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REGIONAL POLICY

A Paper by Kenneth Clarke

I. INTRODUCTION

1. Comparatively little has been said by any Party about regional policy as such during the past four years. The Regional Employment Premium, for example, was removed with little or no protest - but its place was taken by the more generous Temporary Employment subsidy. Other employment and training measures introduced have been general in application when in the past they would probably have been regional. The reason is of course that the national unemployment rate since August 1975 has been well above the level (4.5 per cent as an annual average) that was for years the benchmark qualifying an area for scheduling as a development district or development area.

2. There are reasons to think that this quiescience may soon come to an end. Quite apart from the bidding by regional pressure groups that is to be expected in the run-up to a general election, the fall in the overall level of unemployment throws the rates in the regions into higher relief. And, on the latest figures, while there has been a substantial drop in unemployment in the South, the numbers in Scotland, Wales and the North West have risen (seasonally adjusted).

3. Pressure from the Nationalists has already made the issue a live one in Scotland and Wales. Concern at possible loss as a result of their devolution is gaining strength in the North and North West. Claims in Scotland for oil funds are paralleled by claims elsewhere to enjoy equal benefits with Scotland. Devolution of power is seen as a means of ensuring fair shares.

4. Specific problems such as high youth unemployment have a strong regional dimension. As the Holland Report showed, many young people unemployed for long periods come from families with histories or prolonged unemployment, and these are most likely to be found in the old depressed areas.

5. It is important that in acknowledging the need for an active and effective regional policy we should make positive proposals that take account of the changed situation since we were last in office - in particular the acknowledgement that it makes no sense to rely on stimulating movement of firms from one part of the country to another while the "donor" area is itself short of jobs and new growth. We need to relate our regional proposals closely to our main proposals for economic revival and, perhaps, in particular to our emphasis on encouraging small firms.

6. Our policy proposals begin on the basis that there are substantial savings in public expenditure that can be made in the field of regional assistance. We must reduce the public money going into investment that would take place in the regions without assistance. We must particularly reduce public

expenditure on aid to capital intensive projects with no likely alternative location and little employment-creating result. The difficulty is in combining substantial savings on the £600 millions or so at present being spent on regional assistance with a policy that can still be presented as an effective regional policy.

7. Of course we would still expend public funds on regional development grants and Section 7 Selective Financial Assistance in the regions albeit on a reduced basis. We would make much more severe cuts in funds for the NEB and to th Industry Sector Schemes under Section 8 of the Industry Act 1972 so that our total aid to industry programme would be much more regionally orientated than that of the present government. All industry could be expected to benefit from the reduced expenditure and intervention by Government, lower taxation and the improved economic climate that the savings would contribute to. We do not believe that grants to industry can create investment that would otherwise not take place. The grants that we retain could affect the location and timing of investment and the risk/return relationship on proposed investment in the regions. In short we will have concentrated on the kind of regional assistance which is needed to assist the unemployment problems of the assisted areas.

II. OUR PRESENT COMMITMENTS

8. Several commitments on regional policy have already been made public in The Right Approach to the Economy - 1977 (there was no reference to the policy in The Right Approach - 1976 although it did commit us to retain the Scottish and Welsh Development Agencies).

In summary in The Right Approach to the Economy

- we were committed to raise the industrial development certificate threshold and to end the system of office development permits;

- we recognised that 'some development of offices and of other service industries is needed in many decayed industrial areas, to provide not only new jobs but to introduce greater variety of employment . . . new fors of enterprise . . . service-based and technologically advanced firms . . . banking, finance, insurance, printers, publishers and entertainers . . . tourism';

- and that 'much of this development must come from local enterprise . . . '

- special effort is needed to remove obstacles [bureaucracy, rigid and unnecessary controls, excessive or particularly damaging taxation] where they persist . . . in the decayed industrial areas [with particular reference to small firms];

- We must ensure that expenditure on regional development is effective. It does not help a great deal to give millions of pounds in investment grants for a huge enterprise which ends up employing a handful or people . . . We shall control expenditure by cash limits . . . This willmean changes in the structure of regional grants, so that they are more effective in encouraging the generation of real jobs, jobs that will last'.

III. OTHER CONCLUSIONS

9. A number of other proposals have been agreed, either in discussion at the PSC in February 1977 or more recently by the Regional Policy Group itself.

10. (a) Financial Assistance: £300m 20% REP

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(i) Regional Development Grants (RDGs): substantial saving can be expected from the reduction in the amount of grant payable, the application of a cost per job limit or a combination of both. At present the rate for (automatic) RDGs is 20 per cent in development areas and 22 per cent in special development areas.

