Yes - but I think it should go before E. What happens on the monitoring of the Zones?

Prime Minister ①

Agree in principle that up to 10 new Enterprise Zones be set up?

MCS 2/7

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

PRIME MINISTER

ENTERPRISE ZONES

As you know, all eleven Enterprise Zones have come into operation over the past year. My purpose in writing to you now is to inform you of the present position, and to seek your approval for an additional group of zones.

2. To monitor the progress of the Zones, Michael Heseltine has engaged a team of consultants. They will be producing their first full report in the autumn. But at Michael's request, they recently conducted a preliminary study of the Zones, including a detailed scrutiny of three of them.

3. The study's conclusions lend support to our original hopes for the Zones. Even at this early stage, several - particularly those at Clydebank, Swansea, Hartlepool and Wakefield - are evidently having a galvanising effect of great psychological importance on run-down or derelict areas. Enterprise Zones are proving an invaluable marketing tool. They have focused and accelerated development, and are showing what can be achieved by the combination of a more positive public sector approach to industry's needs with the ready response of private enterprise.

4. All this has reinforced the favourable impressions Michael had been getting from his regular discussions with the Zones' promoters. Clearly, there is a good story to tell. He wrote to me recently suggesting that we should designate another batch of Zones at once. We discussed the idea at an informal meeting last week, together with Arthur Cockfield, Patrick Jenkin, Norman Tebbit and John MacGregor.

5. We all agreed that the Zones were undoubtedly bringing benefits to stagnant areas. In the light of this - and of our knowledge that George Younger, Nick Edwards and Jim Prior all wanted extra Zones in their areas - we agreed that a fresh batch would be highly desirable.

6. We recognised, however, that pushing ahead at this stage might provoke criticism. The results of the consultants' study were still inconclusive; and if their full report in the autumn were less encouraging, a decision to designate more zones now would be hard to defend. There could also be some complaints, as before, from businesses outside new Zones.

7. In a perfect world it might be best to wait for clearer evidence of success. But we felt that powerful political arguments militated against delay. If a decision were postponed until the autumn, there would be no chance of benefits from new Zones emerging before the election. On the other hand, if new Zones were designated now, some would be in operation by early 1983, and by the following autumn there would be physical evidence of success. And we would get complaints whenever a decision was taken.

8. We therefore provisionally concluded that up to ten more Enterprise Zones, including one each for Scotland, Wales and Northern Ireland, should be designated as soon as possible. The process of selecting the new Zones should go ahead immediately, accompanied by vigorous publicity about the decision.

9. Several issues remain to be discussed, including what size the new Zones should be and where we should site them. I am attracted by the consultants' suggestion that smaller Zones, located where the supply of premises is restricted, would lead to best results. But I shall pursue these matters with colleagues. For the present I should be grateful for

your agreement in principle that up to ten new Enterprise Zones should be designated.

10. I am sending copies of this minute to colleagues on "E", George Younger, Nick Edwards, Jim Prior and Sir Robert Armstrong.

Jim Rutter

PP (G.H.)

2 July 1982

(Seen and approved by the Chancellor and signed in his absence).

2 JUL

Regional Policy

10 DOWNING STREET

From the Private Secretary

19 July, 1982.

Enterprise Zones

The Prime Minister has seen the correspondence about the enterprise zones, following the Chancellor's minute to her of 2 July on this subject.

Mrs. Thatcher agrees in principle that up to 10 new enterprise zones be set up, as proposed in the Chancellor's minute. She does not wish, however, an announcement to be made immediately about this. She thinks it would be best made in the course of an economic debate before the Recess.

I am sending copies of this letter to Jonathan Spencer (Department of Industry), Barnaby Shaw (Department of Employment), and David Wright (Cabinet Office).

M. C. SCHOLAR

Peter Jenkins, Esq.,
HM Treasury.

MG

Prime Minister (2)

This announcement was delayed, by the Chancellor, against the possibility of making it during a censure debate (together with abolishing HP controls on cars and the new National Savings issue). This seems a good idea - although we do not want these 3 announcements described as a 'package', I think, because that would arouse expectations in the wrong way. MCS 16/7

cc JV

There is likely to be an economic debate - so I should hold the announcement MT

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

16 July 1982

Dear Chancellor of the Exchequer

ENTERPRISE ZONES

As you know, Patrick Jenkin hoped to announce the decision about more Enterprise Zones this week; but that has been deferred against the possibility of a Supply Debate, in the course of which the announcement would be valuable ammunition. I now understand however, that the prospect is that that occasion will not arise before 27 July. It would seem to me regrettable to leave an announcement as long as that: every day that we wait now delays the start of Enterprise Zones to the same extent: we are already cutting the timetable for identifying new zones and establishing them down to the bone. This is particularly the case as the end of July really means nothing happens until September. ?

I should therefore like to suggest that an announcement is made as early next week as possible. I do not know of a particularly suitable occasion for an announcement and I do not mind who makes the announcement. But I suggest that if there is no specific occasion that would be more suitable, you might make the announcement yourself either in the form of a written answer or even possibly in a statement.

I am copying this to the Prime Minister and also to Patrick Jenkin and Norman Tebbit.

Yours sincerely

R Bright

p.p. MICHAEL HESELTINE

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

The Rt Hon Sir Geoffrey Howe QC MP

1

10 DOWNING STREET

Prime Minister

Enterprise Zones

You raised a question about the substance of the Chancellor's proposal for up to 10 new Zones; and thought it should be discussed at E.

Since then you have had Alan Walters's note on the substance of the matter. All colleagues now agree to what is proposed (except Nick Edwards who thinks we should not be too precise about the number of new Zones, because he might want more than

PTO

one in Wales) ; and the Chancellor has already had a meeting of the colleagues involved.

This has led Patrick Jenkin to seek authority to announce this in the debate tomorrow. The Chancellor is doubtful and thinks it should held back for use by you or him in a possible censure debate later this month.

