

Government is considering this carefully in the forthcoming annual survey. But not clear that the case has been adequately made out. Priorities must be decided primarily in terms of services - to which current spending may be no less important than capital. Investment projects must offer prospect of economic return.

PRESENT SITUATION

GDP output estimate fell ½ per cent in Q2 1981 following a similar fall in Q1 and an average quarterly fall of 1¼ per cent in 1980. Industrial output and manufacturing output have been broadly flat over the first half of 1981.

Consumers' expenditure fell back in Q2 1981 from the high level in Q1 returning to the average level of 1981. Retail sales provisionally fell back in July. Volume of visible exports fell 2 per cent in the three months to February 1981 after being broadly flat since mid-1980. Volume of visible imports fell 2 per cent in the three months to February 1981 continuing the downward trend though suggesting some slowing down in the rate of decline. Manufacturing investment (excluding assets leased from the service sector) fell 1 per cent in Q2 1981. Distributive and service industry investment (including shipping and leasing) rose 1 per cent in Q2 1981. DI investment intentions survey (conducted in April/May) suggests a fall in manufacturing investment after allowing for leasing of 11 to 14 per cent in 1981 with some recovery in 1982; distributive and service industries investment (including shipping) expected to rise by less than 5 per cent in both 1981 and 1982. Manufacturers', wholesalers' and retail stocks dropped by £0.2 bn (at 1975 prices) in Q2 1981 compared with destocking of £0.4 bn in Q1 and £1.9 bn in 1980 as a whole.

Unemployment (UK, seasonally adjusted excluding school-leavers) was 2,626,000 (10.9 per cent) at August count, up 44,000 on July. Vacancies rose to 98.000 in August .

Wholesale input prices (fuel and materials) rose 1¼ per cent in July to a level 15½ per cent above a year earlier; wholesale output prices rose ½ per cent and are 9½ per cent above a year ago. Year-on-year RPI increase was 10.9 per cent in July. Year-on-year increase in average earnings was 11.8 per cent in June. RPDI fell by 1½ per cent in Q1 1981 after rising by 17.5 per cent over the 3 years 1977 to 1980. The savings ratio fell 2 per cent to 14 per cent in Q1 1981.

PSBR £6.8 bn in the first quarter of 1981/82 and CGBR £9.4 bn in the first 4 months of 1981/82 but both distorted upwards by the civil service dispute.

Sterling M3 increased by 2.1 per cent in July but distorted by the civil service dispute; the underlying increase since February is estimated to be within the 6-10 per cent p.a. target range.

Visible trade, which has been in surplus since mid-1980, showed a surplus of about £1.1 bn in the first two months of 1981. Invisibles surplus in Q1 1981 was nearly £1 bn. Reserves at end-July $24.6 bn. At the close on 27 August the sterling exchange rate was $1.8415 and the effective rate was 91.4.

MACRO-ECONOMIC ASPECTS OF TUC'S "THE RECONSTRUCTION OF BRITAIN" (20 AUGUST)

Central proposal

- 5 year £24 billion programme of public sector capital investment.
- investment to rise £3 billion in 1982-83 building up to some £7 billion in 1986-87 (to restore 1975-76 real level).
- ½ total programme allocated to housing.
- ½ million jobs created.

Justification of borrowing

TUC argue that:-

- borrowing for investment is sound (companies do it).
- high PSBR does not mean high interest rates (1980-81 PSBR overshoot associated with falling rates).
- 'no firm evidence' of link between money supply and inflation.
- 'little evidence' that level of demand important for inflation.

Comment

(i) In combination TUC's justification virtually assumes away any any financing problems and inflation and interest rate implications.

(ii) TUC assume large multiplier effects (2) from additional public sector capital expenditure. TCSC report on NI financing concluded that crowding out could be up to 40 per cent. The thrust and implication of HMT evidence was that this ignored effect on price level and interest rates - both crucial macro-economic objectives.

(iii) Last Budget could only reduce interest rates because of complementary fiscal stance.

(iv) Money supply influence on inflation recognised by most Governments (OECD June Ministerial Communique, and July Ottawa Summit Declaration).

(v) Post war experience increasingly demonstrated the importance of demand on inflation, (an increasing proportion of increasing money expenditure went into price inflation rather than real growth).

original filed on:-

Ind Pol: Mtgs with the TUC: Pt 3

PRIME MINISTER

You might like to have an early look through the briefing for your meeting with the TUC delegation on inner cities policy next Tuesday.

The main brief is short. I think this is right. The exercise will essentially be a listening one - especially bearing in mind the precedent of your previous TUC meetings. To the extent that any detailed discussion becomes necessary, Departmental Ministers will be present to pursue points.

Is there any other material which you would wish us to commission?

MAP

27 August 1981

original filed on :—

Ind Pol : Mtgs with the TUC : Pt 3.

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

27 August 1981

Dear Mike

TUC MEETING ON 1 SEPTEMBER WITH PRIME MINISTER

As requested in your letter of 17 August, I attach briefing for this meeting.

The Prime Minister was anxious that statistics of expenditure for the major conurbations should be provided on a basis comparable to that used in the Secretary of State's report on Merseyside. In the event, this has not proved wholly possible (see Annex 3) owing to difficulties in obtaining figures for DHSS benefits and unemployment benefit.

Copies go to the recipients of your letter of 17 August.

Yours ever

Jeff Channing

J P CHANNING
Private Secretary

Mike Pattison Esq, No 10

COVER BRIEF FOR PRIME MINISTER

The TUC (list of delegation at Annex 1) have asked to see the Prime Minister to discuss the economic and social problems of the inner cities, and their proposals for future action, set out in their document "Regenerating Inner Cities" published in early July. (Summary and critique of this at Annex 2). The delegation might refer to a much wider TUC document "The Reconstruction of Britain" published on 20 August, which proposed, among other things, an inner cities programme costing an extra £2,000m over the next 5 years. The Chief Secretary is being briefed on this macro package.

2. The Prime Minister might wish to open by emphasising the Government's concern over inner city problems. Ministers will soon be considering Mr Heseltine's Report following his Merseyside visit, and any points made by the TUC can be taken account of in these discussions. There is little point in being drawn on Press speculation about the contents of Mr Heseltine's Report. In addition, the Government are awaiting the Report of the Scarman Inquiry, and have recently received the recommendations of the Select Committee on Race Relations.

3. The problems facing the inner cities are complex, deep rooted, and of long standing - they have not suddenly emerged under the present Government. Very considerable sums of public money already flow to the main conurbations - some £2 billion to the main conurbations, and about 4 times this amount to London. The Government accept that a strategic solution to inner city problems must involve the economic regeneration and the provision of a viable economic base. The public sector has a part to play, but it cannot do this on its own, which is why it is essential to encourage the private sector. Without anticipating Scarman, it is obvious that there is a need to improve police community relations in some inner city areas: all responsible members of the community must be concerned that law and order be preserved.

4. The Prime Minister could invite the TUC to indicate the key points, as they see them, in their Report. Much of the factual material in the Report is non-contentious, and paints a stark picture. No one doubts the scale of the problems. The task is to find a way ahead compatible with the resources available. Simply spending public money at large is not the answer. In particular:-

a. Exactly how do the TUC propose any additional resources, if these could be found, should be targeted ?

b. What does the TUC think the Unions themselves can do about the problem - their document appears to see the Union role as mainly consisting of the development of equal opportunities, and the provision of TUC Advice Centres for the Unemployed.

5. Also attached to this brief are:-

Annex 3 : The figures the PM requested for public expenditure in the 7 major conurbations.

Annex 4 : Mr Heseltine's Report to the Prime Minister of his Merseyside visit. (With No 10 already)

Annex 5 : The TUC full Report "Regenerating our Inner Cities".

ICD
DOE
27/8.

TRADES UNION CONGRESS

Meeting with the Prime Minister, Tuesday September 1 1981

TUC Representatives

Mr. A.W. Fisher	Chairman, TUC General Council
Mr. D. Basnett	Chairman, Economic Committee
Mr. G.A. Drain	Chairman, Public Services Committee
Mr. K. Gill	Chairman, Equal Rights Committee
Mr. C. Jenkins	Chairman, Education Committee
Mr. W.H. Keys	Chairman, Employment Policy and Organisation Committee
Mr. T. Parry	Chairman, Social Insurance and Industrial Welfare Committee
Mr. L. Murray	General Secretary
Mr. N.D. Willis	Deputy General Secretary
Mr. K. Graham	Assistant General Secretary
Mr. D. Lea	Assistant General Secretary
Mr. B. Barber	Press & Information Officer
Mr. B. Callaghan	Secretary Economic Department
Mr. R.A. Jackson	Secretary, Education Department
Mr. P. Jacques	Secretary Social Insurance and Industrial Welfare Department
Mr. J. Monks	Secretary Organisation and Industrial Relations Department
Mr. P. Ashby	T.U.C. Office

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TUC POLICY STATEMENT: "REGENERATING OUR INNER CITIES"

SUMMARY OF MAIN PROPOSALS

Urban Programme

1. The Urban Programme should be expanded including special allocations from main spending programmes. £700 million in the first year, substantially more in future years.

The Government are considering the level of funding of the Urban Programme in the light of Mr Heseltine's report to the Prime Minister. But it will be necessary to consider the question of resources in the context of the Government's overall economic strategy. The Prime Minister might ask the TUC where the extra money they request should come from.

The TUC may wish to broaden discussion on the issues raised in their document "The Reconstruction of Britain" published on 20 August. It may be best not to be drawn on this, but to concentrate on the specifics of inner city policy.

RSG as a whole was lower in real terms in 1981-82, reflecting the planned 3% reduction in local government spending, and a 1% cut in the grant percentage. But the metropolitan authorities outside London are getting a larger share of a grant than in previous years. It is true that London's share of grant has gone down, but this is because the Government felt it right to reverse in part the major shift of grant to London under the previous administration - a shift that kept London rate rises well below the national average between 1975 and 1980. And since the grant settlement London authorities have lost further grant because of their excessive spending levels.

RSG decisions for 1982/83 have yet to be taken. Ministers are very well aware of the inner city needs and have had discussions with the AMA about the grant settlement.

Industry and Employment

4. The emphasis in Government help to industry should shift from subsidizing private investment to direct involvement of local authorities in job creation.

The Government are interested in stimulating whatever job opportunities they can in the inner cites. The public sector has a role to play. But in the long term, the Government is committed to the view that

only the private sector can provide the opportunities required for a viable economic base. So they must be encouraged whenever possible.

5. Local authorities should be empowered to give subsidies to employers who create extra jobs

The Inner Urban Areas Act 1978 already permits local authorities in certain designated districts to make grants and loans to firms in inner city areas.

The Secretary of State for the Environment last year set up a joint group of Government and local authority association officials to review the means and powers currently employed by local authorities to foster industry and commerce. The Group was asked to report on the most appropriate forms of action for local authorities and on any implications for legislation. The Secretary of State is now considering the review Group's report and an announcement will be made as soon as possible.

6. Partnership Authorities should draw up an employment strategy, covering at least 5 years and including direct financing for new and existing businesses.

Unemployment is certainly high in most Inner city areas. But it is misleading to generalise. It is far more of a problem in some (eg Liverpool) than others

(eg Manchester). Nor can it be assumed that new jobs created in inner city blackspots will necessarily go to people living there. This is simply because there is considerable commuting within inner cities. Better qualified workers might commute in from neighbouring areas and the locals themselves commute to jobs available elsewhere.

Inner City Partnerships already have a strategic planning system. Employment is covered in each strategic plan and many partnerships develop this part of their plans through special employment working parties. The priority (and hence finance) accorded to job creation varies according to the area's unemployment problem.

7. Statutory training boards should be retained and strengthened and greater training opportunities should be provided for inner city residents.

ITBs will be kept where this is essential to meet important training needs. But they will be abolished where the Government think their achievements will be maintained on a voluntary basis.

The TUC will be aware that the Secretary of State for Employment has asked for further comments on the MSC consultative document "A New Training Initiative" by the end of September, so that an announcement can be made early in the next session.

Education

8. There should be greater public expenditure on education in inner city areas - especially nursery education and basic education for adults.

Rate Support Grant (RSG) is the main source of Government support for education in the inner cities, as elsewhere, although the Urban Programme and Section 11 grants (which as administered by the Home Office) also have a part to play. The distribution of RSG takes account of the fact that some local authorities have to spend more than others on certain types of educational provision, and also makes allowances for the management problems associated with falling school rolls. The question of further adjusting the education GREs to help inner city areas is now under discussion with the local authority associations.

Seventy per cent of nursery schools and classes are in urban and inner city areas and they make a significant contribution to the needs of the children in the areas. Many receive funding from the Urban Programme.

There is no evidence that nursery education is collapsing. Indeed the January 1980 figures show a small increase and the provisional 1981 ones

indicate a broadly stable situation.

9. More attention should be paid to the special educational needs of minority ethnic groups, and all school children should be educated for life in a multi-racial society

The Government attaches great importance to ensuring that everyone has the same range of opportunities and choices in education and believes that the service must do its best to meet the special needs of ethnic minorities.

The Committee of Inquiry's has reported on West Indian children. Lord Swann and his colleagues will be sitting for another 2 years to consider the educational needs of all children from ethnic minority groups, and the Government looks forward with interest to the presentation of their final report. However, there is much in the first report which deserves early attention, and the Government will be consulting widely on the implications of its recommendations for the education service. The Select Committees Report is also relevent. The TUC's detailed views will be welcomed as part of the consultation process.

The Government has made it clear, most recently in the document "The School Curriculum" that what is taught in schools, and the way it is

taught, ought to reflect fundamental values in our society, and the multicultural nature of that society. The Committee of Inquiry itself has claimed that, on the whole, it is a re-ordering of priorities which is required, rather than overall increases in public expenditure and has put the emphasis on the "psychological" rather than "financial" costs of persuading teachers, pupils and parents to re-appraise their attitudes.

Health

10. Additional finance should be provided for the NHS. In sharing its money out, NHS should give greater recognition to health care problems in inner cities - especially inner London

Under this Government expenditure on the National Health Service has grown in terms by about 2% per annum.

The TUC may mention the Report, produced by Sir Douglas Black, the DHSS Chief Scientist, under a remit given to him by the previous Government. This brings together a mass of information showing the inequalities in health in Britain today. No one denies such inequalities exist. Setting up a national health service has not reduced them. The Black Report proposed that the problem be tackled by massive additional spending -

they estimated at least £2000 million a year. We think the full up-to-date cost might be as much as £4000 million. The Government could not contemplate increased spending of this order, particularly at the present time when the first priority must be to put the economy right.

The report does not explain the fundamental causes of why some people and some groups, and some regions seem to suffer worse health than others. It says that health inequalities seem to be linked with class structure. But the report does not tell us how the class structure actually causes inequalities in health. The extremely expensive proposals in the report must therefore be regarded as speculative. Until we know more about the causes of health inequalities it is difficult to know how to grapple with the problem. Consideration is being given to the need for further research.

In terms of hospital beds, the inner city areas are, if anything, over-provided - since they contain many hospitals provided in the central areas of our conurbations.

11. <u>There should be more use of health centres and community nursing in inner city areas</u>.

The Department of Health and Social Security published on 16 July a consultative document

'Care in the Community' which invites comments on ways of developing the joint finance scheme to enable people who do not need to be in hospital to be discharged to care in the community. Copies were sent to the staff side of the NHS General Whitley Council.

This is an area in which we are determined to make progress and we hope the consultation will result in the emergence of generally acceptable solutions. [NB The suggestions are for transferring resources from hospital care generally, and not specifically teaching and acute services as the TUC suggest].

As a further contribution to the debate on community care we shall shortly be publishing the departmental study on 'Community Care' which was summarised in 'Care in Action' and inviting comments.

