



Copt Ls Mr Heseltine.

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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.

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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.



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
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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 more precision 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]

J.H. Kew.
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G.H.

4 September 1981