Agree that Patrick Jenkin announce tomorrow? Or should we hold it back?

MCS 13/7

Prime Minister (2)

Undoubtedly, these zones create distortion at their margins. So far, however, none of the colleagues have objected to the proposals (which are copied to all members of E); I have particularly drawn Cecil Parkinson's attention to them.

MCS 5/7

Regional Policy

MS

cc Mr. Mount
Mr. Vereker

MR. SCHOLAR

ENTERPRISE ZONES

1. I think the Prime Minister should approve the Chancellor's request that she agree in principle to set up 10 new Enterprise Zones in the UK.

2. The basic argument for Enterprise Zones is simple. If it is politically or administratively impossible to remove constraints in the United Kingdom as a whole, but possible to do so in some Enterprise Zones, and we agree that such restrictions are harmful, then it is best to do it in the Enterprise Zones as such. It will, on balance, reduce the harmful effects of such regulation. It is, so to speak, better to have free trade in a few areas than no free trade at all.

3. If the areas however are given tax concessions, which means that taxes are increased on business outside those areas, then the advantage is obviously less clear. Certainly it is more likely to be onerous. It will distort the location of activity with possible net adverse results.

4. In summary, therefore, if the Enterprise Zones are regulation-reducing it is good, and if they increase taxes outside, it is probably not good. This latter view would be reinforced if it were shown that areas earn Enterprise Zone status only by being run down and high wage areas, such as, for example Liverpool. This may be brought about primarily by the high unionisation of labour combined with a "progressive" (Socialist or extreme Left) local authority. Then the rewards for bad behaviour would be indeed handsome. I am not sure how far the Secretary of State for the Environment and the Chancellor have considered these points.

5. Ultimately, of course, we would like the whole of Britain to be one big Enterprise Zone. One would like to see the present plan embodied in a programme leading to the ultimate goal of a low tax law regulation Britain.

AW

5 July 1982

ALAN WALTERS

Prime Minister (2)
MES 29/7

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB

Regional Policy.

My ref:

Your ref:

26 July 1982

MS

Dear Patrick

attached

I have seen Nick Edwards letter to you of 13 July.

I agree with him there will be presentational problems - not just in Wales but in England too - but in my view this was implicit in our decision to stick to the 1979 pattern of Assisted Areas. I don't think it is an argument for limiting the areas receiving aid from non-quota section of the ERDF, which is intended to apply on a sectoral basis. I should be very reluctant to see the much needed aid for the Yorkshire and Lancashire textile areas denied to them for such a reason and I think we should press on with our efforts to get as much advantage as we can from what the Commission is prepared to put forward which, as I understand it, is what Norman Lamont is trying to do.

I am copying this letter to members of E(EA) and OD(E), Douglas Hurd and Sir Robert Armstrong.

Yours ever

Michael

MICHAEL HESELTINE

CONFIDENTIAL

Regional Pol

Prime Minister (2)

MES 23/7

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

22 July 1982

The Rt. Hon. Nicholas Edwards, MP
Secretary of State for Wales

Dear Nick

ADDITIONAL ENTERPRISE ZONES

Thank you for your letter of 9 July about the designation of additional Enterprise Zones. You will have seen by now a copy of Mr. Scholar's letter of 19 July, recording the Prime Minister's agreement to the creation of up to 10 new Enterprise Zones, as proposed in my minute of 2 July. I plan to announce this in the debate on Tuesday.

I am sure that more than one area in Wales can make a good case for designation as an Enterprise Zone. But equally more than 10 areas in the UK as a whole would probably benefit from EZ status. But, at this early stage in the Enterprise Zone experiment when the first results are promising but not conclusive, it would be wrong to designate more than a small number of new areas. And on grounds of equity, I think we have to stick to the pattern proposed in my minute, which was based very much on the distribution of the first tranche of Enterprise Zones designated over the last year.

Copies of this letter go to the Prime Minister, Michael Heseltine, Patrick Jenkin, Norman Tebbit, Jim Prior and George Younger.

GEOFFREY HOWE

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Oddi wrth Ysgrifennydd Gwladol Cymru The Rt Hon Nicholas Edwards MP From The Secretary of State for Wales

13th July 1982

Dear Patrick.

I have seen a copy of Norman Lamont's report to you on the current negotiations with the Commission on its proposals for a second round of non-quota measures. The areas envisaged for aid are as you know very important to Wales, not just because of the steel industry run down - which has in part been recognised under the first round - but because of the substantial impact of job losses on the textile industry in Clwyd. You will understand, therefore, that I have looked not only at the broad issues Norman raises but also the specific implications for Wales of proposals for England.

Overall I am bound to question whether the proposed extension of the non-quota to non-assisted areas as a means of generating custom for the EC funds is really of such advantage that an immediate decision in favour has to be taken.

I fully accept that the Commission's likely insistence on the need for national contributions to the non-quota measures may cause all departments problems when their resources are stretched as they are at present. Further, an application in the second round of the Treasury's rule that payments to SMEs must be set against Departmental votes will compound this problem. I imagine that like me colleagues may not find it possible in the event to operate in the assisted areas the measures proposed for the non-quota in the way the Commission and the Treasury envisage. How far is this likely to prove a real stumbling block?

/...

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry
Department of Industry
Ashdown House
Victoria Street
LONDON SW1E 6EB

Perhaps, however, the biggest hurdles, for me, are those created by the idea of extending the non-quota beyond the assisted areas. Such a move could have serious repercussions for regional policy, particularly in Wales. For one thing the exclusion of Clwyd from the textile measure would in any case be difficult for me given the number of jobs that have been lost in the industry and the level of unemployment in the area. But it would be really very difficult for me to defend the exclusion of the Clwyd SDA from European assistance available in the textile sector to non-assisted areas in England.