Transport

12. There should be more central Government financial support for inner city transport - eg fare reductions, low flat fare experiments, concessionary fares for elderly and disabled.

The TUC paper suggests that better and cheaper public transport would help unemployed people in inner cities to find work further afield.

There is no evidence that either the lack of public transport or fare levels is a significant factor in preventing the unemployed finding work. Indeed the policy of heavy subsidy and low fares which the TUC recommends would be more likely, by making increased rates necessary, to have an adverse effect on local employment.

For example, South Yorkshire's policy of keeping fares to very low levels which the TUC recommend as "The way out of the spiral of decline in public transport", (para 5.19) has achieved an increase in patronage of barely 1% (now itself being reversed). The cost is already a £14m extra rates burden on local industry and commerce, adding £7 to the cost of every tonne of steel produced in the local BSC works. Sheffield Chamber of Commerce have estimated that for every £5,000 increase in the rates, one more job will be lost.

Such blanket subsidy can only be at the expense of transport schemes designed to benefit the inner cities, for example by improving road access in decaying industrial areas. The available resources should be devoted to projects which can give an economic return and are directly relevant to the health of local industry and to employment prospects, not to indiscriminate and wasteful expenditure unrelated to real demand.

Housing

13. 50,000 new homes should be built, and 125,000 houses renovated, in the inner cities, as a first step towards a long term housing programme.

It is not for the Government to set targets for new housebuilding: this is a matter for local authorities, who are best placed to determine the optimum use of resources in their areas. However, the moratorium on council house building which the TUC document mentions (and which was imposed so as to prevent local authority expenditure limits being breached) was lifted on 1 April 1981.

The renovation of housing in inner city areas forms an important component in many Partnership programmes. In addition to the existing system of General Improvement Areas and Housing Action Areas, the Partnerships are experimenting with new forms of grant-aid for housing improvements.

Policing

14 Government should review the role of community policing, and increase the element of training concerned with the ethnic minorities.

The extension of community policing schemes is a matter for the operational judgement of individual chief officers. They are well aware that they have the Government's full support

in taking any measure designed to strengthen and maintain links between the police and all sections of the community. With the increase in recruiting following the Edmund Davies pay award, chief officers are better placed than ever before to return men to the beat.

All recruits to the police force have training sessions on police and community and ethnic relations. The Police Staff College includes racial issues on their syllabus. No doubt Scarman will comment on this area.

15. Government should intensify efforts to recruit ethnic minorities into police forces.

The Government would welcome more coloured people officers. There has been some improvement. In 1971 there were 47 coloured officers in England and Wales; there are now more than 300, of whom over 100 are in the Metropolitan Police. Considerable efforts have been made nationally and locally to attract more ethnic minority recruits. For example, special national advertising campaigns were held in the ethnic minority press in 1979 and 1980-81. The Select Committee has made recommendations there which are being considered.

Equal Opportunities

16. Public sector should develop equal opportunities policies for their employees, and trades unions should aim for the establishment of such policies in all the work places where they have members

The Government shares the concern expressed by the TUC that there should be equality of opportunity in all areas of our society for all citizens regardless of their racial background. Access to employment, housing, education and all other services and facilities whether provided by the Government, Local authorities or the private sector should be available to all according to the same criteria. The Race Relations Act 1976 outlaws discrimination on racial grounds and provides legal remedies for those who have experienced racial discrimination. Government has preserved the GRE's budget in real terms.

The problems faced by members of the ethnic minority communities figure largely in any assessment of inner-city areas. The majority of members of those communities live in the inner cities. Many young members of the ethnic minorities were involved in the disturbances that took place earlier this year. The Government takes seriously the problems facing these people. It is expected that the report of Lord Scarman's inquiry into the Brixton riots will deal with the factors underlying

these disturbances. The Government will study that report with great care. The Government is also looking very carefully at the recommendations of the Home Affairs Committee in their recent report on racial disadvantage which dealt, among other things, with ethnic monitoring by central and local government. The question of the GRE Codes of Practice will also be considered in this context. The Government will consider the recommendations made by the TUC against that background.

ANNEX 3

Public Expenditure in the Metropolitan Counties - 1981/82

Government Departments — £m (outturn prices)

	Merseyside	Greater Manchester	Tyne & Wear	S. Yorks	W. Yorks	W.Midlands	GLC
Department of the Environment							
Capital							
Housing Corporation	35	45	25	25	25	45	120
New Towns	18	-	16.5	-	-	-	-
Capital and Current							
Merseyside Development Corporation	17	-	-	-	-	-	-
Urban Programme	21	25	23	4	7	21	60
Sports Council	0.28	0.20	0.09	0.02	0.15	0.83	0.28
Property Services Agency	20	19	10	10	16	20	260
Department of Transport							
Capital - Trunk Roads	3	19.9	-	-	-	-	5.0
Current - Mersey Docks & Harbour Co. via Ports (Financial Assistance) Act 1981	14	-	-	-	-	-	-
Department of Education and Science							
Capital and Current							
University Grants Committee	30	67	25	25	46	43	218
Arts Council and other Arts grants	1	3.8	2.6	0.8	2.5	3.0	27.4
Museums & Libraries	-	-	-	-	-	-	86.8
Department of Health & Social Services							
Capital							
National Health Service (via Area Health Authority)	16.5	14.7	8.8	7.1	8.4	11.7	29.0
Current							
National Health Service (via Area Health Authority)	272	398.1	174.6	196.0	243.6	389.5	1,454.2

	Merseyside	Greater Manchester	Tyne & Wear	S. Yorks	W. Yorks	W. Midlands	GLC
Department of Employment							
Current							
Temporary Short-time Working Compensation and Job Release Schemes	15	50	14	28	30	111	26
Manpower Services Commission							
Current							
Expenditure on Youth Opportunities Programme	28	21	16	15	16	40	16
Community Industry Programme	-	0.5	2	1	1	1	2
Community Enterprise Programme	9	2.1	6.5	2.6	3.5	11.5	5.8
Training Services (District Offices)	5	17	6	6	10	11	27
Department of Industry							
Capital	44	64	33	12	17	35	3
TOTAL : CENTRAL GOVERNMENT	549	747	361	332	426	742	2,340
Local Authorities							
Capital	120	245	137	94	138	193	1,035
Current	760	1,288	596	663	893	1,233	4,580
TOTALS : LOCAL GOVERNMENT	880	1,533	733	757	1,031	1,426	5,615
GRAND TOTALS	1,429	2,280	1,094	1,089	1,457	2,168	7,955

N.B. This table excludes contributory and non-contributory benefits paid by DHSS, and unemployment benefit which are not readily available. However for Merseyside these amounted to some £0.9bn, making a total of £2.3bn.

LAEEEEEEEEEEEEEEEEXMESSAGE NO 1

NO 10 TO CORNWALL

MINUTE TO THE PRIME MINISTER FROM MR LANKESTER

C O N F I D E N T I A L

INNER CITIES

WE HAVE SENT DOWN IN THE BOX MICHAEL HESELTINE'S LONG MINUTE ON MERSEYSIDE, WHICH HE HAS CIRCULATED TO THE WHOLE OF CABINET, TOGETHER WITH HIS COVERING NOTE WHICH IS PERSONAL TO YOU. I OFFER BELOW SOME SUGGESTIONS ON HANDLING.

MR HESELTINE'S PROPOSALS FALL ESSENTIALLY UNDER THE FOLLOWING HEADS.

(1) CONTINUED MINISTERIAL COMMITMENT TO MERSEYSIDE AND APPOINTMENT OF MINISTERS WITH RESPONSIBILITY FOR OTHER CONURBATIONS. THIS IS A MATTER VERY MUCH FOR YOU, AND IS OF COURSE RELEVANT TO ANY MINISTERIAL CHANGES. HOWEVER, I EXPECT YOU WOULD WANT TO DISCUSS IT WITH THE HOME SECRETARY, AND MR HESELTINE IS OBVIOUSLY HOPING THAT HE WOULD BE CONSULTED. IN HIS COVERING MINUTE, HE SAYS THAT HE HOPES THAT ''SO FAR AS POSSIBLE MINISTERS WITH FUNCTIONAL RESPONSIBILITIES RELATING TO THE CONURBATIONS SHOULD BE CONSIDERED FIRST''.

(2) REORGANISATION OF REGIONAL OFFICES, AND A SINGLE REGIONAL OFFICE FOR LIVERPOOL. SEVERAL DEPARTMENTS HAVE AN INTERESTS IN THIS (DOE, DOE, DHSS, EMPLOYMENT, DES, AND TRANSPORT). I THINK THE FIRST STEP IS FOR US TO GET ADVICE FROM SIR IAN BANCROFT. AGREE?

(3) REDIRECTION OF REGIONAL AND EMPLOYMENT POLICIES, AND ALLOCATION OF SUBSTANTIAL EXTRA RESOURCES TO MERSEYSIDE AND TO THE INNER CITY AREAS GENERALLY. MR HESELTINE SUGGESTS AN EXTRA NET £100 MILLION A YEAR FOR MERSEYSIDE, AND AN EXTRA AMOUNT (UNSPECIFIED) TO OTHER HARD-PRESSED CONURBATIONS. APART FROM HIS PROPOSALS FOR REVIEWS OF PARTICULAR POLICIES, THIS BOILS DOWN TO THE BASIC ISSUE OF WHETHER WE SHOULD BE GIVING NEW PRIORITY IN OUR PUBLIC SPENDING AND OTHER POLICIES TOWARDS THE INNER CITIES, AND THUS IN EFFECT REVERSING THE TREND UNDER THIS GOVERNMENT TO GIVE GREATER PRIORITY TO THE SHIRE COUNTIES. THERE IS ALSO THE POINT WHICH BEARS ON OUR WHOLE ECONOMIC STRATEGY OF WHERE THE EXTRA RESOURCES SHOULD COME FROM: SHOULD THEY BE AT THE EXPENSE OF OTHER PROGRAMMES, OR IN ADDITION TO THEM? ALL THIS IS REALLY A MATTER THAT WILL HAVE TO BE DECIDED IN CABINET, AND IN ADVANCE OF FINAL DECISIONS ON PUBLIC EXPENDITURE.

(4) POSSIBLE ABOLITION OF THE METROPOLITAN COUNTIES AND THE G L C. MR HESELTINE SUGGESTS THAT THIS SHOULD BE EXAMINED QUICKLY AN INTER-DEPARTMENTAL GROUP. THIS IS OF COURSE A VERY SENSITIVE SUBJECT, AND I DOUBT WHETHER YOU WOULD WANT TO SET IN HAND THIS REVIEW WITHOUT THE ENORSEMENT OF CABINET OR AT LEAST E.

AT SOME STAGE IN SEPTEMBER, I THINK YOU WILL NEET TO HAVE A DISCUSSION OF MR HESELTINE'S PAPER IN CABINET. BUT IN ADVANCE OF THAT, YOU WILL WANT TO REACH YOUR OWN VIEW ON HIS MINISTERIAL RESPONSIBILITY PROPOSAL, AND I THINK YOU WILL WANT TO REACH SOME MEASURE OF AGREEMENT WITH MR HESELTINE AND THE CHANCELLOR ON THE BIG QUESTION UNDER (3) ABOVE. YOU COULD (UNDERLINE COULD) BRING IN THE OTHER MINISTERS WHO ARE MOST CLOSELY CONCERNED - I E EMPLOYMENT, INDUSTRY, EDUCATION, D H S S AND TRANSPORT. HOWEVER, I THINK IT WOULD BE BETTER FOR YOU TO CONFINE A PRELIMINARY MEETING TO THE CHANCELLOR AND MR HESELTINE PLUS THE HOME SECRTARY. KEEPING IT THIS SMALL WOULD ALSO ENABLE YOU TO DISCUSS THE MINISTERIAL RESPONSIBILITY POINT. YOU CAN THEN DECIDE WHETHER TO GO STRAIGHT TO CABINET OR WHETHER TO HAVE A FURTHER, ENLARGED MEETING WITH THE MINISTERS MENTIONED EARLIER IN THIS PARAGRAPH PLUS POSSIBLY THE SCOTTISH AND WELSH SECRETARIES.

THE BEST DATE FOR THE PRELIMINARY MEETING WOULD SEEM TO BE THE MORNING OF MONDAY 7 SEPTEMBER. YOU COULD (UNDERLINE COULD) DO IT THE PREVIOUS WEDNESDAY BEFORE GOING TO BALMORAL: BUT ROBERT ARMSTRONG WOULD NOT BE AVAILABLE (HE WILL BE ON HOLIDAY IN SWITZERLAND AND I BELIEVE HIS PRESENCE IS QUITE IMPORTANT), IT WOULD BE CLIVE'S FIRST DAY BACK AND I WILL NOT BE HERE. IF YOU AGREE THEN, WE WILL GO FOR A MEETING ON MONDAY 7 SEPTEMBER WITH THE HOME SECRETARY, MR HESELTINE , THE CHANCELLOR AND SIR ROBERT ARMSTRONG. WE WOULD GET A BRIEF FROM THE CABINET OFFICE, AND ALSO ADVICE FROM IAN BANCROFT ON THE REGIONAL OFFICE PROPOSAL.

MESSAGE ENDS

14 AUGUST 1981

PRIME MINISTER'S MEETING WITH TUC - 1 SEPTEMBER 1981

YOUNG WORKERS SCHEME

1. The TUC may well raise this. Mr Murray has been reported as saying that the scheme's purpose was to "encourage employers to undermine union rates of pay"; that the new modification (ie to £45) extends that aim, and that there had been no consultation with the unions on the subsidy. He also said the scheme was ill conceived and thoroughly offensive tp the trade union movement and there must be strong doubts whether the ill thought scheme will encourage any additional jobs for young people at all. The Government would do better to put resources into increasing the Youth Opportunities Programme.

POINTS

CONSULTATION

2. The Minister of State, Department of Employment wrote to Mr Murray and the CBI on 27 August to consult them about the scheme. Their views are requested by 9 October.

PURPOSE OF SCHEME

3. The basic aim is to provide more real jobs for young people. The Government believes more employers will be prepared to do this if they can do so at realistic wage rates and the subsidy is designed to facilitate this. Young people's wages in this country are high in relation to adults. One of the questions raised in the New Training Initiative was whether young people's remuneration reflected their training status.

UNDERMINING WAGE BARGAINING

4. The scheme does not affect collective agreements or exempt employers form any obligation thay may have under a Wages Council Order, although many employers paying basic wages council rates will be able to benefit from the subsidy.

BEST TO CONCENTRATE ON YOP

5. The Government has recognised the continued and growing importance of YOP by increasing the intake to 550,000 in this financial year. Th

The Young Workers Scheme is not designed to replace YOP, but to encourage employers to provide more real jobs, the lack of which makes YOP necessary.

DETERRENT TO RECRUITMENT

5. There is no reason why employers should defer recruitment until the Scheme starts. Employers will still be able to claim the maximum 12 months subsidy when the scheme starts in January in respect of school leavers recruited now.

NUMBERS COVERED

6. In background press briefing the Department has said that payments may be made in respect of between 50,000 and 100,000 jobs, but it may well take some time to build up to this level. We would expect a considerable number of applications when the scheme starts - mainly for young people already employed, but eligible, with a slow build up thereafter. It is not possible to be precise about numbers and the scheme has not been designed with particular industries in mind.

YOUNG PEOPLE SUBSTITUTED FOR OTHERS

7. The aim of the scheme is to increase the chances of young people getting jobs and to encourage employers to take them on in new jobs. It is not thought that many young people will be taken on in preference to adults, although this could happen at the margin (just as in some cases employers may recently have preferred to recruit adults, because of the relatively high wage costs of employing young people.)

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Ind Pol: Meetings TUC: Pt 3

2

10 DOWNING STREET

PRIME MINISTER

You will have seen the publicity surrounding the launch of the TUC's statement on "The Reconstruction of Britain".