(ii) Retention of selective assistance under Section 7 of the Industry Act 1972 would provide the flexibility to give additional assistance where it is considered necessary to attract a particularly desirable development. This would usually be an internationally mobile project that would otherwise be attracted elsewhere - possibly to Ireland, Belgium or Italy. The overall amount would be controlled by cash limits.

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11. A complication has arisen over these proposals since we have learnt that a cost per job limit is already in existence in Section 7 assistance, and that it has been negotiated with the EEC. We think however that the introduction of a similar cost per job limit on the amount of automatic assistance given in grants (or on the automatic and selective grants taken together) should provide leeway to give us the very substantial savings we seek, and enable us to re-negotiate the present limit on Section 7 assistance if necessary.

12. (b) IDCs and Planning Permission. It is probably unnecessary to state in advance what new exemption limit we propose for IDCs. We have considered proposals for their abandonment but on balance we believe that this would be unwise. The scrapping of IDCs would almost certainly be interpreted in the regions as an indication that we intended to abandon or drastically weaken regional policy overall.

13. Valuable proposals for speeding up of planning permission have been put forward by Mr. Rossi's policy group, and we believe their importance for regional development needs to be stressed. We might also examine again the possibilities of drawing together planning and IDC control, with the aim of reducing delay and bureaucracy.

14. (c) EEC. We should accept the principle of additionality for EEC regional assistance, and support our extension of the role of the EEC Regional Fund which will both help diminish the budgetary burdens of EEC membership and give the depressed areas at least marginally more grounds for believing that something is being done for them.

(d) We should do everything possible to strengthen EEC restraints on wasteful counter-bidding for internationally mobile projects and on unfair subsidies both overt and hidden. This may not win us many votes, but it would save us and the Community a lot of trouble and expenditure over the years.

IV. COMPENSATING THE REGIONS FOR DIMINISHED REGIONAL POLICY EXPENDITURE

15. We have examined a number of proposals for new measures that could be presented as an offset to the loss regions might expect to suffer from the reduction in automatic assistance in regional grants, or from the progressive effects of EEC membership in drawing activity to the South. We have considered in particular what could be offered to Scotland as an alternative to the claim on oil resources.

RELATIVE EFFECTS OF CHANGES IN POLICY ON DIFFERENT REGIONS

16. It is probably impossible to make any reliable estimate of the relative effects of our main expenditure and taxation proposals, or of the pull to the South. A very rough guide to the relative loss in money terms through the reduction of, say, £200 million spent on regional development grants can, however, be drawn from the distribution of the grants in 1976-7, the last full year for which figures are available. £200 milli on this basis would divide approximately as follows:

Scotland	£66 million
Wales	£40 million
Northern Region	£93 million
North West	£33 million
South West	£3 million

In interpreting these figures it must be borne in mind that the sizes of population of the Regions vary quite substantially. In crude cash terms the Northern Region would, on this pro rata basis, stand to lose most by reduction in grants. It has also had, with Scotland, the highest rate of unemployment over recent years - apart from Merseyside and certain areas in Cornwall and Devon. This balance of both potential loss and of unemployment suggests that measures devised specifically for Scotland could arouse considerable opposition in other regions. We have, i any case, found no acceptable way of allocating oil revenues, or a substitution for them, to Scotland, that is not open to the usual and long-established objections to hypothecation of revenue.

V. POSSIBLE COMPENSATORY MEASURES

17. The policy group has also carefully studied proposals for a regionally varied Corporation Tax, the restoration of Regional Employment Premium in some form and the charging of tolls on bridges and roads. Advi e has been taken on all these proposals and they are open to overwhelming objections.

18. There are one or two proposals which remain worth considering although it would be unwise to commit ourselves specifically to them.

19. (a) Remission of the Surcharge on Employer's NIS contribution. The surcharge, assuming that the proposed increase survives next week's vote on the Report Stage of the Finance Bill, now amounts to 5½ per cent of earnings, about £180 p.a. per man on average. Remission of the surcharge in the development areas would provide a differential comparable to REP; it would involve loss of revenue for which we have already proposed alternative sources (cuts to expenditure and 10 per cent VAT). It would be comparable to (although substantially less in amount than) the remission of the

whole of the employer's contribution which was introduced in Italy for the Mezzogiorno in 1966, and which survived Community protests.

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20. (b) Additional support for local authorities and Development Agencies. Various proposals have been made for allocating additional funds to, or specifically earmarking for, regional authorities for infrastructure improvement, or for other development purposes at their discretion whether grant or loan. One argument against a Scottish "Oil Fund" for this purpose, that it concedes the Nationalists' claim that the oil is Scottish property, could be avoided if any fund was designated for development in other deprived regions as well as Scotland. Presentationally it could then play a dual role as a regional aid and at the same time as a demonstration of our intention to use the oil revenue to create conditions for industrial revival. A French policy* of this kind matches expenditure on infrastructure improvement undertaken by local authorities or by private developers with equivalent loan contributions from a central fund established for the purpose.