For another, in Wales - and I imagine that this will be true in parts of England as well - involvement of non-assisted areas in an ERDF package will revive and redouble the criticism to which we have been exposed over our decision in practice to deprive rural areas of access to most sources of European Community assistance. I do not see how we can argue that areas which, outside the context of the desire to generate EC receipts do not have any special recognition of their problems through the regional policies of central Government, should nonetheless secure special Community aid when areas like Mid Wales - which have justified such recognition - continue to be denied such access.

I would much prefer some time allowed for us in E(EA) to examine in detail the strategy as well as the practicalities. I recognise that this could mean the exclusion for the time being of some textile areas but we could say (what we had to say to some areas which complained at exclusion from the steel measure in the first round) that we shall try to secure their admittance next time around. By then perhaps the agreement of different rules for the non-quota in a new Regulation will have created a different basis for negotiation and by then too the need to avoid such close association as is currently envisaged of announcements of a contraction of assisted area coverage and an expansion to the advantage only of certain parts of the country of European Community aid may be less.

In the short term I would prefer to see us concentrate our energies in seeking alternative ways of distributing the available textile non-quota money, particularly to include deserving areas like Clwyd. Moreover, we surely have a case if the steel measure is to cover a wider area (including I understand Llanelli and the whole of the Port Talbot TTWAs)

/...

for arguing that in the second round steel should be allocated more than in the first, even if at the expense in the short term of textiles.

I am sending copies of this to E(EA) colleagues, Douglas Hurd and Sir Robert Armstrong.

Yours

Nick

IIA

Regional Policy

CONFIDENTIAL   Ref: PIC(82)3

THE GOVERNMENTS REGIONAL AND INDUSTRIAL POLICIES

It is hoped these notes will be useful for the supply day debate on July 14th 1982.

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Conservative Research Dept.,
32 Smith Square.

LR/hn
13.7.82

THE GOVERNMENT'S INDUSTRIAL POLICY

The government's industry policy has three objectives:

* creation of a climate in which industry can flourish;

* positive action to make markets work more freely;

* positive stimulation sharply focussed on those areas where this is a cost-effective use of taxpayers' money.

The industrial climate. The government's main contribution has been the fight against inflation. Inflation makes planning for the future hazardous and so delays investment; it sours industrial relations and puts pressure on wage costs; it hampers competition with overseas producers; and it forces up interest rates.

The government has, despite the difficulties in recession, maintained downward pressure on its borrowing and financed its deficit responsibly. Inflation is down sharply,,and interest rates, already 3½% lower than in the autumn, are still on a downward trend. The government cannot undo the effects of high US interest rates - yet it can and it has refrain from adding further to industry's problems.

Market efficiency. The government has abolished pay, price, dividend and exchange control. The 1980 Competition Act provides new and effective methods for dealing with restrictions on competition.

The Employment Act 1980 and the Employment Bill are steps taken towards achieving a more appropriate balance of bargaining strength between employers and trade unions. Some of the rigidities in labour markets introduced in the 1975 Employment Protection Act have been removed, and the government has lost no opportunity of stressing the link between levels of pay and job security. Wage Councils have been instructed to take more note of conditions in the labour market when setting minimum wages, and the Young Workers Scheme subsidises the employment of young people where this is at a realistic level of pay.

Labour mobility is crucial to an efficient labour market. The sale of council houses to tenants is of great value here. So too is the work of the National Mobility Office, which helps in the allocation of public sector housing where people want to move for job reasons.

The planning regime has been streamlined, particularly as it affects small businesses. Enterprize zones in specific locations are showing the potential which exists for further measure of deregulation. The system of issuing Industrial Development Certificates in non-assisted areas, supposedly to encourage investment in assisted areas, was suspended in December 1981, since the scheme impeded development and rarely had its desired effect.

Reduction of the State Sector. However firm the financial discipline imposed on the state sector, it can never reproduce the effectiveness of the market in increasing efficiency. Yet, improved efficiency in the state sector is crucial to the creation of a better climate for industry. The government's achievements in reducing the size of the state sector are summarised at Appendix A. The aims of its policy for the state sector are:

- Where possible to return nationalised industries or their subsidiaries to the private sector:
- To remove statutory backing the state monopolies, and minimise the extent of monopoly operation;
- to pressurise nationalised industries to greater efficiency, and open them up to scrutiny by the MMC;
- to ensure that the state is an intelligent purchaser of industry's goods and services, with a helpful and constructive relationship with suppliers.
- to encourage local authorities to introduce more privatisation in their areas.
- to review and to improve the efficiency of central government.
- to devise a system of remuneration for state employees which recognises the realities of the labour market and the economic realities.

Government stimulus to industry. The government maintains that the most effective boost to British industry will come from lower inflation, lower interest rates, moderation in labour costs and continued improvements in productivity. It has also acted to cut employers' National Insurance Surcharge and reform the system of stock relief. More specific stimulation is, however, cost-effective in some areas:

* Small businesses. A battery of measures has been designed to make it easier for new and small businesses to raise loans and equity finance. The tax climate in which they operate has been transformed; the weight of bureaucracy upon them has been reduced; and the advisory services available to them have been strengthened.

* Technological developments. The government has a clear role in supporting basic research, and in promoting new products and processes which would otherwise not be developed. It has taken unprecedented steps in promoting awareness and adoption of new technologies, in particular in the field of information technology. Increased investment in BT (over £2 billion per year) will allow the complete modernisation of Britain's telecommunication network, and this and measures to liberalise the telecommunications monopoly will greatly facilitate the development of IT industries in Britain. Support is also given to accelerate development in microelectronics, robotics, fibre optics, computer-aided design, biotechnology and other advanced technologies.

  The NEB and NRDC have been merged to form the British Technology Group, which aims to spur technological progress in co-operation with the private sector.