It was announced that the document was being sent to selected Ministers. This does not appear to have included you, but we have now obtained a copy from the Treasury. We shall be getting briefing on this before your inner cities meeting with the TUC next Tuesday, but you may like to have a glance at this copy now.

27 August 1981

File

ODS

Original filed on:-

Ind Pol: Mtg with TUC: Pt 3

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MAP 2570

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27 August 1981

It may be helpful to you to have the attached list of the TUC team for the meeting with the Prime Minister on inner cities which will take place here at 1500 hours on 1 September.

I am sending copies of this letter and its enclosure to John Halliday (Home Office), Terry Mathews (Chief Secretary's Office, HM Treasury), Richard Dykes (Department of Employment) and David Wright (Cabdnet Office).

MAP

David Edmonds, Esq.,
Department of the Environment.

Exle

DSG

original filed on:—

Ind Pol: Mtgs with TUC: Pt 3.

27 August 1981

Thank you for your letter of 26 August listing the TUC representatives who will arrive here at 1415 on Tuesday 1 September for an internal meeting prior to their meeting with the Prime Minister at 1500.

MAP

J. Monks, Esq.

cc: MS Taylor Mr. Hoskyns Rees Office.

TRADES UNION CONGRESS

CONGRESS HOUSE · GREAT RUSSELL STREET · LONDON WC1B 3LS
Telephone 01-636 4030 *Telegrams* TRADUNIC LONDON WC1

Original filed on:—
Ind Pol: Meeting with TUC: Pt 3.

YOUR REFERENCE

Mr. M. Pattison,
The Private Office,
10, Downing Street,
London,
S.W.1.

OUR REFERENCE
JM/PA/TC
DEPARTMENT
Organisation and Industrial Relations

August 26 1981

Dear Mr. Pattison,

"Regenerating our Inner Cities"
Meeting with the Prime Minister

Further to Mr. Peter Ashby's telephone conversation with you yesterday, I enclose a list of the TUC representatives who will be attending the meeting with the Prime Minister, on Tuesday September 1 at 3.00 p.m.

Thank you for arranging a room for a pre-meeting for the TUC side at 2.15 p.m.

Yours sincerely,

John Monks.

J. Monks
Secretary
Organisation and Industrial Relations
Department.

Enc)

GENERAL SECRETARY: RT. HON. LIONEL MURRAY OBE DEPUTY GENERAL SECRETARY: NORMAN WILLIS
ASSISTANT GENERAL SECRETARIES: KENNETH GRAHAM OBE AND DAVID LEA OBE

TRADES UNION CONGRESS

Meeting with the Prime Minister, Tuesday September 1 1981

TUC Representatives

Mr. A.W. Fisher	Chairman, TUC General Council
Mr. D. Basnett	Chairman, Economic Committee
Mr. G.A. Drain	Chairman, Public Services Committee
Mr. K. Gill	Chairman, Equal Rights Committee
Mr. C. Jenkins	Chairman, Education Committee
Mr. W.H. Keys	Chairman, Employment Policy and Organisation Committee
Mr. T. Parry	Chairman, Social Insurance and Industrial Welfare Committee
Mr. L. Murray	General Secretary
Mr. N.D. Willis	Deputy General Secretary
Mr. K. Graham	Assistant General Secretary
Mr. D. Lea	Assistant General Secretary
Mr. B. Barber	Press & Information Officer
Mr. B. Callaghan	Secretary Economic Department
Mr. R.A. Jackson	Secretary, Education Department
Mr. P. Jacques	Secretary Social Insurance and Industrial Welfare Department
Mr. J. Monks	Secretary Organisation and Industrial Relations Department
Mr. P. Ashby	T.U.C. Office

- - - - - - - - - - -

TRADES UNION CONGRESS

CONGRESS HOUSE · GREAT RUSSELL STREET · LONDON WC1B 3LS

Telephone 01-636 4030 *Telegrams* TRADUNIC LONDON WC1

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury
Parliament Street
SW1P 3HE

YOUR REFERENCE

OUR REFERENCE LM/BC/IB/MM

DEPARTMENT Economic

August 24 1981

Original filed on: —

Ind Pol: resps into TUC: Pt 3.

Dear Sir Geoffrey

The Reconstruction of Britain

I enclose a copy of a major TUC statement entitled 'The Reconstruction of Britain'. The proposals set out in this statement are designed to restore the level of public capital expenditure to that of 1975/76. This will cost £24 billion over five years, and will create over 500,000 new jobs.

I hope that you will be able to support these proposals as a practical way of ensuring economic recovery, utilising some of the unused resources of capital and labour which will otherwise continue to be wasted, not least in the construction industry.

Yours sincerely

Lionel Murray

General Secretary

Enc:

GENERAL SECRETARY: RT. HON. LIONEL MURRAY OBE DEPUTY GENERAL SECRETARY: NORMAN WILLIS
ASSISTANT GENERAL SECRETARIES: KENNETH GRAHAM OBE AND DAVID LEA OBE

DES UNION CONGRESS, CONGRESS HOUSE, GREAT RUSSELL STREET, LONDON, WC1B 3LS

FROM THE TUC FOR THE PRESS

GENERAL SECRETARY: LIONEL MURRAY OBE

PRESS OFFICER: BRENDAN BARBER

TELEPHONE: 01-636 4030

RELEASED FOR PUBLICATION

August 20, 1981

IMMEDIATELY

"THE RECONSTRUCTION OF BRITAIN"

In launching the TUC policy statement, "The Reconstruction of Britain", TUC General Secretary, Mr Lionel Murray, today said:

'"The Reconstruction of Britain" sets out a £24 billion programme of public investment over five years which would restore spending in real terms to the level of 1975-76. The programme would generate 500,000 new jobs throughout the economy - in both public and private sectors - and so make a major contribution to bringing down the level of unemployment as well as regenerating the decaying infrastructure of the economy.

"The Reconstruction of Britain" develops the arguments put forward by the TUC in its 1981 Economic Review - Plan for Growth. It complements another recent TUC publication " Regenerating Our Inner Cities" which put forward proposals for tackling the social and economic problems of Britain's cities.

This report is a key part of the TUC's plan for Britain's economic recovery.

It is a challenge to the nation and a challenge to the Government. We shall be putting it to Congress. And it will be the agenda for action we shall be sending to Ministers, the nationalised industries and the CBI, marked urgent.

The recession is continuing. That is obvious to everyone but a few Ministers who are occupied full time in trying to keep each other's spirits up. The key question for Britain, if not for them, is how we get back to economic expansion.

.../2....

Neither exports nor private investment will provide the necessary stimulus. Public investment has a key role to play in priming the pump and in restoring the foundations on which private industry can flourish. Far from public investment crowding out private investment, it will stimulate investment, output and employment in the private sector. One area where this is patently obvious is construction, where 25% of workers are unemployed.

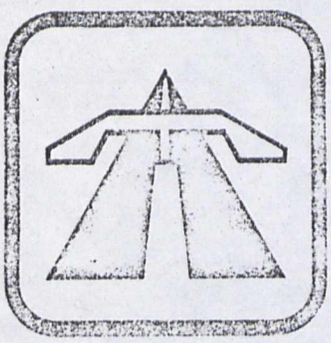
£24 billion over 5 years is not a lot of money for Britain. It is less than 3 per cent of the money national income over that period, and will pay for itself over and over again. Not least it will pay for itself in terms of jobs for Britain.

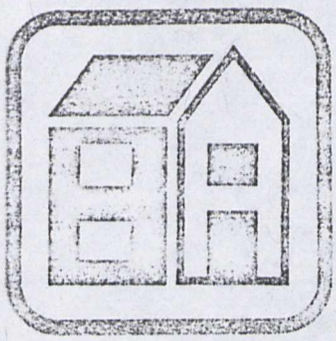
The alternative - which is happening now - is to ship it abroad. Last year the private sector invested £7 billion overseas - an increase of about 30 per cent in three years. If they were to carry on at this rate that would cost £35 billion in 5 years, without providing any jobs in Britain.

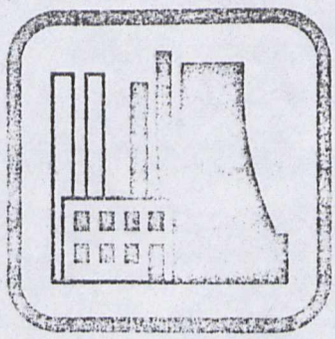
The resources are lying there disused. The workers are there, the skills are there, the management are there - idle. We want to put them to work for Britain."

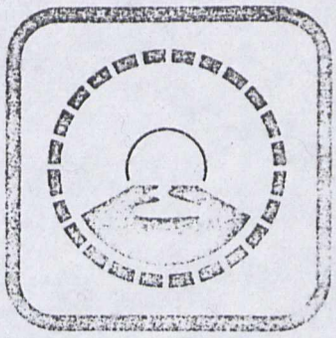
* * * *

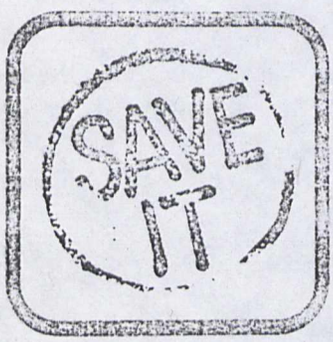
THE RECONSTRUCTION OF BRITAIN

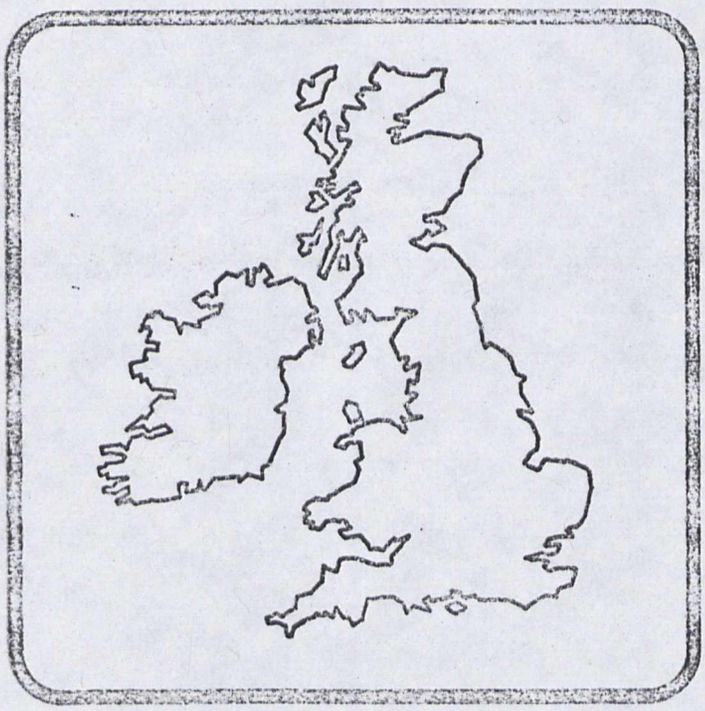


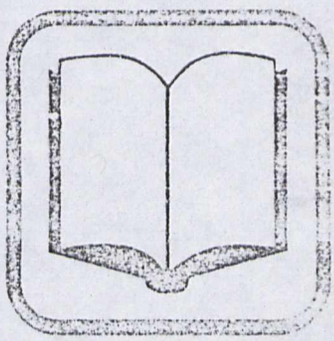


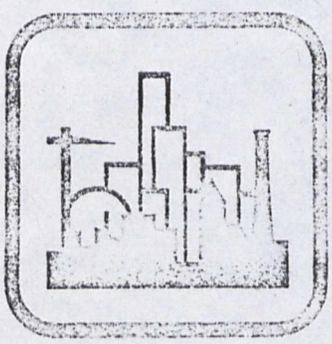


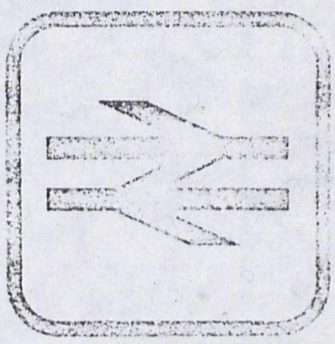


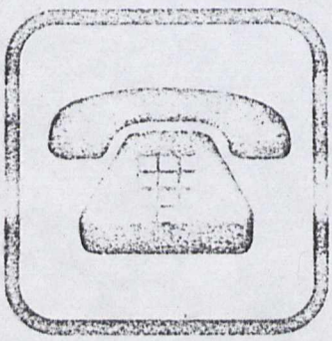


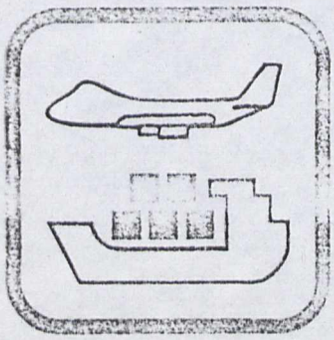


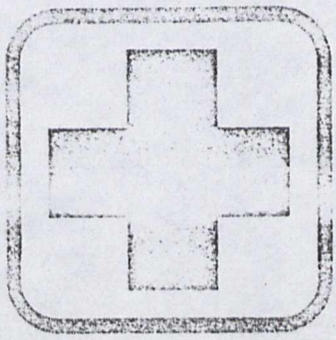












A
TUC
Publication

Preface

This publication shows the role of public investment in the reconstruction of Britain.

The TUC plan for public investment will create over 500,000 new jobs.

This could make a major contribution in the attack on unemployment, but given the scale of unemployment in Britain in the 1980s many other policies will be needed too.

The overall framework of policies for dealing with unemployment was set out in *Plan for Growth: The Economic Alternative,* published by the TUC in February 1981. This wider programme includes expansion of the public services, improved social benefits, and a fairer sharing out of the tax burden, including tax cuts for the poor.

The TUC will be developing its policies in more detail, but this publication highlights major priorities in the TUC's alternative.

Introduction

A five-year £24 billion programme of public investment will provide jobs throughout the economy. First in the building and civil engineering industries, then in the building materials and mechanical engineering industries, and so on as extra orders and spending power work their way through the economy.

These 500,000 jobs are not artificial. They are not the result of make-work schemes or extravagant 'white elephant' projects. These jobs will help meet real needs.

The housing waiting list is growing.

The energy crisis demands better insulation and investment in new forms of energy.

The cracks in our motorways and the delays they cause are well known to all those who travel by road, as are British Rail's old-fashioned and dilapidated rolling stock to rail passengers.

Britain's sewerage system – the legacy of investment in the Victorian era – is breaking up.

The high technology end of the public sector needs funds too, for example British Telecom desperately needs extra funds to modernise the telecommunications system.

So the public sector needs investment to survive, that is the crucial, but not the only, argument.

All of the private sector will benefit from this investment. This will come from extra orders, and also through a boost to private sector efficiency, for example, through improved transport and communications networks.

One thing and one thing only is holding up the introduction of this programme. It is not finance. The savings are there to finance investment. What is lacking is the political will and the imagination to put these savings to work for the benefit of the British people.

Why we need public investment

Investment

Every society needs to invest, in other words to use resources now to bring benefits for the future. But over the past year investment has slumped.

Between the last three months of 1979 and the last three months of 1980 investment in manufacturing industry fell by 20 per cent, the biggest recorded fall for over a decade. Over the same period total investment fell by 7.8 per cent – with a 6.8 per cent fall in the private sector, a 16.6 per cent fall in central and local government, and a 3.5 per cent fall in public corporations.

North Sea Oil

The TUC has firmly supported extra investment as a priority use of North Sea oil benefits. In fact the exact opposite has happened. As North Sea oil has come on stream, investment has fallen. A vital national asset is being squandered.