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21. (c) Employment and Training measures - possibility of regional variation

At present distribution of the Temporary Employment Subsidy (TES) favours non-development areas, mainly the North West, Midlands and South East, out of which only Merseyside is a development area. The following are cumulative totals of applications and expenditure approved by region:

£50m.

Temporary Employment Subsidy

Region	Number of Applications Approved	Workers Assisted	Gross Cost (£ million)
Northern	329	25,044	21.2
Yorkshire and Humberside	687	44,964	38.2
South East	989	53,433	45.4
South West	584	23,212	18.7
Wales	495	29,046	24.6
Midlands	1,154	83,220	70.7
North West	1,611	112,207	95.3
Scotland	808	50,050	42.5
GB	6,657	421,176	358.0

(Source: Department of Employment, 28th April, 1978)

This pattern of distribution has reflected that of the industries which have received most help - clothing and footwear, textiles and leather, leather goods and fur. Confining TES to scheduled development areas would, clearly, meet with objection that areas where need and take up had been greatest would be excluded. It might nevertheless be sensible to shift the

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* Le Fond de Developpement Economique et Social - FDES run by DATAR, the body with general responsibility for regional policy.

distribution of TES (or anything put in its place) to focus the subsidy more on areas where unemployment is highest as and when some further reduction in unemployment in more prosperous areas occurs.

22. Other measures at present in operation are:

	Number of Workers Covered	Date of Count
Small firms employment subsidy	3,907	9th April
Job release scheme	9,534	7th June
Youth employment subsidy	7,715	31st May
Job introduction scheme	135	31st May
Youth opportunities programme	33,000	31st May
Community industry	4,761	8th June
Special temporary employment programme	300	31st May
Job creation programme	55,851	8th June
Training places supported in industry	26,467	30th April

Expenditure on these schemes amounted, between April 1975 and March 1978 to some £560 million. During the present financial year it is expected to be £530 million. The European Social Fund has contributed towards the cost of community industry and training measures. At present only the small firms employment subsidy and the Special Temporary Employment Programme (concentrating on 19-24 year olds who have been unemployed for over 6 months and older people unemployed for over a year) are confined to particular areas - SFES to Special Development Areas, and STEP to areas of highest unemployment. We do not have a regional breakdown of the other schemes listed.

23. (c) Boundaries of Assisted Areas

Virtually the whole of the United Kingdom is now scheduled as either a Development, Special Development, Intermediate, or Derelict Land Clearance Area, apart from the South East and the Midlands, and even they are eligible for selective assistance under Section 8 of the Industry Act. Such wide coverage inhibits concentration on hard-core areas, weakens our position in the EEC, where the eligibility of some areas is rightly questioned (European regional fund aid is provided only to scheduled areas), wastes money and makes little economic sense. Of course the political opposition to descheduling is strong. Nevertheless the nonsense of such comprehensive coverage is probably sufficiently widely recognised to make at least acknowledgement of the need for greater concentration advisable, if our proposals are to have both credibility and respectability. Courses of action to consider might be:

(A) to say that we will seek to narrow the areas as activity and employment levels improve.

(B) To re-examine the criteria on which areas are scheduled and the methods by which they are changed.

(C) To pave the way for de-scheduling by introducing greater flexibility and specificity through introduction of e.g. more narrowly defined types of assistance to, e.g. "Service Industry Development Areas"(especially tourist areas and coastal towns), or "Temporary Development Area" status to cover localities affected by particular closures rather than chronic unemployment or dereliction; and concentration on inner city areas.

(D) To review the claims of new and expanded towns vis a vis development areas.

VI. STABILITY

24. A frequent complaint from industry is that while developments are slow to mature, policies and assistance change frequently. This objection was met in the 1972 Act by guaranteeing the main elements of the package then introduced until the end of the EEC transitional period. Should we consider a similar assurance as backing for a revised package? Whatever we do we should stress that economies through cost-per-job limits apart - we are making the smallest possible swift and early changes to the general structure of regional policy in recognition of the need for maximum stability.

VII. FINANCE: LOAN GUARANTEES

Proposals for a system of government guarantee for loans obtained from banks or other sources, aimed particularly at small businesses, have at present apparently run into objections from the Departments. We should nevertheless probably consider the possibilities for this form of finance (which has been operated successfully in Germany for a number of years), or other proposals which may emanate from the Wilson Committee that are relevant to small firms in the regions in particular.

Conservative Research Department,
24 Old Queen Street, London S.W.1.

KC/ANR/AB/RME
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