* Help with investment. Companies operating in Britain receive considerable incentives through the tax system to invest in their businesses. Companies may deduct 100% of the cost of most capital goods from profits for the purposes of Corporation Tax.

The government actively encourages inward investors to Britain by publicising this and the specific investment incentives in the designated regions (see below) and under other Industry Act provisions; and by its sound financial policies which create a climate attractive to overseas investors.

The DoI Invest in Britain Bureau spearheads the government campaign to attract inward investment to Britain. Norman Lamont pointed to the folly of "the growing proliferation of local agencies attempting to mount their own campaigns in different parts of the world". He said that this is wasteful of public money, and confusing and irritating to the potential investor, and concluded:
"I do not believe we can allow it to continue". (Brighton, 1st July, 1982).

* Help with exports. The government is active in promoting worldwide free trade, because Britain depends upon trade for its prosperity. Where competition is unfair, the government accepts its duty to act; but as far as possible, it has aimed to achieve fair competition by persuading other countries to abandon subsidies and protection.
  Through Ministerial visits, export credits, aid and trade provisions and greatly improved co-ordination in support of firms pursuing major export orders, the government ensures that Britain's exporters receive assistance as good as that available to their competitors.

The old, declining industries. Patrick Jenkin has said:
"Over half my Departmental Budget goes to supporting the casualties of the past. Every one due directly to past Government interference". (CBI dinner, 24th May 1982)
There has been continued determination to ensure that support of this kind will be temporary and tapering, and that it is used to return the recipients to commercial viability.

Regional Policy. The government accepts that every country in Europe has particular regions which need special support. The characteristics of its regional policy are:

* selectivity. When Labour left office, 40% of the workforce was in designated areas. However, the evidence is that regional policy becomes less effective as it becomes less selective. Following changes announced on 17th July 1979 and 28th June 1982, the regional map has been redrawn, and assistance concentrated upon 27% of the workforce. Within that total, the differentials

between incentives to special development, development and intermediate areas have been increased.

* stability. If investment decisions are to be affected by regional policy, that policy must be stable and predictable. In downgrading areas to increase selectiveness, the government has proceeded slowly, and phased the process where more than one step (e.g. special development to intermediate status) has been involved.

* value for money. The criteria for regional selective assistance under section 7(and general assistance under section 8) have been tightened (a) to include only those projects which would not go ahead without it; and (b) to concentrate on the provision of increased efficiency and more productive and more secure jobs.

* flexibility. The government has responded to changed circumstances in the regions. For example, Shotton became an SDA and Corby a DA, in December 1979. Port Talbot became an SDA and Newport, Cumbria and Scunthorpe became DA s in July 1980. All these designations were in response to steel closures. In July 1982, Teesside became an SDA and Rochdale and Rossendale a DA, again in response to their changing fortunes.

* attractiveness to investors. The government has been concerned that regional aid should be in a form most effective in attracting investors to designated areas. In addition to general help with investment, more tailored incentives are available:

- Help with training costs. In April 1980, an in-plant training scheme was introduced under section 7 which offers grants for training costs in SDA's and DA's. This is a positive move to attract new industries and modern technologies to the regions.

- Provision of advance factories. The English Industrial Estates Corporation and the Welsh and Scottish Development Agencies remain active in the provision of factories in the regions, ready to meet the demand from new investors. This has proved a very cost-effective way of attracting firms to the regions, particularly since the Industry Act 1980 has increased the scope for private sector involvement.

The Development Agencies. Mr Lamont made the following statement in Brighton on 1st July 1982:

"It is often alleged that in the field of overseas promotion the English regions - especially the Assisted Areas in the North and South West - are treated shabbily by comparison with Scotland and Wales. The promotional agencies in those countries, it is said, have resources far superior to any available in the English regional associations - the North of England Development Council and others. I admit that there is something in this argument. I met the Chairmen and Directors of the four English Regional bodies on 1 April and I was impressed by what they had to say. I hope to meet them again in the course of the next few weeks to talk about the grant which we pay to them and which is coming up for renewal next April. I am inclined to agree that there should be greater equity of treatment between the component parts of Britain and that the English Regional Agencies should indeed have more money.

"But - and this is a vital consideration in my view - I would only consider a really sizeable increase in the contribution we make if I could be certain that each Regional Organisation was going to lead and actively co-ordinate the overseas effort on behalf of its region and that local authorities and New Towns were going to put their own resources behind that regional body rather than trying to maintain independent and unco-ordinated activities overseas."

PUBLIC EXPENDITURE ON INDUSTRY

		1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85
	Department of Industry									
	Regional and general industrial support:									
1	Regional Development Grants	392	385	406	312	474	598	353		
2	Provision of land + buildings	15	17	24	24	30	45	23		
3	Selective assistance to industry in assisted areas	25	24	68	54	42	52	50		
4	Other regional support				1		1	1		
5	Residual expenditure under repealed sections of the Local Employment Act 1972	-6	-5	-5	-7	-3	-1			
6	Selective assistance to individual industries, firms and undertakings	51	46	93	53	49	62	66		
7	National Enterprise Board	23	33	45	70	49	41	25		
8	Investment grants	26	7	3	1					
9	National Research+Development Corporation	-5	-6	-6						
10	Other support services			1	1	2	3	4		
11	Future industrial support						6	12		
	TOTAL	519	502	629	509	644	807	534	680	590
1	Scientific + technological assistance:									
2	General industrial research and development	43	46	57	86	102	122	167		
3	Aircraft and aero-engine general research + development programme	20	20	16	19	24	30	33		
4	Space	34	35	34	37	44	59	50		
	TOTAL	98	100	106	142	344	212	249	280	300