Social Needs

Public investment has a key role. It is needed to meet basic social needs. Good housing, modern hospitals and schools, parks, libraries and leisure facilities all need public investment. If public investment falls then these social needs go unmet, as there is no way the private sector could fill the gap.

Nationalised Industries

The nationalised industries dominate Britain's core industries, such as energy, transport and communications. Far too often these industries have been the subject of ill-informed attack. Their efficiency record is as good as, and in many cases better than, comparable industries overseas. Their record stands up well in comparison with the private sector, and in addition they meet many social needs, for example providing services in remote rural areas.

Neither are the nationalised industries over-subsidised. As *Plan for Growth*, the 1981 TUC Economic Review, showed, BR is less of a burden on the public purse than any other rail system in Europe apart from the Swedish railway. The subsidy on UK produced coal is only £2 a tonne compared with £35 a tonne in West Germany and £66 a tonne in France.

No one pretends that there is no room for improvement in the efficiency of the nationalised industries. But such improvements cannot be made if the nationalised industries are prevented from modernisation by over-rigid cash limits, or External Financing Limits (EFLs) as they are known in the nationalised industries.

Public Sector Enterprise

The mid-70s saw the development of a new role for public investment – in manufacturing industry. This stemmed from the nationalisation of the shipbuilding and aerospace industries and the development of the National Enterprise Board (NEB). The public sector has shown itself far more enterprising than so-called 'private enterprise', which in many cases shows itself to be slothful, conservative and unimaginative. Britain's micro-electronics and computer industry owes much to the enterprise of the public sector.

Interdependence

The public sector also has a key role in terms of its links with the private sector.

A recent study by the National Economic Development Office (NEDO) shows clearly that the fortunes of the public and private sectors are closely linked. For instance, about one third of sales within the UK involve the public sector as buyer or seller. And one eighth of all goods and services produced by the private sector are bought by the public sector. In some industries this proportion is much higher. For instance, in mining machinery and civil engineering about 90 per cent of output is bought by the public sector; and electronics, pharmaceuticals, and mechanical handling sell about half.

These links mean that cuts and uncertainties in public investment have reduced investment, discouraged innovation, and lost jobs in many key private sector industries.

The close links between the public and private sectors mean that expansion in the public sector will be largely met from home resources and not from imports. Although there is room for improvement the purchasing record of public firms and authorities is a good one, and much better than the private sector.

The interdependence of the public and private sectors has been ignored by the Government.

The Government's response has been to restrict the finance available to central and local government and nationalised industries so much so that worthwhile investment projects have been halted.

Denationalisation

Moreover, the Government has proceeded with its denationalisation plans. These involve selling off the profitable parts of the public sector but leaving the rest. Local authorities, health authorities, and central government are being threatened by the moves towards contracting out. Public industries are under

threat from denationalisation and the NEB has been gutted.

There are many fears about the effects of denationalisation. Among the foremost is the threat to the structure of many of our nationalised industries, which provide a comprehensive network of service throughout the country.

The TUC has warned the Government of the total opposition of the trade union Movement to further denationalisation moves, such as the sale of British Gas showrooms, and ports and harbours. These sales will make it more difficult to carry out the investment programme set out in this statement.

Key Points

- Investment has slumped, despite North Sea oil: a vital national asset is being squandered.
- Public investment is needed to meet social needs.
- Nationalised industries are as efficient as any in the world, and often more efficient than the private sector.
- Nationalised industries in Britain receive fewer subsidies than foreign nationalised industries.
- The prosperity of the private sector depends on a healthy public sector.

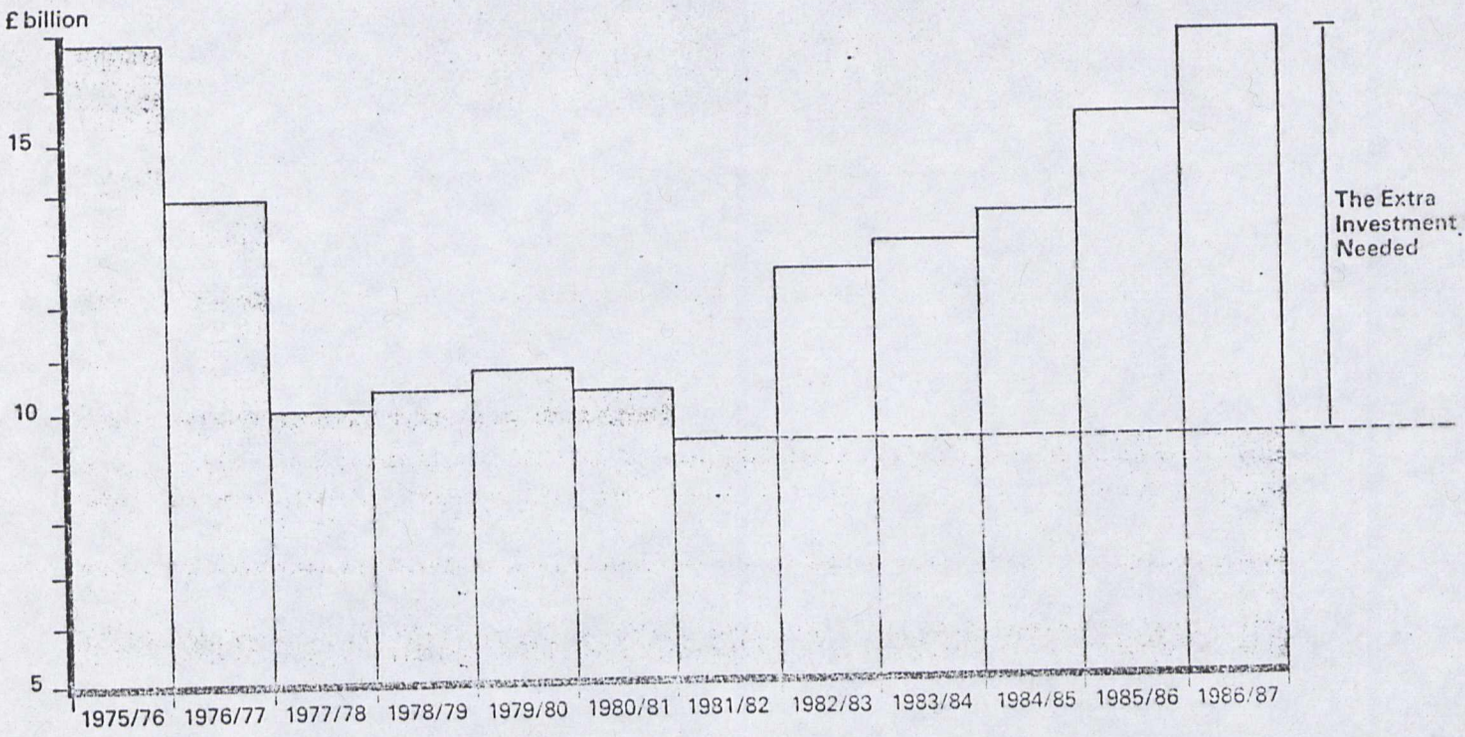
The TUC's programme

A Five-Year Plan

The cuts in public investment last year follow five years of cuts as Figure 1 below shows.

Figure 1:

Restoring the Cuts



Source: The Government's Expenditure Plans 1981/82 to 1983/84 and the Government's Expenditure Plans 1979/80 to 1982/83.

Figure 1 shows how public investment has fallen from over £16 billion in 1975/76 to £10 billion this year. The TUC's five-year plan for the part to be played by public investment in the reconstruction of Britain is shown by the lighter area on the right-hand side of the diagram.

The Government's plans are to maintain public sector capital spending at over £9 billion in 1981/82. It is assumed that the Government will continue to plan for this level of spending up to 1986/87. This is shown by the dotted line. The TUC programme is for an increase of nearly £3 billion in 1982/83 and successive increases in the following four years to restore the annual level of spending in real terms to the 1975/76 level.

In total the TUC is advocating extra spending of £24 billion over the next five years. One point needs to be clarified at the outset. The £24 billion figure is on top of the spending plans already authorised by the Government. For example, investment in the coal industry or the investment in the gas gathering pipeline is included in present plans rather than the TUC proposals.

The TUC cannot emphasise enough that the public spending package must be seen as a whole. In other words protecting existing plans from further cuts is just as important as increasing capital spending.

Time Lags

Public investment is not a tap which can be turned on and off at will. A major TUC criticism of the way public spending is planned, particularly the use of cash limits, is that it ignores the long-term nature of many projects.

Ideally the TUC would like to restore the £16 billion plus annual spending right away; that is unfortunately not practicable, but a start can be made next year on quick acting projects. Some of the restrictions in the system which cause unnecessary delays in major public projects, for example frequent design changes,

should be removed. These can cause problems by rapidly increasing costs.

In the detailed proposals set out below the TUC has deliberately chosen a mix of projects; from projects with a very long-run time scale such as the construction of a power station to projects which could be started almost immediately such as the renovation, repair and insulation of homes. The TUC has also chosen a mix of projects involving the building and civil engineering sections of the construction industry.

Benefits to the Construction Industry

Many of the projects outlined below will bring major benefits for the construction industry which is at present experiencing record levels of unemployment. Official figures show that one in four construction workers are jobless. Using estimates provided by the Building Research Establishment (BRE – a Government research centre for the construction industry) the TUC has calculated how many jobs will be created for on-site construction manual workers. These are shown for each of the programmes set out below.

Key Points

- Public investment has been cut for five years: the TUC's five-year programme will restore these cuts.
- The TUC's programme will cost nearly £24 billion over five years.
- All this money is on top of what the Government is likely to spend. But existing plans must also be protected.
- Public investment cannot be turned on and off like a tap: this is why it will take five years to get back to the 1975/76 level of investment.
- These projects are a mix of quick acting programmes such as house repairs, and long term programmes such as sewer reconstruction and power station building.
- Many of the projects will benefit the hard-pressed building and civil engineering industries.

The programme

The programme set out below includes house renovation, repair, and construction; the inner cities regeneration programme; health and education; and sewer replacement. It also covers investment in roads, railways, ports and airports; telecommunications; and energy conservation and power station construction.

Housing

Nothing illustrates better the social need for public investment than the growing housing waiting list. This social crisis has been caused by the savage cuts in the number of new council houses being built. In 1975 over 110,000 new council houses were started. By 1980 the number of new council houses started had slumped to 27,000. The housing crisis has hit both inner city and rural areas alike. The thoughtless sale of council homes has also added to this crisis. The results of these policies are shown in Figure 2 below.

In 1981/82, Shelter estimates that new council house construction and relets will provide about 125,000 new homes for people on the waiting lists. By 1984/85 this will have fallen to 85,000.

By the end of the decade, in eight years' time, this means that 715,000 new council homes will have been provided. If the waiting list gets no bigger than 2 million, this means providing an extra 1.2 million council houses by 1989.

The TUC proposes that this growing housing crisis should be tackled by a £20 billion renovation and re-building programme. This would take place over the next eight years. It will involve building a million new council houses and renovating another 200,000 empty and hard-to-let council houses. But every year this programme is delayed will increase the size of the problem: quick action by the Government is essential.

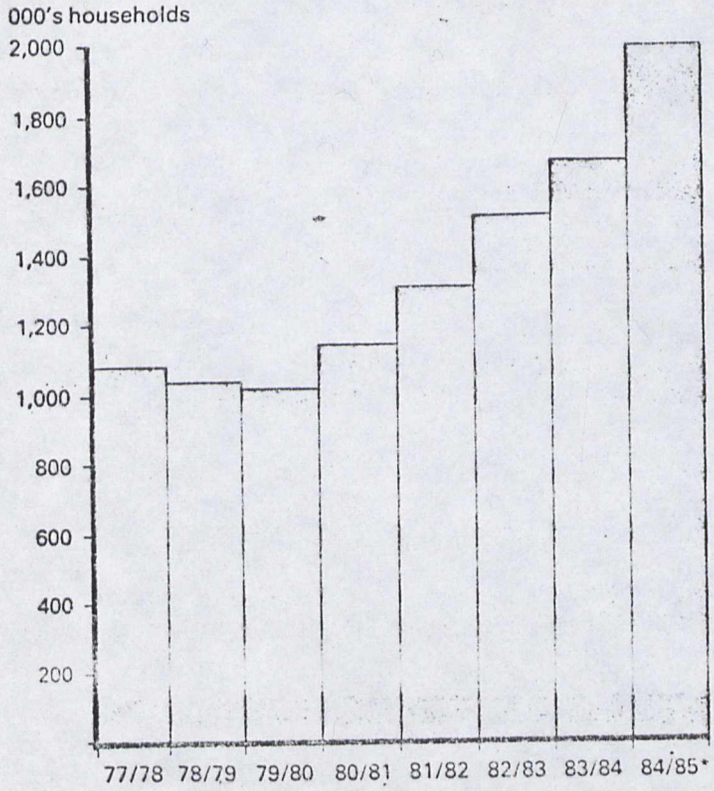
Most of the money spent in the first year of the programme would go on repairs and renovations rather than new buildings. But it is essential that plans are laid as quickly as possible for new buildings so that land can be bought and cleared, and architects' designs drawn.

Therefore over the next five years an extra £11¼ billion should be spent on house building and £1 billion on house renovation and repair.

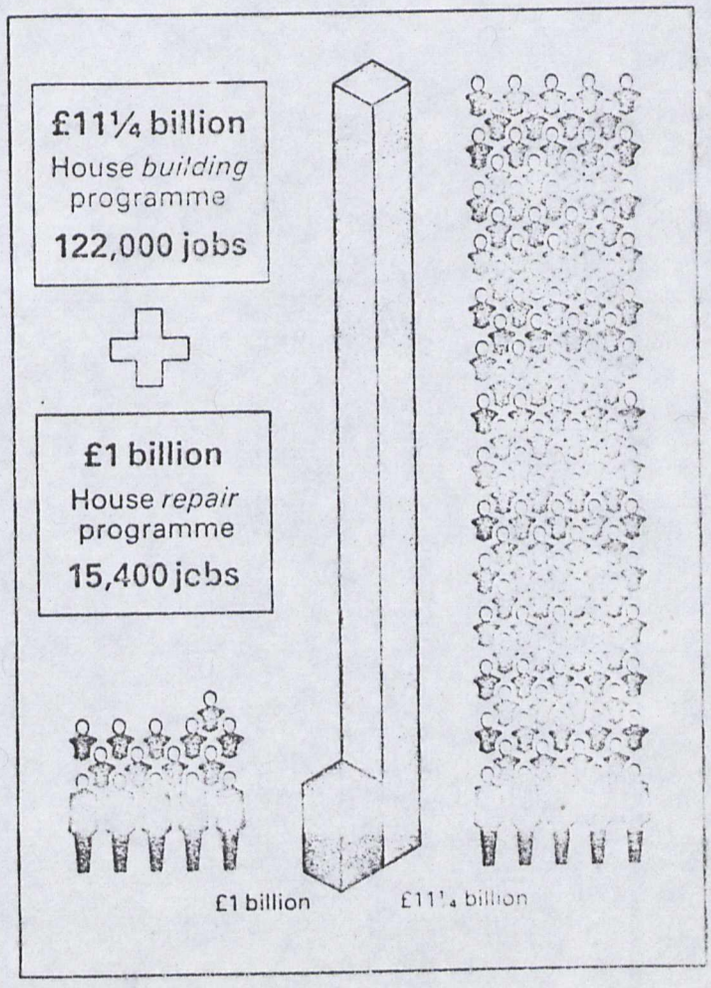
The £1 billion house repair programme will create 15,400 construction jobs and the £11¼ billion house building programme will create 122,000 jobs.

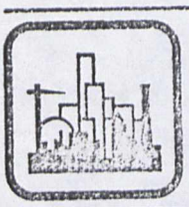
Figure 2:

Projected Housing Waiting List



Note: Figure for 1984/85* to end of 1984 only.
Source: Shelter 1980 Waiting List Survey, England.