		1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-4	1984-5
	Support for aerospace, shipbuilding steel and vehicle manufacture									
1	Concorde development + production	48	48	42	23	36	32	29		
2	Finance for Rolls Royce Ltd	72	2	12	104	117	193	91		
3	Other aircraft and aero-engine projects + assistance	1	5	50			5			
4	Refinancing of home shipbuilding lending	71	-92	-18	-30	-31	-45	-38		
5	Interest support costs	44	22	38	59	67	55	58		
6	Assistance to the shipbuilding industry	14	35	20	48	70	82	72		
7	Assistance to the steel industry	2	3	8	22	40	100	43		
8	Finance for BL Ltd	100	325	174	150	300	620	360		
	TOTAL	351	349	326	376	599	1.043	606	60	-
	Other central and miscellaneous services	25	29	32	35	42	48	51	50	50
	Total Department of Industry	993	980	1,094	1,062	1,628	2,109	1,440	1,080	940

Public Expenditure White Paper, Cmnd. 8494-11, 1982

LABOUR'S INDUSTRIAL POLICY. The most recent policy document from Labour was "Labour's Programme 1982", published on 24th June 1982 in "Labour Weekly". This will be voted on at the next Party Conference, and if it is accepted, will represent party policy. The industrial policy elements are:

Planning agreements. Major companies will be required to negotiate agreed plans with a new planning bureaucracy (see below). These will cover "purchasing policy, import penetration, investment plans, pricing strategy and training policy".
They will be backed by statutory powers, "to ensure companies participate constructively." Companies complying will benefit from relaxed price controls, preferential access to credit, protection by import controls and discretionary financial support. Other statutory powers to be taken include "powers to issue directives on a wide range of industrial matters: to invest in individual companies or to purchase them outright by statutory instrument approved by Parliament; to exercise discretionary control over corporate purchasing policy; and to put an Official Trustee in temporary control of companies which fail to meet their responsibilities.'

Planning bureaucracy. We are promised:

* a new Department of Economic and Industrial Planning, with more powers than the old Department of Economic Affairs. It would be staffed by graduates from a new National Planning College. The corollary would be a weaker Treasury, which would be effectively a Ministry of Finance with no control over public expenditure.

* a "strong Cabinet Committee for Economic Planning"chaired by the new Secretary of State for Economic Planning, which would "re-inforce the commitment of the government to full employment and industrial revival." In other words it would ensure that financial responsibility did not prevail.

* a National Planning Council superceding the NEDC, with "more resources and greater powers". This also would be chaired by the Secretary of State for Planning. It would contribute to the national economic assessment, and to the five year national plan, which would have "significant sectoral content." We are told: "The aim will be to translate this information and analysis (ie the national plan) into action

at company level." This would be the basis of the statutory Planning Agreements with companies, discussed above.

<u>Trade Union Power</u> would increase significantly.

- "The trade union movement would be able to make a systematic and detailed input into national planning."
- "The ability of trade unions to participate actively (in planning within companies) will turn on new statutory rights":
  *Rights to information about company finance and policy;
  *Rights to consultation through "workplace planning committees"
  *Rights to "parity representation on the board".
- The Employment legislation of the present government would be repealed, restoring the uniquely powerful and privileged position the unions enjoyed up to 1979. In addition:
  *Labour will create legal rights for unions to organise effective industrial action without being subjected to legal challenge."
  *Labour will support effective union membership (ie closed shop) agreements which have done so much to stabilise bargaining arrangements and improve industrial relations in this country. "
- Mr David Basnett has said that the unions would be involved in the operation of the Price Commission (London 15 March 1982)
- Mr Michael Foot has said that there would be discussions with the unions in drawing up the Budget. (BBC Radio 4, 3 Jan. 1982)
- 'The Times' reported that, at the press conference to launch Labour's plan for jobs, Mr David Basnett "appeared to envisage constant involvement in drawing up policy" (16 March 1982)

This all adds up to a formidable set of powers for trade unions, which would have implications not only for the economy and industry but also for democracy in Britain.

Nationalisation. Labour's Programme promises:

- to renationalise businesses privatised by the government. Mr Tony Benn has pointed out that the policy endorsed by the TUC and Labour Party Conferences is for renationalisation without compensation. (Hansard, 10th November 1981, col 499). However, Labour's Programme takes the Shadow Cabinet line:

"shareholders should be repaid precisely the amounts which were paid for the assets at the time they were denationalised."

- to restore statutory monopolies in posts and telecommunications, and "restore the rights" of BGC and BNOC.
- to introduce or increase public ownership in electronics (includes proposal to nationalise GEC), pharmaceuticals and health equipment, the construction industry and building materials, road haulage, major ports, forestry and timber products, and North Sea oil.
- to consider taking one or more major clearing banks into public ownership and to take powers to acquire other financial institutions.

The programme says: "We have learned the lessons of past mistakes and will not overcompensate" the owners of businesses to be nationalised.

Regional Policy. Labour set up the Scottish and Welsh Development Agencies in 1975 and 1976 respectively. Labour's Programme 1982 proposes similar agencies for the English regions. It says that Local Enterprise Boards will have a part to play, and that Regional Industrial Planning bodies will also be set up to "develop local and regional economies". This policy represents a proliferation of bureaucracy.

By 1979, more than half the country and 40% of the working population were in areas designated for assistance. Labour's Programme gives no hint of whether they would return to this poorly-focussed approach. Another criticism of the Labour Government's policy is that it lacked consistency. In August 1974, the Regional Employment Premium (a subsidy then paid for employment in designated areas) was doubled. In December 1976, the government announced that it was to be phased out in 1977. Labour's Programme does not indicate whether a more consistent approach is now to be adopted. We are, however, told that the Labour Party and the TUC are currently working on the details of a new regional policy.

Co-operatives. Labour's Programme proposes positive measures to encourage co-operatives, including: "The next Labour government will.. ..provide a statutory right and mechanism for workers in private firms - subject to government consent - to convert their enterprises into a workers' co-operative by acquiring the assets of the firm, and provide assistance for this purpose." No mention is made of the need for the consent of owners of the assets.