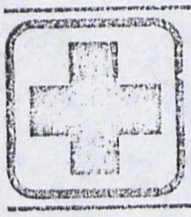


Inner City Regeneration

The TUC has recently issued a policy statement, *Regenerating our inner cities*. This called for a substantial increase (to £700 million) in assistance to inner cities. Part of this will come from some of the main spending programmes outlined elsewhere in this statement.

The main urban programme will in its first year require an additional £390 million on top of what the Government already provides. The TUC made it clear that in future years this sum would have to be increased.

A minimum estimate for the extra resources required over the next five years would be around £2,000 million on such projects as land acquisition, clearance, house renovation, leisure and community facilities and building new industrial premises in the inner cities.

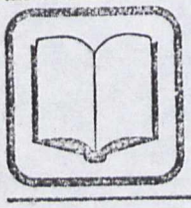


Health

The TUC 1981 Economic Review called for a substantial increase in resources for the National Health Service (NHS), in line with a three per cent real increase in annual expenditure. This is urgently needed to maintain and improve standards of health care, particularly for our ageing population. Some of this money will go on building improvements and alterations, and on new building works.

On past trends, about £75 million a year could be spent on work involving the construction industry.

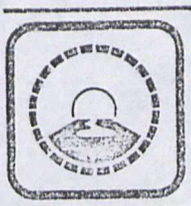
Over five years, this would require £375 million. This would provide for over 3,800 construction jobs.



Education

The latest School Inspectors' Report found that over half the Local Education Authorities (LEAs) in England have reduced repairs and maintenance. The Inspectors also found that out of 900 school premises inspected, 300 were in a poor physical condition.

In order to provide decent school and college buildings for all our children, these deficiencies must be put right and, where necessary, new buildings provided. The exact cost of this is not known. But the Government is planning to cut £125 million from capital spending in 1981/82, compared with 1979/80. Instead, this money should be used to repair and maintain schools, and provide new buildings. This would mean £625 million over five years, and create nearly 7,000 construction jobs.



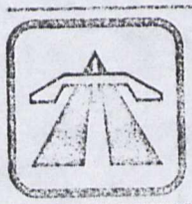
The Sewerage System

The sewerage system is well beyond its expected lifespan. In areas with particularly aged sewers, such as the North West, up to three sewers per day are collapsing. The cost of replacing the oldest parts of the system has been estimated at around £4 billion. This would obviously be spread over a number of years.

There are wider benefits from a replacement programme. These include less risk to public health and a modern efficient system fully capable of treating a wide variety of industrial effluents, and supplying industrial demand for water. The programme will also remove delays in housing expansion.

Over five years, a partial replacement programme could cost £1,000 million.

Replacing Britain's out-dated sewers would demand 5,000 construction jobs.



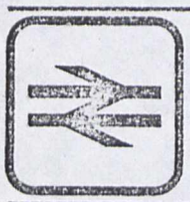
Roads

The design lifetime of many of the older motorways is now coming to an end. The Government estimates that at least 50 miles of motorway will need rebuilding each year for the foreseeable future. Wherever possible, the rate of replacement should be accelerated to ensure that motorways are maintained to a high standard and to minimise the length of time over which existing motorway traffic is disrupted by rebuilding.

Since 1979 the Government has cut expenditure on road construction and maintenance savagely. Many badly needed roads are only being held up by lack of money, and the RAC has recently described the state of roads as appalling.

If these cuts are to be restored over the next five years, then annual extra expenditure on roads would have to be increased by about £570 million.

This programme will require nearly 15,000 construction jobs.



Railways

The railways badly need to renew worn-out assets. British Rail estimate that if this investment does not take place, then by 1990 over 3000 miles of track will no longer be safe to use, and another 800 will have speed restrictions. In addition, signal failure incidents will more than double, and the availability of locomotives will fall by between a quarter and a fifth. Renewal of these assets will require an extra £72 million a year for ten years.

In order to electrify main line services, British Rail also estimate that they will need about £36 million a year for ten years. On top of this, BR would like to invest an extra £92 million per year in the overstrained London and South East region commuter network, and another £10 million per year to improve services to Stansted and Gatwick.

These proposed investments are all additional to current railway investment and to a possible Channel Tunnel. It is difficult to say just how much would be spent in the first five years. BR estimates that if the plan was authorised in 1981 then most spending would take place after 1983, and investment would not peak until 1987.

Adding up the average annual total gives a five-year total of £360 million on renewing assets, £180 million on main line electrification, and £510 million on other service improvements. This gives an overall railway investment total of around £1 billion over five years.

The BRE have not produced figures for the employment content of railway investment, but BR have estimated that the electrification programme will involve 2,000 new jobs both inside and outside BR. The programme in total will help protect many tens of thousands of jobs of those working in railway workshops and those involved in railway operations.

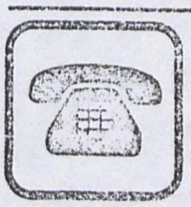
Ports and Airports

There is a need for greater investment to modernise ports and airports. In addition, a Channel Tunnel, or other channel crossing is likely to be started in the next five years. The form such a crossing might take (such as a rail only tunnel, a road and rail tunnel, or a combined bridge and tunnel) is still under discussion.

Whatever the form such a fixed crossing takes, it is clear that substantial investment will be required in ports and harbours in order to modernise them. As a first step, the cuts in real terms since 1979 must be restored. This would mean an extra £24 million for ports over the five years.

The British Airports Authority (BAA) estimates that new airport improvements and construction will cost £120 million per annum. The BAA's plans are based on Stansted, Gatwick, and Heathrow. Consideration must also be given to improving facilities at other regional airports, and this may mean diverting some of the planned investment elsewhere. Airport improvements over the next five years are likely to cost at least £600 million, but this figure may have to be increased to fully accommodate regional airport improvements.

In total, ports and airport development will create over 3,000 construction jobs.



Telecommunications

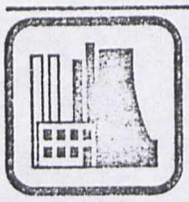
British Telecom (BT) estimates that it needs to spend £2.2 billion a year over the next five years to expand and bring the telecommunications network up to date. For instance, 70 per cent of telephone connections still go through old-fashioned 'Strowger' exchanges and this needs to be replaced by 'System X' exchanges. Similarly, the underground cable network is in many cases old and patched up, and requires replacing. Many exchanges and cables are now over 30 years old. The shortfall in investment is currently running at £200 million per annum – or £1 billion over five years.

The construction jobs content of this is relatively small, but as with BR, the main effect will be to protect existing jobs in BT and in its supplying industries.

Energy Conservation

The TUC 1981 Energy Review supported the expansion of projects designed to increase energy conservation, particularly insulation and other construction related measures. These could provide up to another £450 million for a public sector insulation programme, and an extra £75 million for the private sector, both programmes to be spread over four years.

This could provide for another 7,000 construction jobs.



Power Stations

The TUC Energy Review also called for an ordering programme to provide an average 2 GW capacity each year. This compares to an indicated maximum of 1.5 GW planned by the CEGB. The additional costs of this programme over five years, would be about £1,250 million, and could require 6,250 construction workers.

Key Points

- An eight-year construction and repair and renovation programme should be started to provide 1.2 million new council homes. The first five years of this programme would cost £12,250 million.
- The main urban programme will need at least £2,000 million extra over the next five years.
- Health and education building work will need an extra £1,000 million.
- The sewerage system will need an extra £1,000 million to start a badly needed replacement programme.
- Road maintenance and construction will need another £570 million a year for five years: this means another £2,850 million over five years.
- Railway investment needs to be increased by £1,000 million over five years.
- Ports and airport improvements will cost an extra £624 million.
- Telecommunication investment need an extra £1,000 million over five years.
- Energy conservation will need an extra £450 million.
- Extra power station capacity will need £1,250 million.

Jobs created by the programme

The Direct Job Effect

The £24 billion programme would create over 1 million man years of construction work, which over a five-year period is equivalent to 200,000 jobs for construction operatives. However, the impact on staff has also to be considered, such as architects, designers, planners, and clerical workers. Because these account for 25 per cent of employees in the industry, it is assumed that a quarter of the new jobs created will also be support staff. This will increase the direct job creation figure to 1,310,000 man years.

Jobs Created Elsewhere

But this will not be the only employment effect of these measures. There are two more effects to consider.

- Firstly, jobs can be created indirectly in industries supplying the investment industries (e.g., railway engineering firms, electronic and electrical equipment suppliers) and in firms supplying the suppliers (e.g., steel).

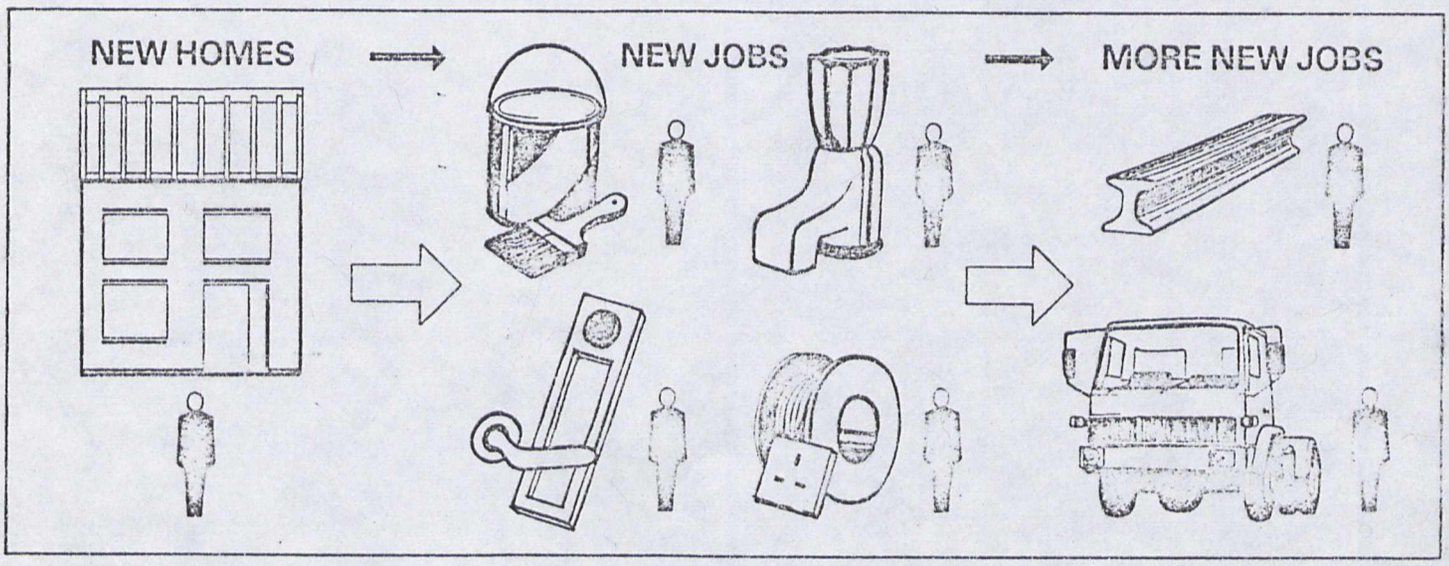
- Secondly, jobs can be created elsewhere by the extra income and output produced by direct and indirect employment effects (e.g., consumer goods industries).

These effects are of great importance, but they are difficult to calculate exactly. Various research studies show that these effects will mean that for every job created directly by this programme a further job would be created indirectly in the economy. This effect is called the 'employment multiplier'.

The following example shows how this might work. A new house will provide extra orders for the building materials and supplies industry, and all the firms which supply them. Orders for paint will in turn benefit the chemical industry. Orders for metal fittings will help the light engineering industry. And so on.

But the multiplier is wider than this. At each stage in the process extra workers will be taken on, mainly in the construction industry but also in the supplying industries further down the line. The extra income will then be spent creating new orders and therefore employment throughout the economy. It can mean extra orders both for large firms and the corner shop.

To get the total job effect the figure of 1,310,000 needs to be multiplied by two to give 2,620,000 man years over five years or over 500,000 jobs.



Key Points

- For every job the TUC's programme creates directly another job is created elsewhere.
- Some of these jobs created elsewhere will be in supplier industries: others will be in consumer goods and service industries.
- This means that the programme will create 500,000 new permanent jobs over the next five years.

Financing the programme

Why the Government should borrow to invest

Investment is provision for the future. It is quite normal to borrow to finance that investment. Companies borrow to finance their investment; there is no reason why the public sector should not do the same. The TUC has already published plans for a National Investment Bank to finance major projects and for a radical reform of the system of financing the nationalised industries.

There is nothing wrong in the Government borrowing either to spend itself or make grants to public bodies, especially if it can put the nation's savings to good use. If the private business sector is not willing to borrow, the recession will deepen still further unless the public sector does.

Why the Government says it cannot invest

The Government claims that it is unable to increase public spending, in the inner cities as in other areas, because of the effect on private sector industry. It claims that increasing public sector investment or current spending, for example, on housing, schools or hospitals will reduce the private sector, and increase inflation. The Government claims that increasing public spending would require an increase in its borrowing which would raise interest rates. This would cause private sector spending to fall by an equal amount, and the economy would be no better off.

Alternatively, it argues that increasing investment by borrowing from the banks will increase the money supply and increase inflation.

Why the Government is wrong

Both the National Economic Development Office and the Bank of England have recently studied these arguments and neither could find evidence to support them.

- Firstly, high levels of Government borrowing do not mean that the level of interest rates must also be high. For example, in the past year Government borrowing has remained high, yet interest rates have been reduced.
- Secondly, most studies show that private sector investment is more strongly influenced by the level of activity in the economy than by interest rates. Public sector investment will in fact boost activity and encourage private sector investment.
- Thirdly, no firm evidence exists to show that increases in the money supply mean higher inflation.
- Fourthly, little evidence exists that the level of demand in the economy is an important influence on the rate of inflation.

This programme will mean an increase in the amount the Government borrows in the short term. But in the long run the financing problem will be eased as the economy expands and Government borrowing falls as a proportion of national wealth.

Moreover, it must make more economic sense to use public money on modernising the economy rather than on paying unemployment benefit. If the truth were told it is the Government's own policies which have destroyed the finances of the public sector through a failure to recognise this simple fact. Their plan to cut Government borrowing has failed and the costs have been enormous.

Priorities

But the argument for borrowing does not imply that resources are limitless and that no choices on priorities have to be made. Within this programme difficult decisions will have to be made about the regional balance of spending. Even a five year £24 billion programme will not meet all the needs of society.

Conclusion

This programme for the reconstruction of Britain is an essential part of the TUC's Plan for Growth. Public investment must spearhead growth. However, it is not the only form which economic growth will take. The TUC's economic alternative also involves increases in living standards, private investment and exports, but it is an increase in public investment which can provide the stimulus to the rest of the economy.

The TUC wishes to underline one point. An expansion of public investment should in no way be accompanied by a cut in the public services. It is no good building new hospitals and schools if there are no funds to provide for nurses and teachers to staff them. Moreover, an increase in public investment matched by a cut in other public spending would leave the economy no better off.

This programme is a bold one. But it is also a realistic one. The 1981 TUC *Economic Review* showed how the economic alternative would work. This document has established one key part of that alternative. Now, as registered unemployment climbs inexorably to 3 million and beyond, the Government must change course.

cc: Miss Stephens Reg Bling
(for meeting arrangements)

bc: Mr. Hoskyns.

NOTE FOR THE RECORD

The Prime Minister commented on Mr. Lankester's teleprinted note of 14 August that a lot more work had to be done before Mr. Heseltine's document on Liverpool could be discussed.