In his book 'Inside the Treasury', (Andre Deutsch 1981), Mr Joel Barnett says that the workers' co-operatives financed by the last Labour government (Meriden Motorcycles, Kirkby Manufacturing and Engineering and the Scottish Daily Express) were "sometimes known as Benn's Follies". These ventures were in a poor financial state when they became co-operatives, Labour now plan to try out the co-operative option on profitable ventures commandeered for the purpose.

Sectoral Policy. Two sectors are singled out in Labour's Programme 1982 for special mention. a) Steel. Labour would once again invest in more capacity, despite the fact that capacity worldwide is acknowledged to be excessive. BSC would be required to provide a full range of steel products. Parts of BSC hived off would be renationalised, and "the public sector should also acquire a strong preserve in the stockholding sector of the market".
b) Construction. One or more major contractors would be nationalised to form the National Construction Corporation, "a pacemaking public competitor" in the market. Other major contractors would be required to 'agree' Development Plans with the bureaucracy. Direct Labour Organisations would have their activities extended. A holding company - the Building Materials Corporation-would acquire a major stake in the various sectors of this market. A statutory decasualisation scheme would be used, and measures which counter tax evasion under "the lump" would, "if necessary", be strengthened. Demand management would smooth the cyclical pattern of the industry.

Finance for industry. Labour's Programme blames what it sees as "inadequate capital investment" upon inadequacies in the financial system. Methods of correcting this are proposed. There is no recognition that investment demands the prospect of a reasonable return.

No firm proposals are put forward, but possibilities include bank nationalisation and the acquisition by the state of other financial institutions. Mr Callaghan has described the proposal for bank nationalised as "an electoral albatross" (Blackpool 29th September 1976). It would be useful to probe Shadow Cabinet views in this area, and to investigate how the proposals would safeguard the pensions and other savings of the customers of the banks and institutions involved.

General Economic Policy. Labour's promised reflation would probably destroy the economy before their industrial policies could destroy private enterprise in Britain.

They propose import controls and withdrawal from the EEC, both of which would bring retaliation against our exports. Increased government borrowing, and devaluation would lead to inflation, and import controls would also put up the level of prices. The proposed cuts in VAT and NIS, together with subsidised nationalised industry prices, could only have a short-term palliative effect. Price controls could only reduce the profitability of the private sector, particularly since Labour's Programme states: "We have made clear our opposition to any policies of wage restraint."

The Programme appears to have as its objective, the destruction of the private sector and the jobs therein. Britain would be left with a bureaucratic planned economy, of the type so conspicuously unsuccessful in Eastern Europe.

<u>SDP Policy</u>. The SDP have recently published three policy (Green) papers:

No 1 "Towards Full Employment" (7th June 1982)

No 2 "Partnership and Prosperity" (19th June 1982)

No 3 "Decentralising Government" (7th July 1982)

There is as yet no official SDP Policy, but these papers represent the views of SDP Policy makers.

<u>Green Paper No 1: Economic Policy</u>

"The PSBR should be allowed to rise both absolutely and as a percentage of GDP".

An uncosted package would be introduced "selectively and gradually" to include items from the following: VAT cut, NIS Abolition; increased current and capital spending; NI subsidies.

A further £1.3 billion per year would be spent on special employment measures.

This reflation would occur: "only if the inflation constraint is not endangered by excessive wage demands." If prices and incomes policy fails, what would happen to reflation and to unemployment?

An exchange rate policy would keep a "competitive index" steady. Initial devaluation would claw back ground already lost.

- This is not consistent with ERM/EMS participation.
- As they admit: "There could be initial short term difficulties." They propose temporary import and exchange controls to help.
- Devaluation would boost inflation and put pressure on incomes policy.

<u>Incomes Policy</u>: List of desired characteristics:

- permanence
- flexibility
- decentralised
- involving a minimum of "allocative inefficiencies and inequities."
- gradually redistributive
- working with not against markets
- generally accepted to be fair.
- "cannot be entirely voluntary".

The Liberals go further on the last: " I most certainly believe that for an incomes policy to succeed, the government of the day may have to provide a statutory framework." (Hansard, 27th July 1982, col 840).

Even if it is accepted that incomes policy could be a permanent answer, and that a perfect system could be designed, the SDP would still have to explain how they would obtain union acquiescence. The Liberal's economic spokesman Mr Richard Wainwright has asked: "How can we credibly present to the voters a policy which is based on the bland assumption that the TUC is going to change its heart and mind overnight?" (Llandudno 18th September 1981). The only SDP reference to this key issue has come from Mr Dick Taverne: "We may have to face a trial of strength in the public sector, I hope we can avoid confrontation." (Financial Times, 10th October 1981).

In fact, three possible "precise mechanisms" are discussed (including the inflation tax), but none are found fully to fill the bill. This is put out for further discussion.

The Green Paper admits: "There is no hope of sustaining expansion and keeping unemployment on a downward trend without establishing some means of incomes restraint." Without this vital ingredient, their policies add up to nothing. It is therefore extraordinary that they have yet to arrive at the precise form the policy will take.

Green Paper No 2: Industry Policy

The proposals involve extra expenditure as follows:

£300 million per year to subsidise industry's interest rates
£200 million per year through BTG into high risk ventures
£150-250 million per year into other projects like those of present government - regional policy, training, R&D etc.

It is always easy to spend more on worthwhile projects. It is harder to obtain value for money; and to balance the benefits against the costs in terms of higher inflation and higher interest rates.

Subsidised interest rates would (a) induce government to cover its borrowing outside the market and (b) put the cost of borrowing by consumers, house buyers/ owners up. The latter would hurt industry. The former would fuel inflation.

Proposals on BTG smack of Labour's wasteful use of the NEB when in government.

Planning. "There should be no attempt to draw up a grand plan, in the sense of a detailed blueprint for the development of all parts of the industrial economy, but rather a gradual development of policy within each sector informed by an overall view of the sort of developments to be encouraged" - i.e. less planning than the Conservatives - more than Labour.

Selective assistance. Criteria listed make it clear that in selecting sectors and companies within sectors for assistance, the SDP would attempt decisions which should be taken by the market.

A team of industrialists advising the Cabinet could not replace the market. Industrialists (a) would favour their own sector/company and (b) are notably better able to judge investments when their own rather than the taxpayers' money is at risk.

Nationalised Industries

- Competitive industries would be turned into Companies Act companies, and shares sold gradually.
- pressure on others to be efficient, although this is not easily reconciled with plans to give subsidies
- state monopolies need to be under tight control.

i.e. Conservative policy except in emphasis.

SDP Training Policy

- An end to age-restricted time-serving in apprenticeships and a switch to training to agreed standards via a modular system. (Green Paper)
- A remissable training tax (Green Paper).
- A stronger MSC, with a new "geographical" organisation. (Green Paper).
- A basic two year traineeship with third and fourth years for the higher skills. The first year in every case would consist of integrated work and study. (Mrs Williams, 'Guardian', 15.12.81)
- Trainee allowances, including those who stay at school. She could not decide upon the level : "The dilemma...is that the allowance is either too little to motivate the trainees....or is sufficient but impossibly expensive". (Mrs Williams 'Guardian' 15.12.81)

A remissable training tax was one of the ideas put forward by the Government in the White Paper 'A New Training Initiative' (December 1981). But employers would not welcome yet another tax, and the costs of collecting and policing it would be enormous. The old levy/grant system operated by the Industrial Training Boards foundered under the weight of bureaucracy that it involved.

The government has set 1985 as the year in which recognised standards will have been established for all the main craft, technician and professional skills, replacing age-restricted time-serving. Government aid to firms practicing apprenticeship will be made increasingly conditional upon such reforms.

Training 'contracts' are entirely feasible under the Youth Training Scheme (YTS) should firms wish to use them.

SDP plans are uncosted. The one-year YTS will be costing £1.1 billion by 1984-5; a two-year scheme would be extremely expensive especially if the SDP contemplated higher allowances than the £25 now proposed.

Regional Policy . The SDP believe that their decentralisation proposals (see below) would "encourage high-level management to move out of the South East", and cause more public expenditure in the regions and less in London.
They propose a ceiling on Regional Development Grant paid "on any one premises", and that the saving would be used to fund a new type of regional employment

premium for highly qualified manpower.

The recent abolition by the government of Industrial Development Certificates has been widely welcomed by industry (see page 2). The SDP propose their re-imposition.

Green Paper No 3 : Decentralisation

Having published one paper on the need for centralised determination of prices and incomes, and a second on the need for centralised planning in industry, the SDP have now published a third on the need for decentralisation in government.

They promise to "try to ensure" that the setting up of a regional tier of government will not add to bureaucracy; and they see no reason to believe that it will add to costs. This flies in the face of accumulated experience in recent years.

The most likely consequence would be higher rates, higher taxes, and more bureaucratic interference.

PRIVATISATION:

THE COST OF NATIONALISED INDUSTRIES

1. Performance of Nationalised Industries 1945-75: Total Government subsidies, capital write-offs and other payments to the Nationalised Industries, amounted to nearly £8 billion (Hansard, 31st July 1975, WA, Co. 630)

2. From 1976/77 when the system of external financing limits was introduced, the burden on the exchequer has averaged £2.5 billion p.a.

3. In 1980/81, the level of the private sector financing deficit was reduced by £1.6 billion, while the level in the public sector rose by £700 million.

4. In 1981/82, 22% of the PSBR was accounted for by nationalised industry financing.

METHODS OF RETURNING INDUSTRY TO THE PRIVATE SECTOR

1. The public issue of shares eg. BAe, Cable and Wireless

2. Sale to employees/management consortium, eg. National Freight Corporation.

3. Placement with institutions/investors, eg. governments holding the British Sugar Corporation.

4. Sale of Assets, eg. BR hotels

5. Mergers, e.g. BR's Seaspeed with Hoverlloyd to form Hoverspeed

6. Contracting out of public services by central government or by local authorities.

SALES OF PUBLIC ASSETS:

SPECIAL SALES OF ASSETS
(effects on public expenditure)

1979-80 Net reductions in expenditure	£ million cash
Sale of shares in the British Petroleum Co Ltd (BP)	276
National Enterprise Board - sale of certain shares	37
Sale of shares in Drake & Scull Holdings Ltd	1
New Town Development Corporations and the Commission for the New Towns - sale of land and buildings	36
Regional Water Authorities - sale of land	3
Sale of shares in Suez Finance Company	22
Property Services Agency - sale of land and buildings	5
TOTAL	370

	£ million cash
Revenue offsets to planned expenditure	
British National Oil Corporation - receipts of advanced payments for oil	622
Stamp duty and VAT	7
Grand total	999

<u>1980-81</u>

Net reductions in expenditure	
Receipt of premiums levied on the seventh round of North Sea oil licences (less £15 million of payments on licences granted to British National Oil Corporation)	195
Sale of leases of certain motorway service area - sales of land buildings	28
Property of Services Agency - sale of land and buildings	4
Sale of shares in <u>British Aerospace Ltd</u>	43
New Town Development Corporations and the Commission for New Towns - sales of land and buildings	52
National Enterprise Board - sales of certain shares	83
Total	405
Revenue offsets to planned expenditure	
Change in level of receipts of advance payments for oil	-49
Grand total	356