I spoke to her about her wishes today. She said that she found the document to underline the problem of lack of coordination in handling the significant sums of money which had flowed into the area from central Government in recent years. She did not believe that this problem would be overcome either by allocating one Cabinet Minister to each of the major conurbations, thus adding one new layer of bureaucracy, or by pushing more money into the system before the coordination problem had been worked out. But she needed first to discuss the broad issues with Mr. Heseltine and one or two senior colleagues. In addition to the Home Secretary she would be content to have the Chancellor present if available. She would also like to include Sir Keith Joseph, in view of his letter to Mr. Heseltine about the handling of the redevelopment of the Tate and Lyle refinery site.

I spoke to Mr. Gregson in the Cabinet Office about this. He said that Departments were not well placed to undertake any substantive further work in the next couple of weeks. Many of the relevant staff were on holiday, and when further work was undertaken it would be better if it could be much more clearly focused as a result of some political discussion which might select between the many ideas raised in Mr. Heseltine's report.

No substantive further work has therefore been commissioned for the 7 September meeting. Mr. Ibbs will offer some analytical comments on the paper. The Cabinet Office will offer a brief suggesting issues which should be taken up in the meeting. They will work on the assumption that Robert Armstrong will be invited. Presumably Mr. Ibbs will also be invited.

MAP

19 August 1981

c/f 8/a

PRIME MINISTER

INNER CITIES: TUC MEETING

The TUC will probably ask for facilities to speak to the press, radio and TV after their meeting with you on Tuesday, 1 September.

2. I recommend that we should organise facilities for them. There is probably no point in considering a joint press conference and we don't want to run the risk of losing our media audience either because they are door-stepping or rushing to attend a TUC press conference at, for instance, Congress House.

3. We could aim to follow the pattern of last year's meeting with the TUC. They then held a press conference in No 12 and recorded TV and radio interviews in Bernard's room and my room. You followed with a press conference and TV interviews, with Mr Prior recording a number of radio interviews. On 1 September you might want to share the media activity with Mr Heseltine.

4. Content for us to proceed on this basis?

NEVILLE GAFFIN
18 August, 1981.

file KB
Regional Policy

10 DOWNING STREET

From the Private Secretary

17 August 1981

BF 27.8.81

Dear David

Tim Lankester wrote to you on 13 August, about the TUC request to meet the Prime Minister to discuss inner city policy.

The meeting is now confirmed for 1500 hours on Tuesday, 1 September. In addition to your Secretary of State, the Prime Minister has invited the Home Secretary, the Chief Secretary, and the Secretary of State for Employment if he is in London. The TUC expect to field a team of 12-15, and they will have their own preliminary meeting here half an hour before they see the Prime Minister.

The Prime Minister has asked that the briefing to be provided for her should include comprehensive information on what has already been done for the inner cities. I think she has it in mind that statistics of expenditure for the major conurbations should be prepared on a basis comparable to that used by your Secretary of State in his recent report on Merseyside. It would be helpful if the briefing could get to us by close of play on Thursday, 27 August, to give the Prime Minister time to ask for any additional information she might require before the holiday weekend.

I am sending copies of this letter to John Halliday (Home Office), Terry Mathews (Chief Secretary's Office, H.M. Treasury) and Richard Dykes (Department of Employment). A copy also goes to David Wright (Cabinet Office).

Yours ever

Mike Pattison

D. A. Edmonds, Esq.,
Department of the Environment.

bcc Hoskyns

File

PRIME MINISTER

INNER CITIES

We have sent down in the box Michael Heseltine's long minute on Merseyside, which he has circulated to the whole of Cabinet, together with his covering note which is personal to you. I offer below some suggestions on handling.

Mr. Heseltine's proposals fall essentially under the following heads:

(i) Continued Ministerial commitment to Merseyside and appointment of Ministers with responsibility for other conurbations. This is a matter very much for you, and is of course relevant to any Ministerial changes. However, I expect you would want to discuss it with the Home Secretary, and Mr. Heseltine is obviously hoping that he would be consulted. In his covering minute, he says that he hopes that "so far as possible Ministers with functional responsibilities relating to the conurbations should be considered first".

(ii) Re-organisation of regional offices, and a single regional office for Liverpool. Several departments have an interest in this (DOE, DOI, DHSS, D/Employment, DES and Transport). I think the first step is for us to get advice from Sir Ian Bancroft. Agree?

(iii) Redirection of regional and employment policies, and allocation of substantial extra resources to Merseyside and to the inner city areas generally. Mr. Heseltine suggests an extra net £100 million a year for Merseyside, and an extra amount (unspecified) to other hard-pressed conurbations. Apart from his proposals for reviews of particular policies, this boils down to the basic issue of whether we should be giving new priority in our public spending and other policies towards the inner cities, and thus in effect reversing the trend under

/ this government

this government to give greater priority to the shire counties. There is also the point which bears on our whole economic strategy of where the extra resources should come from: should they be at the expense of other programmes, or in addition to them? All this is really a matter that will have to be decided in Cabinet, and in advance of final decisions on public expenditure.

(iv) Possible abolition of the metropolitan counties and the GLC. Mr. Heseltine suggests that this should be examined quickly by an inter-departmental group. This is of course a very sensitive subject, and I doubt whether you would want to set in hand this review without the endorsement of Cabinet or least E.

At some stage in September, I think you will need to have a discussion of Mr. Heseltine's paper in Cabinet. But in advance of that, you will want to reach your own view on his Ministerial responsibility proposal, and I think you will want to reach some measure of agreement with Mr. Heseltine and the Chancellor on the big question under (iii) above. You could bring in the other Ministers who are most closely concerned - ie Employment, Industry, Education, DHSS and Transport. However, I think it would be better for you to confine a preliminary meeting to the Chancellor and Mr. Heseltine plus the Home Secretary. Keeping it this small would also enable you to discuss the Ministerial responsibility point. You can then decide whether to go straight to Cabinet or whether to have a further, enlarged meeting with the Ministers mentioned earlier in this paragraph plus possibly the Scottish and Welsh Secretaries.

The best date for the preliminary meeting would seem to be the morning of Monday 7 September. You could do it the previous Wednesday before going to Balmoral; but Robert Armstrong would not be available (he will be on holiday in Switzerland and I believe his presence is quite important), it would be Clive's first day back and I will not be here. If you agree then, we will go for a meeting on Monday 7 September with the Home Secretary, Mr. Heseltine,

/ the Chancellor

the Chancellor and Sir Robert Armstrong. We would get a brief from the Cabinet Office, and also advice from Ian Bancroft on the regional office proposal.

TL

14 August 1981

LAEEEEEEEEEEEEEEEEXMESSAGE NO 1

NO 10 TO CORNWALL

MINUTE TO THE PRIME MINISTER FROM MR LANKESTER

C O N F I D E N T I A L

INNER CITIES

WE HAVE SENT DOWN IN THE BOX MICHAEL HESELTINE'S LONG MINUTE ON MERSEYSIDE, WHICH HE HAS CIRCULATED TO THE WHOLE OF CABINET, TOGETHER WITH HIS COVERING NOTE WHICH IS PERSONAL TO YOU. I OFFER BELOW SOME SUGGESTIONS ON HANDLING.

MR HESELTINE'S PROPOSALS FALL ESSENTIALLY UNDER THE FOLLOWING HEADS.

(1) CONTINUED MINISTERIAL COMMITMENT TO MERSEYSIDE AND APPOINTMENT OF MINISTERS WITH RESPONSIBILITY FOR OTHER CONURBATIONS. THIS IS A MATTER VERY MUCH FOR YOU, AND IS OF COURSE RELEVANT TO ANY MINISTERIAL CHANGES. HOWEVER, I EXPECT YOU WOULD WANT TO DISCUSS IT WITH THE HOME SECRETARY, AND MR HESELTINE IS OBVIOUSLY HOPING THAT HE WOULD BE CONSULTED. IN HIS COVERING MINUTE, HE SAYS THAT HE HOPES THAT ''SO FAR AS POSSIBLE MINISTERS WITH FUNCTIONAL RESPONSIBILITIES RELATING TO THE CONURBATIONS SHOULD BE CONSIDERED FIRST''.

(2) REORGANISATION OF REGIONAL OFFICES, AND A SINGLE REGIONAL OFFICE FOR LIVERPOOL. SEVERAL DEPARTMENTS HAVE AN INTERESTS IN THIS (DOE, DOE, DHSS, EMPLOYMENT, DES, AND TRANSPORT). I THINK THE FIRST STEP IS FOR US TO GET ADVICE FROM SIR IAN BANCROFT. AGREE?

(3) REDIRECTION OF REGIONAL AND EMPLOYMENT POLICIES, AND ALLOCATION OF SUBSTANTIAL EXTRA RESOURCES TO MERSEYSIDE AND TO THE INNER CITY AREAS GENERALLY. MR HESELTINE SUGGESTS AN EXTRA NET £100 MILLION A YEAR FOR MERSEYSIDE, AND AN EXTRA AMOUNT (UNSPECIFIED) TO OTHER HARD-PRESSED CONURBATIONS. APART FROM HIS PROPOSALS FOR REVIEWS OF PARTICULAR POLICIES, THIS BOILS DOWN TO THE BASIC ISSUE OF WHETHER WE SHOULD BE GIVING NEW PRIORITY IN OUR PUBLIC SPENDING AND OTHER POLICIES TOWARDS THE INNER CITIES, AND THUS IN EFFECT REVERSING THE TREND UNDER THIS GOVERNMENT TO GIVE GREATER PRIORITY TO THE SHIRE COUNTIES. THERE IS ALSO THE POINT WHICH BEARS ON OUR WHOLE ECONOMIC STRATEGY OF WHERE THE EXTRA RESOURCES SHOULD COME FROM: SHOULD THEY BE AT THE EXPENSE OF OTHER PROGRAMMES, OR IN ADDITION TO THEM? ALL THIS IS REALLY A MATTER THAT WILL HAVE TO BE DECIDED IN CABINET, AND IN ADVANCE OF FINAL DECISIONS ON PUBLIC EXPENDITURE.

(4) POSSIBLE ABOLITION OF THE METROPOLITAN COUNTIES AND THE G L C. MR HESELTINE SUGGESTS THAT THIS SHOULD BE EXAMINED QUICKLY AN INTER-DEPARTMENTAL GROUP. THIS IS OF COURSE A VERY SENSITIVE SUBJECT, AND I DOUBT WHETHER YOU WOULD WANT TO SET IN HAND THIS REVIEW WITHOUT THE ENORSEMENT OF CABINET OR AT LEAST E.

AT SOME STAGE IN SEPTEMBER, I THINK YOU WILL NEET TO HAVE A DISCUSSION OF MR HESELTINE'S PAPER IN CABINET. BUT IN ADVANCE OF THAT, YOU WILL WANT TO REACH YOUR OWN VIEW ON HIS MINISTERIAL RESPONSIBILITY PROPOSAL, AND I THINK YOU WILL WANT TO REACH SOME MEASURE OF AGREEMENT WITH MR HESELTINE AND THE CHANCELLOR ON THE BIG QUESTION UNDER (3) ABOVE. YOU COULD (UNDERLINE COULD) BRING IN THE OTHER MINISTERS WHO ARE MOST CLOSELY CONCERNED - I E EMPLOYMENT, INDUSTRY, EDUCATION, D H S S AND TRANSPORT. HOWEVER, I THINK IT WOULD BE BETTER FOR YOU TO CONFINE A PRELIMINARY MEETING TO THE CHANCELLOR AND MR HESELTINE PLUS THE HOME SECRTARY. KEEPING IT THIS SMALL WOULD ALSO ENABLE YOU TO DISCUSS THE MINISTERIAL RESPONSIBILITY POINT. YOU CAN THEN DECIDE WHETHER TO GO STRAIGHT TO CABINET OR WHETHER TO HAVE A FURTHER, ENLARGED MEETING WITH THE MINISTERS MENTIONED EARLIER IN THIS PARAGRAPH PLUS POSSIBLY THE SCOTTISH AND WELSH SECRETARIES.

THE BEST DATE FOR THE PRELIMINARY MEETING WOULD SEEM TO BE THE MORNING OF MONDAY 7 SEPTEMBER. YOU COULD (UNDERLINE COULD) DO IT THE PREVIOUS WEDNESDAY BEFORE GOING TO BALMORAL: BUT ROBERT ARMSTRONG WOULD NOT BE AVAILABLE (HE WILL BE ON HOLIDAY IN SWITZERLAND AND I BELIEVE HIS PRESENCE IS QUITE IMPORTANT), IT WOULD BE CLIVE'S FIRST DAY BACK AND I WILL NOT BE HERE. IF YOU AGREE THEN, WE WILL GO FOR A MEETING ON MONDAY 7 SEPTEMBER WITH THE HOME SECRETARY, MR HESELTINE , THE CHANCELLOR AND SIR ROBERT ARMSTRONG. WE WOULD GET A BRIEF FROM THE CABINET OFFICE, AND ALSO ADVICE FROM IAN BANCROFT ON THE REGIONAL OFFICE PROPOSAL.

MESSAGE ENDS

14 AUGUST 1981

cc Press Office

BF for HO draft

WM 20/8

10 DOWNING STREET

PRIME MINISTER

In the attached letter, the Deputy Leader of the Merseyside Council sets out the Council's response to the Government's offer of assistance over the cost of the riots. They feel the offer is inadequate, and only a basis for negotiation. They ask for discussions with you to "reach an acceptable solution".

I have asked the Home Office to draft a reply for you to send, in consultation with DOE. The Home Office had originally envisaged discussing their offer with the Association of Metropolitan Authorities, rather than bilaterally with individual councils. The offer was set out in a letter to the AMA.

MJSR

18 August 1981

Merseyside County Council

OFFICE OF THE DEPUTY LEADER

Metropolitan House
Old Hall Street
LIVERPOOL
L69 3EL

14th August 1981

The Rt Hon Margaret Thatcher MP
The Prime Minister
10 Downing Street
Westminster
LONDON

48

Dear Prime Minister

RIOT DAMAGES - GOVERNMENT ASSISTANCE

Your proposal on Government assistance to local authorities incurring extra costs arising from riots and from payments under the Riot (Damages) Act 1886 were made known to the County Council at its meeting on Tuesday last. In the absence of the Leader of the Council, I have to advise you that the Council felt obliged to pass the following resolution as an addendum to a supplementary budget precept resolution; viz

(a) This Council notes and supports the decision of the Police Committee and immediate representations be made to Central Government to the effect that the offer of financial assistance towards the additional police costs arising from the civil disturbances and possible payments under the Riot (Damages) Act 1886, as proposed in the Prime Minister's announcement of the 10th August 1981, is totally inadequate so far as this authority is concerned;

(b) Central Government be advised that the offer is regarded only as a basis for discussion in the belief that such financial assistance should be extended to cover the whole of the expenditure concerned;

(c) The Prime Minister be asked to receive, as a matter of urgency, a deputation to discuss the serious financial consequences arising from the recent civil disturbances.

I am aware of your expression of concern for Merseyside evidenced by your visit following the Toxteth riots. In all the circumstances, I must ask you to enter into further early discussions with the County Council in an endeavour to reach an acceptable solution to the immediate and pressing problem of the burden of expenditure consequent upon riot damage.

/contd.

The Rt Hon Margaret Thatcher MP 14th August 1981

The Leader of the Council and indeed the Council's entire membership will await your response in hope and expectation.

Yours faithfully

Jack Gershman

Deputy Leader

SECRETARY OF STATE FOR THE ENVIRONMENT

CONFIDENTIAL

PRIME MINISTER

I am sending you separately my report to cabinet colleagues on Merseyside. The problems of Merseyside are political and organisational as well as economic and social. My experience there has convinced me of the value of a continuing Ministerial presence as I have suggested in my report. I have suggested that you may wish to extend the proposals to other conurbations where the problems are of the same kind if not quite so acute.

I believe that the drive and commitment of a senior Minister identified to an area can make an immense difference to getting things done through harnessing the efforts of central government with those of local government and other local bodies.

In making this proposal I considered a range of solutions. You might for instance appoint a Minister for Urban Affairs without other functional responsibilities. You could appoint a number of Ministers of State for each of the conurbations or a senior political figure as a commissioner. I cannot recommend any of these alternatives, for the reality to my mind is that a senior Minister, preferably a cabinet Minister, can command a degree of authority and has access to the scale of power that cannot be matched in any other way.

My suggestion therefore is that you could appoint me and several of my colleagues, preferably those in charge of the relevant departments, each to exercise special responsibility for one of the conurbations. Our tasks would be to co-ordinate the activities of central government; to act as trouble-shooters and take initiatives; and secure maximum value for money from expenditure programmes.

One of the essentials is to increase the flexibility of government action. This may mean altering policies in relation to particular local needs and conditions. Clearly it would be right in the first place to seek the agreement of the Minister responsible for the policy. But failing agreement there would have to be machinery for considering and resolving these issues. I think it would also be important for Ministers with conurbation responsibilities to keep you and one another in touch with developments. If therefore you decide to appoint some of your colleagues to have special responsibilities for the conurbations you may also wish to set up a cabinet committee under your Chairmanship to review progress from time to time and to settle outstanding issues.

SECRETARY OF STATE FOR THE ENVIRONMENT

CONFIDENTIAL

In my report I have made only passing reference to the other conurbations. If you are attracted in principle to the idea it will be necessary to decide how many conurbations were to be covered by the new arrangements. Merseyside and Manchester, West Midlands and Tyneside are clear cut cases. Parts of Inner London certainly merit special attention though the complications would be immense. And there is also a case to be made for the metropolitan areas of South and West Yorkshire.

In passing, I know you will have appreciated the media impact open to anyone undertaking the local tasks I have mentioned. It is not without its political opportunity.

Naturally I make no suggestions about Ministerial appointments beyond suggesting that so far as possible Ministers with functional responsibilities relating to the conurbations should be considered first.

MH

13 August 1981

CONFIDENTIAL

COPY NO: 1

STRICTLY CONFIDENTIAL

PRIME MINISTER

IT TOOK A RIOT

No sentiment was more frequently expressed to me during the time I spent with Tim Raison in Merseyside. There is no escaping the uncomfortable implications.

Merseyside has been suffering from long term decline at least since the Great War. The County's current population is 1.5 million; Liverpool's 0.5 million. The City has lost a third of its population, mainly the more skilled, since 1961; the County as a whole lost about 10% between 1971 and 1981. There are 75,000 fewer jobs than in 1976. Unemployment rates have been consistently well above national figures since before the last war, and are now 18%. That means 125,000 unemployed out of a work force of 720,000. In Liverpool alone, 55,000 are without a job - 18,000 of them concentrated in the core of the city. But Merseyside is only the most extreme case: similar problems are to be found in our other great cities (see Annex A).

Nor are prospects good. As part of my exercise, Coopers and Lybrand looked at the average of 11,000 job losses in each of the last 5 years. In part because a high proportion of Merseyside's manufacturing jobs are in industries with declining prospects they confirmed that this trend is likely to continue at similar rates. Recent major closures make this all too likely.

Regional assistance, largely automatic and heavily slanted to manufacturing, has not primarily focussed on the needs of Liverpool's service-biased economy, including the Port. Major plants brought there suffered from all the difficulties of imposing large scale manufacturing industries on existing communities.

The Port itself faces many problems. Bad industrial relations have not helped; but they are not the sole problem. There is the high cost of dredging the river, borne by the Port. It also suffers from the grid system of charges by which shippers equalise charges and thus give a wholly improper advantage to ports like Southampton. I am told this practice would be illegal in the United States. Not least, the financial structure imposed on the Port in 1974 means that the Docks and Harbour Company is virtually unable to realise freehold capital assets for improvement of its business, as the proceeds go to the bondholders. Well over 1,000 acres along both banks of former industrial land lie idle and rotting.

The river is an open sewer. Unless it can be cleaned up it will be impossible for Merseyside to develop a whole range of water-based amenities (fishing, boating, marinas), which would stimulate employment in the leisure industries.

Among the people who have left the area have been middle managers who have gone to the suburbs for better homes, schools and surroundings. More significant still has been the loss to Liverpool of the headquarters of its major firms. There are hardly any left. So the leaders have gone, and decisions are made elsewhere - by the nationals and multi-nationals. It is the branches in Liverpool and places like it that go first.

It is not just industry and commerce. Local government - the Corpy - is remote, and much of its housing indescribable. There are 38,000 outstanding repairs notices for the city's 78,000 dwellings. The city's decision-making processes are emasculated. There have been 6 changes of control in the last 7 years. The 2 tiers of local government make things worse, with the County seeking to justify its existence by double-banking work that should be done at district level. The DHSS are deeply concerned about the quality of management in the health service. Central Government's regional offices are in Manchester, with largely executive functions.

The unemployment figures quoted in my 2nd paragraph are appalling in themselves. But one has to talk to the people day after day to understand just what hopelessness means. Young people expect to be unemployed and they are being brought up by parents who expect them to be unemployed. We have to realise the hollowness of the phrase 'parental responsibility' when

unemployed parents - many of them single - live cooped up with energetic kids with nothing to do, and nowhere to go. If parents have lost their sense of purpose, they cannot command their children's respect.

Of course, the headlines have concentrated on Liverpool 8 or Toxteth and here the problem is most acute. This is the only black community on Merseyside - Liverpool people of several generations' standing. The crime rate is high, educational attainments low. The reputation of the area is a barrier when applying for work. Up to 45% of the 16-20 year olds are unemployed - among the blacks the figure was said to be higher. To keep a perspective, Liverpool 8 is an area of barely a square mile; and at the height of the riots only 200-300 local people were involved.

Relations between black and white in the area seem tolerable. But there is undoubtedly a serious breakdown of confidence between a great part of the population in the area and the police. In the eyes of many local people, not just in Liverpool 8, this is the dominant issue - though the overwhelming majority of people I spoke to recognise the need to maintain law and order. With Tim Raison I will discuss my conclusions about this with the Home Secretary.

In looking back over my visit to Merseyside, I found an area in parts of which the long term problems are so acute, and

human resources so thin, and whose political structures are so compartmentalised that there is no prospect of effective leadership. It follows that the hard left - and more extreme forces - are at work. They are now arguing: "All the traditional methods have failed: its time for more radical measures." In the Labour Party, local MPs and municipal leaders are under constant threat of their jobs, with all the consequences this brings to their speeches and their actions.

Yet there are strengths. There is a substantial City Centre in Liverpool with a grand architectural heritage. It is still an attractive and lively place. There is a strong tradition of office work and entertainment, and outstanding cultural (Walker Art Gallery and Philharmonic orchestra) and sporting (Liverpool and Everton FC) assets. The port is the biggest on the west coast with modern investment. There are good, if not exceptional, communications (by road and rail). There is a University with a good reputation and community links. There are good industrial firms. Industrial relations for the great range of firms are good, and much better than the Merseyside image. There are recent Government initiatives, including the Urban Development Corporation (though its area is narrowly defined) and the Enterprise Zone and the Land Registers. We must build on these things.

There are also the community groups. Voluntary agencies and self-help groups can do things more cheaply and effectively than official bodies - and contribute to the growth of local

communities. In spite of the dangers of infiltration and plain inefficiency - which burnt the Liberals' fingers - I am convinced that within these groups are many who are interested in helping this community deal with social, housing, sporting and leisure activity. We must harness their energies. If we do not, these groups will not disappear: they will be easy prey for those who seek to use them for other purposes.

Merseyside's economic and social problems are severe. So too are those of the other conurbations. The facts are well documented. It is in my judgement our inescapable duty to respond to the problems of the main urban areas with urgency and resource. I opened this report by referring frankly to the inescapable connection between the riots and the visit which I was asked to make. I cannot stress too strongly that my conclusions and proposals are not based on my fear of further riots. They are based on my belief that the conditions and prospects in the cities are not compatible with the traditions of social justice and national evenhandedness on which our Party prides itself.

We must get the strengths of the community pulling in the same direction; and free the spirit of enterprise which is latent. This will not happen on its own or without leadership.

I should say that I have not expanded on the concept of a tactical retreat, a combination of economic erosion and encouraged evacuation. In part that has been the outcome of post-war

policy. There will be some continuation of this drift but even to stabilise a smaller community in conditions that are socially acceptable, there will need to be a very real degree of leadership and the commitment of substantial resources.

PART II: MAIN PROPOSALS

Organisation

I believe the Government must take the first step. Major institutional change, however justified, takes time. Since the need for action is urgent, I recommend that we make the most flexible possible use of existing powers, resources and agencies. In order to maintain the impetus we have gained on Merseyside, I believe that continuing Ministerial commitment is required. I suggest that my special responsibility should continue for a specified period of, say, one year. Part of my job would be to co-ordinate Government action, with my colleagues' agreement; to act as a trouble-shooter on behalf of colleagues; to secure maximum value for money from present programmes; and take new initiatives where appropriate. I should do my best to secure improved performance in local government; and would continue to seek a much greater commitment to Merseyside from the private sector.

To give thrust to this proposal, a single regional office is needed for Merseyside, and probably related parts of Lancashire and Cheshire. The details need to be worked out, but it should comprise the main departments concerned with

economic development: DOE, DOI, DE/MSC, and DTp. An effective regional presence for DES is required, and suitable links with DHSS.

Necessarily, it will be asked whether similar arrangements are justified for other conurbations. My belief is that they are - though of course with another colleague in the lead in each case.

Local Government

Having been to Merseyside I remain more than ever convinced that we should abolish the Metropolitan Counties.

The Home Secretary has been invited to consider the future of the GLC and metropolitan counties (E(81)22nd). Subject to his views, I suggest that we now set up an interdepartmental group under the chairmanship of my Department to examine and report as quickly as possible on the implications of abolition of this tier of local government, and on the fastest practicable timetable for the enactment of legislation and implementation.

At the same time, it would be helpful if such a group were to report on the merits of legislation to end the system of triennial elections, which provide for annual elections of parts of district councils. Triennial elections have the advantage

of testing the acceptability of a local authority's policies by ballot box; but can create - as in Liverpool - great uncertainty about political control, which is inimical to decision and action.

In the meantime we must make the best use of what we have. Provided I had something to offer, I believe we could get results by working with the existing authorities and agencies. I intend to review the operation of the Liverpool partnership, and some early rationalisation of agencies in the economic field might be possible.

The Private Sector and the Financial Institutions

A feature of my visit was the tour of some 30 representatives of the Financial Institutions (listed at Annex C). They have agreed - partly as a result of the shock of all they saw - to join the Government in a comprehensive examination of the role of the private sector in financing urban development and in the revival of the older urban areas. They will second one of their best young Managers for a year. First, we need to get them fully absorbed in the challenge and the opportunity, with some visits at least to the USA and Germany to see what has been achieved there by co-operation between public and private sectors. They will then need to study the problems here. This exercise crosses the interests of many Departments and will need co-ordination. Naturally I have made the point that we are not seeking subsidies or advocating loss-making investments but

rather the development of methods that will enhance the flow of private capital into urban opportunities. I also explained something of the NEC of the Labour Party's plans for them!

In addition, I have been offered help by 20 Merseyside firms, who will each provide a manager to join in the local initiatives I have announced, and help to organise the training of extra young people whom their firms will be taking on.

Part III: Policies

There is a number of general government and local government policies with special, but not exclusive, application to Merseyside which must urgently be reviewed. I set out in Annex B some initiatives I was able to set in hand but they in no way match the scale of the problem.

(i) Industry, Employment and Training

Our policies for assisting industry should reflect a greater emphasis on areas facing both high unemployment and grave social stress. The existence of a Ministerial presence in each conurbation should enable a co-ordinated and area-based industrial and employment policy to be pursued, using both existing and additional resources.

There are undoubted advantages in an automatic system of regional development grants. But on Merseyside, although some £20m might be spent this year on selective assistance and

factory-building in the county, most industrial support goes to the fringes of the conurbation and beyond.

We should move if we can to a greater use of selective assistance, in a form which can be focussed to help the worst-hit parts of the conurbations, with the aim of creating new and lasting jobs. As part of this we should have more flexibility to assist the development of service industries.

We must renew our determination to secure the establishment of small businesses who are some way apart from the mainstream of government grants.

We should consider further the possibility of providing more Civil Service jobs in Merseyside.

Training should lead to a qualification of some sort and be more widely available. Having seen what school leavers are doing under the MSC programmes, I am deeply dissatisfied - as many of them are. The problem is certainly complex. But I am convinced that the private sector needs to be brought in more. The present rules about private gain still mean too many cosmetic jobs.

There are good examples to draw on in the USA where banks, the other institutions and the wider private sector have responded creatively to Government initiatives. The Americans long since took the decision to let people make a profit out of public job creation. Similar progress has been

made in Germany. We, too, must reassess how to make better use of what are massive human resources.

Special efforts must be made to improve employment prospects for blacks. The service training centres mentioned in Annex B are a start - though a small one.

On Merseyside:

- The current emphasis in the inner areas on the development of local industry and commerce and small firms in the urban areas is right as an immediate goal. The English Industrial Estates Corporation are particularly active locally. And the UDC will add to this effort.

- Bigger firms have some scope in the Enterprise Zone and elsewhere. There is potential land if we proceed with clearing it up.

- We must promote service industries, including financial and leisure services.

- The construction industry on Merseyside needs a higher continuing level of activity, with the employment of more local young people; with every effort made to see that wage rates in the industry (traditionally high on Merseyside) are not forced up; and with a continuing eye on bringing in the private sector. There are

opportunities and needs in housing; in cleaning up the banks of the Mersey; in site preparation for industry; and in removing dereliction more generally.

(ii) The Port

We need urgently to settle the future of the port. E(EA) will be considering proposals next month. In doing so, we must examine how we can make best use of the Port in the interests of Merseyside. Furthermore, we need to see whether we can do anything about the consequences of the financial reconstruction of 1974 (see fifth paragraph). We must take the opportunity which the Merseyside Development Corporation (MDC) offers to reclaim vacant derelict land with urgency. I shall consider extending the area and terms of reference of the MDC, which is pursuing its limited role with vigour.

(iii) Police

The police service must review its arrangements for securing good community relations in poorer areas and developing its links with ethnic minorities. Better training at all levels is vital. There must be better links with communities, including local committees with black representatives. There should be footpatrols rather than cars. In some areas improvements in police public relations machinery are important. In some places, reintroducing local police stations would help. My personal view is that there is no substitute for the policeman on the beat, with backing up the line, and with a continuing relationship with people in the area he patrols. We certainly need to try and recruit and promote more black policemen.

Effective arrangements are needed to involve the police (both police authority and Chief Constable) in developing local inner city policies so that crime prevention and law and order considerations influence other policies; and vice versa. The Probation Service (with its links with personal social and community services, education and health) should also be involved.

(iv) Housing

Over the past decade, the housing programme has borne the brunt of capital expenditure economies, and is projected to decline further. Some, at least, of these cuts will need to be restored. Urgent needs include:

- improving older, privately owned housing and the many deplorable public sector housing estates. I want to devote more resources to this.

- removing some of the pressures of density, and increasing the amount of open space.

- looking mainly to the private sector for new building. I shall encourage low cost homes for sale, shared ownership or renting in the inner areas by partnership between private and public sectors, including housing associations.

- ways must be found to use housing work to train more young people, with extra costs being borne via MSC training programmes.

- I aim to develop ways of involving local communities to be involved in the management and upkeep of big council estates.

- steps are needed to ensure that black people get a fair share of the better housing.

- we should consider legislation to enable building societies to hold land so that they can build for rent and shared ownership.

(v) Race Relations

Central government and agencies it controls must give a lead in its own policies and practices as recommended by the Select Committee, in affirming its commitment to equal opportunity.

Local authorities must be pressed to do more to implement Section 71 of the Race Relations Act (which imposes on them a duty to seek to eliminate discrimination and to promote equal opportunities); to examine their own employment practices and declare their commitment to equal opportunity.

They must also be pressed to follow clear multi-racial policies in education and to recognise special needs.

Central and local government need to devote more thought and effort, from the highest levels, to introducing effective consultation with ethnic minority groups; and pay regard to the

special problems of racial minorities, and of disadvantage, across the board of services and inner city policies.

(vi) Education

The urgent need in Liverpool is for decisions on the future pattern of schooling; for the development of policies for the community use of schools (including links between parents and schools); for developing curricula adapted to the dismal employment prospects of pupils; and for linking education in schools and further education with the training efforts of the MSC and the industrial and commercial prospects in the area. A more active role for DES will be required.

We must seek to achieve a closer partnership between the University and the industries on Merseyside, particularly in sectors such as electronics. (Plessey have a major communications plant on Merseyside.)

(vii) Voluntary Organisations

Subject to the need for reasonable scrutiny, as to their aims, political motivation, achievements and running costs, voluntary organisations and self-help groups should be given:

- a degree of confidence in the continuity of grant aid and avoidance of sudden changes and in support for the running costs of useful projects;

- in areas where, in particular, the middle classes have

left, it may exceptionally be necessary to support paid workers without whom voluntary bodies might collapse. There are resource implications here; and also a need for regular scrutiny.

(viii) Sport and Leisure

Local sports centres and kick about areas are in short supply throughout Merseyside, and would yield a good return. More are needed. I hope to tap private sources of funding and voluntary effort, matched by some public funds - both revenue and capital. The Sports Council and the Football Trust are keen to help.

(ix) Urban Programme

We should amend the Local Authorities (Social Needs) Act 1968 so as to enable grants to be paid to bodies other than local authorities; in the meantime we should consider a higher rate of grant. Both would add to the flexibility of our instruments (particularly by providing the opportunity to fund the private sector direct).

PART IV - RESOURCES

Public expenditure on Merseyside amounts to over £2 billion (Annex D). I should think Merseyside contributes about the same in rates and taxes but the sums are difficult to do. Much public expenditure goes on pensions, supplementary benefits, unemployment benefits and the national health service. The areas of flexibility

are central and local government capital expenditure (about £250 million), the programmes of the Manpower Services Commission and to some extent expenditure on industrial support.

More resources can be put into Merseyside and the other conurbations at the expense of other parts of the country through bending the distribution of the main programmes of government. I intend to consider my capital programmes in this light and I invite my colleagues to consider theirs. We must see that we are doing as much as we can for the conurbations out of existing programmes.

The private sector can, and I believe is willing to, play a large part. My initiatives with Merseyside firms and the financial institutions are designed to secure a positive response. In some instances it may be possible to use public sector funds to prime the pump or to exert leverage on the private sector to secure their financial contribution.

There are critical problems on Merseyside, and elsewhere, however, that only the public sector can tackle. Many things are going to have to be done at some time in the future. The old dock areas will have to be reclaimed to eliminate the present negative value. The Victorian sewers will need to be mended or replaced. The Mersey will have to be cleaned up. Derelict sites and buildings must be cleared. There is a whole range of projects which the private sector will never tackle. But until they are tackled the inner city opportunities for the private sector are prejudiced in favour of the suburbs. In addition we shall have

to support industrial and commercial initiatives; to take action to stimulate the renovation of industrial estates; to restore decent housing conditions in the inner areas and on some of the council estates; to support some of the voluntary organisations; and to share in providing better local facilities for sport and leisure.

I have not sought to provide a shopping list for Merseyside. It will take time to draw up a programme of worthwhile projects. We need to decide, however, on the scale of resources to deploy.

The revival in the economy will help reduce unemployment but no-one believes it will happen quickly enough or on a scale which matches the urgency of the situation. We therefore need to settle as we consider public expenditure programmes this autumn how much extra we are prepared to spend next year and the year after on Merseyside (and the other conurbations) in alleviating conditions and getting people off the unemployment register in ways which secure long-term benefits. The cost of moving people into work will vary from scheme to scheme. We might have to spend a net £100 million a year, after allowing for savings in unemployment benefits, to reduce the level of unemployment by 20,000 people. The precise figures need to be worked out.

I do not believe that extra money should be added automatically to main programmes in the usual way. If it is decided to appoint Ministers with special responsibilities for the conurbations, I recommend giving them considerable discretion in deciding how it should be spent.

A commitment of extra public resources on the scale above is a matter for political judgement but anything significantly less would make that much less impact on Merseyside's 125,000 unemployed. The projects for the public sector are there. Most of them will have to be undertaken some time. I believe that now is the time to make a substantial commitment of extra resources to Merseyside and other hard-pressed conurbations. My colleagues are aware how I believe this can be financed within our macro-economic strategy.

PART V SUMMARY

In summary, my recommendations are as follows:

(i) the economic and social decline evident in Merseyside, and other conurbations, requires a new priority for these areas in our policies;

(ii) a continued Ministerial commitment to Merseyside is required for a specific period of, say, one year. A single regional office is needed in Liverpool comprising the main departments concerned with economic development. Similar arrangements should be adopted for other conurbations;

(iii) our industrial, regional and training policies should be reassessed within the new context, and administered with flexibility;

(iv) as part of this, we should involve the private sector and

the financial institutions to a far greater degree than hitherto;

(v) the future of the metropolitan counties and the GLC should be examined quickly;

(vi) substantial additional public resources should be directed to Merseyside and other hard-pressed urban areas to create jobs on worthwhile schemes.

(vii) the other policy reviews and initiatives suggested in this report should be pursued.

I am sending a copy of this minute to all Cabinet colleagues, the Chief Whip, Timothy Raison, Sir Robert Armstrong, Sir Ian Bancroft and to Robin Ibbs (CPRS).

M H

13 August 1981

ANNEXES

A. Unemployment on Merseyside and other Conurbations (Table)

B. Initiatives taken on Merseyside

C. Financial Institutions (list of those represented on Merseyside visit)

D. Public Expenditure on Merseyside (Table)

ANNEX A

		Total Unemployment	Unemployment Rate
Merseyside	July 1978	90,165	12.5
	July 1981	128,688	17.9
Greater Manchester	July 1978	81,285	6.7
	July 1981	163,330	13.4
Tyne & Wear	July 1978	59,800	10.8
	July 1981	87,911	15.7
South Yorkshire	July 1978	41,012	7.0
	July 1981	81,209	13.7
West Yorkshire	July 1978	55,580	6.1
	July 1981	111,107	12.1
West Midlands	July 1978	93,200	6.8
	July 1981	211,099	15.2
GLC	July 1978	158,467	4.1
	July 1981	304,125	8.0

Source: DE STATISTICS DIVISION

Note: Residential unemployment rates vary greatly within conurbations. For example, 1977 (National Dwelling & Housing Survey) data show that when the figure for Greater London was 4.6%, that for Hackney was 8.4%: and for Lambeth 6.8%.

ANNEX B

INITIATIVES ANNOUNCED ON MERSEYSIDE (5 AUGUST)

1. Community Refurbishment Schemes

Improvement on selected public housing estates, with maximum degree of tenant involvement. Use of MSC labour to maximise training opportunities.

2. Twilight Area Multi-Tenure Housing Schemes

Additional housing for sale, rent or shared ownership, to be built by the private sector on local authority sites. High proportion of apprentice labour to be used.

3. Community Small Firms Workshops

Use of empty local authority buildings (probably schools) for local people to establish new small businesses with MSC assistance.

4. Commercial Business Training Scheme

Two new centres, to be managed by the private sector.

5. Two Further Information Technology Centres

6. Management Secondment: YOP

Twenty leading Merseyside firms to each offer 100 training vacancies, and second a manager to help with the various initiatives.

7. Refurbishment of Industrial Estates

8. Sporting Facilities

If private sector sporting interests will commit £1m for new facilities, the Government will contribute a matching sum.

9. Land Registers

Knowsley and St Helens will become land register authorities.

10. Albert Dock

A development on this site has received my initial approval. A new building could provide a home for part of the Tate Gallery collection.

11. Anglican Cathedral Precinct

To be developed following an architect/developer competition.

12. Housing Rehabilitation

Further funds to be made available to housing associations to improve older housing.

13. Urban Fringe Experiment

Reclaiming derelict land on the fringe of St Helens to environmentally acceptable standards.

VISIT OF INSTITUTIONAL LEADERS TO MERSEYSIDE 4 AUGUST 1981

PARTICIPATING COMPANIES

BANKS

Barclays
Lloyds
Midland
Nat West
Williams & Glyn's

BUILDING SOCIETIES

Abbey National
Halifax
Leeds
Midshires
Nationwide
Woolwich

PENSION FUNDS

British Gas
British Petroleum
British Railways
British Steel
Electricity Industry
ICI
National Coal Board
Post Office

INSURANCE COMPANIES

Commercial Union
General Accident
Guardian Royal Exchange
Legal and General
Norwich Union
Prudential
Royal Insurance
Standard Life
Sun Alliance

Public Expenditure in Merseyside - 1981/82

Government Departments	£m (outturn prices)
Department of the Environment	
Capital	
Housing Corporation	35
New Towns (outside County)	18
Capital and Current	
Merseyside Development Corporation	17
Urban Programme	21
Sports Council	0.28
Property Services Agency	
Capital	16
Current	3.5
Department of Transport	
Capital - Trunk Road	3
Current - Mersey Docks and Harbour Company via Ports (Financial Assistance) Act 1981	14
Department of Education and Science	
Capital and Current	
University Grants Committee	30
Arts Council	1
Department of Health and Social Services	
Capital	
National Health Service (via Area Health Authority)	16.5
Current	
National Health Service (via Area Health Authority)	272

Department of Health and Social Services (Cont'd)

Contributory Benefits

Retirement Pensions	316
Unemployment Benefits	92
Other Benefits	88
	496

Non-Contributory Benefits

Supplementary Benefits	46
Supplementary Allowances	162
Child Benefit	94
Other Benefits (including FIS)	30
	332

Department of Employment

Current

Temporary Short-time Working Compensation and Job Release Schemes	15

Manpower Services Commission

Current

Expenditure on Youth Opportunities/Employment Services (SDA)	4
Programme: Community Enterprise Programme & Community Industry/Special Programmes (MCC)	37
Training Services (District Office)	5

Department of Industry

Capital

Regional Development Grants - payments made	35(1980/81)
Selective assistance under section 7 & 8 of the Industry Act 1972. Offers made	9(1980/81)
Advance factory Programme (EIEC) - Expenditure incurred in SDA	11
TOTAL: CENTRAL GOVERNMENT	1,393

Local Authorities

Capital

Housing	70
Transport	17
Education	13
Personal Social Services	3
Other Services	14
Law, Order and Protective Services (Police)	3
	120

Current

Housing (incl HRA expenditure)	61
Transport	71
Education	304
Personal Social Services	64
Other Services	203
& LA's contingency provision for increased pay and prices	57
	760
TOTAL: LOCAL GOVERNMENT	880
GRAND TOTAL	2,273

10 DOWNING STREET

From the Private Secretary

13 August 1981

Dear Peter,

I am writing to confirm what we agreed on the telephone - that the meeting on the inner cities will take place here at 10 Downing Street at 1500 hours on Tuesday 1 September. We also agreed that your representatives should come in here at 1415 for a preliminary briefing session.

I should be grateful if you could let Mike Pattison (who will be handling this in my absence on holiday) have a list of the participants on your side nearer the time.

Yours ever,

Tim Lankester.

Peter Ashby, Esq.

BGG

COVERING STRICTLY CONFIDENTIAL

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

13th August 1981

Dear Tim

I enclose a copy of my Secretary of State's report to the Prime Minister, following his visit to Merseyside. As you will see, he has classified the document "strictly confidential". Because of its great sensitivity, the Secretary of State has asked me to ensure that only one copy of the report is kept in this Department, and that in the Private Office. He has also asked me to seek the cooperation of Private Secretary colleagues in ensuring that similar arrangements are followed in the offices to which the report is being copied - ie the Private Secretaries to all Members of Cabinet, the Chief Whip, Mr Timothy Raison, Sir Robert Armstrong, Sir Ian Bancroft and Mr Robin Ibbs. I am therefore, copying this letter to them.

Yours ever,

David Edmonds

D A EDMONDS
(Private Secretary)

Tim Lankester Esq
PS/Prime Minister

cc Hoskyns
Press
D Wright
Home Offic

10 DOWNING STREET

From the Private Secretary

13 August 1981

Meeting with the TUC on the inner cities

Thank you for your letter of 6 August advising that the Prime Minister should agree to meet representatives of the TUC General Council to discuss their proposals for dealing with the inner cities. The Prime Minister has agreed to this, and a meeting has been set up for 1500 hours on Tuesday 1 September. The Prime Minister would of course like your Secretary of State to be present. I am consulting her as to whether she would like any other Ministers to be there too; if she does - for example the Home Secretary and/or the Employment Secretary - we will let you know.

I should be grateful if you could let us have a brief by Friday 28 August.

T. P. LANKESTER

D.A. Edmonds, Esq.,
Department of the Environment.

cc Miss Stephens
Mr. Gaffin
Mr. Hoskyns

PRIME MINISTER

Meeting with the TUC on the inner cities

You agreed to receive a delegation from the TUC General Council to discuss their proposals for "regenerating our inner cities".

This has now been fixed for 1500 on Tuesday 1 September for one hour. Mr. Murray will come, accompanied by 12-15 others, including Alan Fisher who is the current Chairman of the TUC. I have agreed to their request that they should meet here for half-an-hour before the meeting: we have agreed to this before and I do not see that we could object this time. (The reason they ask for this is that their representatives come straight here from different places.)

I have of course invited Mr. Heseltine. Do you wish any other Ministers to be present? I would have thought it would be a good idea if we also had the Home Secretary (he will be in London) and Mr. Prior (he will be in his constituency, but could no doubt come down for the meeting) and possibly a Treasury Minister.

I want a whole brief on what has been done for inner cities - edn, urban programme grants & one-to-one matters etc.

Home Sec. if in London. Chief Sec. Employment if he wishes - but don't brief anyone's holidays.

13 August 1981

SECRET

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

PRIME MINISTER

LIVERPOOL

Like you, I had the chance, before going off on holiday, of a short talk with Michael Heseltine about his forthcoming Merseyside report. This is obviously not the time for a reaction to the detail of what he will have to suggest. But there is one short point worth making now.

2. As you know, I have for some years had some sympathy with his idea of giving several Ministers the responsibility for individual regions. In the present context it may serve too as a useful reminder of the need to be careful not to over-commit scarce resources to Liverpool.

3. For reasons which we all understand, I fear that Merseyside is going to be much the hardest nut to crack. It will be hard to peruade prospective private sector investors to take the opposite view. Even so we do not want to find ourselves concentrating all the limited cash that may have to be made available into Liverpool and having nothing left for possibly more promising areas such as the West Midlands or, even, the North East. It would be even more regrettable if some of the brighter ideas for renewing economic activity were to be sown only on relatively stony ground on the banks of the Mersey. I cannot help feeling that the option of managed decline, which the CPRS rejected in its study of Merseyside, is one which we should not forget altogether. We must not expend all our resources in trying to make water flow uphill.

G.H.

11 August 1981

PART 1 ends:-

TL to CS 7.8.87.

PART 2 begins:-

Cnsl-Exch to Ln 11.8.87.