<u>1981-82</u>

Net reductions in expenditure	
Motorway service area leases	19
British Sugar Corporation	44
<u>Cable and Wireless</u>	182
New Towns	73
Oil stockpile	50
Sale of other stocks	19
<u>Amersham International</u>	64
Forestry Commission	7
<u>National Freight Company</u>	5
NEB subsidiaries	2
Crown Agents - sale of property	7
Property Service Agency properties	1
Government's nil-paid rights in 1982 BP rights issue	8
Total	481
Revenue offsets to planned expenditure	
British National Oil Corporation - effect of delivery in 1981-82 of oil for which advance payment was received in 1980-81	-573
Grand total	-92

PUBLICLY OWNED SHARES HELD BY NEB
Sales since May 1979

Company	Receipts (£ million)
1979	
Hird Brown	0.4
ICL	37.2
1980	
Brown Bovery Kent (Holdings) Ltd	2.6
Barrow Hepburn Ltd	0.27
Computer and Systems Engineering Ltd	2.14
Fairey Holdings Ltd	21.8
Ferranti Ltd	55.2
Middle East Building Services Ltd	*
New Town Securities (Northern) Ltd	0.13
R.R. Chapman (Sub-Sea Surveys) Ltd	0.35
1981	
Automation and Technical Services (Holdings) Ltd	0.9
Negretti and Zambra Ltd	0.5
System Designers International Ltd	1.19
Energy Equipment Ltd	0.08
C1C Investment Holdings Ltd	+

1982

George P. Brown Ltd. - net proceeds £1.1 million

Consine Ltd. - proceeds to arise from levy arrangements linked to product sales to 1985.

Insac Products Ltd. - certain assets have been sold to Britton-Lee Inc. in return for a minority shareholding in that company; disposal of the remaining assets is under negotiation.

Burndept Electronics Ltd. Doyce Electronics Ltd. F.W. Elliot (Holdings) Ltd. Hydraroll Ltd. Innotron Ltd. Powerdrive PSR Ltd. Sonicaid Ltd. Thandor Ltd.	These companies were disposed of to Grosvenor Development Capital Ltd., a private sector company but one in which the National Enterprise Board retain a 29 per cent holding.
NEXOS Office Systems Ltd.	Disposal of the assets are in varying stages of completion.

* The proceeds from this sale were a nominal sum of £1.
\+ Receipts of £3 million accure in 1984.

..../

MAIN PRIVATISATION LEGISLATION

Industry Act 1980	NEB
Housing Act 1980	Right to buy council houses
Local Government Planning and Land Act 1980	Direct labour organisations of local authorities.
British Aerospace Act 1980	British Aerospace
Transport Act 1980	Bus licensing, NFC
Transport Act 1981	BR subsidiaries, BTDB
British Telecommunications Act 1981	Cable & Wireless, BT, Post Office
Oil and Gas (Enterprise) Bill	BNOC, BGC
Transport Bill	National Bus Co., HGV testing

FUTURE SALES include:

1. Legislation before Parliament will enable the government to sell its majority share holding in the exploration and production part BNOC, and BGC's offshore oil assets.

2. The Secretary of State for Industry has granted a licence to Mercury, a private telecommunications system, to compete with British Telecom.

3. The Transport Bill presently before Paliament will introduce more deregulation and competition in road transport.

4. Privatisation of the British Transport Docks Board and British Airways.

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cc JV.

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

The Rt Hon Nicholas Edwards MP

9th July 1982

Dear Geoffrey

ADDITIONAL ENTERPRISE ZONES

I have seen a copy of your minute of 2 July to the Prime Minister. As you know I would welcome the designation of further zones but, as I said in my letter of 20 April to Michael Heseltine, I think it would be a mistake to be too rigid at this stage about either the size and number of additional zones or their locations. For example, I can see scope for more than one additional zone in Wales and I should prefer to have the claims for Welsh sites assessed on merit rather than on the basis of a too fixed and predetermined formula. I understand that officials will be meeting later this week to report on the options.

I am copying this to the Prime Minister, Jim Prior, George Younger and Sir Robert Armstrong.

Yours ever

Nick

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
LONDON

9 JUL 1982

DM

Prime Minister (2)

MCS 18/6

cc JV

2 MARSHAM STREET
LONDON SW1P 3EB

Reg Pd

My ref: .

Your ref:

18 June 1982

Dear Geoffrey

We will be discussing the question of further Enterprise Zones at the Health of Industry Group meeting next Thursday as a preliminary to subsequent decisions, presumably at E Committee. As you know, following the suggestion in your letter of 30 April, I asked the consultants monitoring the EZs to undertake a quick appraisal of three of the zones. Officials of our departments have seen their draft report.

In the light of the report I believe that we should go ahead, as proposed in my earlier letter, with a decision to designate another 10 EZs, on average smaller than those in the first round.

The attached tables to my mind clearly sum up the benefits of designation to the areas concerned even if there is as yet no evidence of net new growth to the economy. Of course there is more to show at Corby than in the zones in the north of England.

What the tables do not show, though it is brought out in the report, is the impact of the zones in forcing local authorities and other public bodies to re-think their relations with industry and to move from an attitude of regulation and control to one where the vitality of industry in the area is the prime consideration. The report also reveals what a powerful marketing instrument the zones have been for their area. Finally the report brings out the increasing interest in the zones by the owner occupier wishing to develop his own premises, who cannot easily thread his way through the bureaucracy normally involved in development. These conclusions are entirely in line with my experience in discussions, month by month, with those responsible for promoting development in each zone.

In your letter you asked that the consultants should put forward thoughts about the effectiveness of different marketing arrangements. The consultants make it clear that the immediate availability of land and premises is critical in ensuring that firms attracted to the zone by the publicity follow through their initial interest. That is why I have myself been keeping in close touch with progress so that problems are quickly dealt with.

You also asked about policy instruments. The consultants conclude that the rates holiday is the greatest attraction to firms in the zone, though the planning freedoms also seem useful. Although some of the other features of the EZ package are clearly less valuable, I would not wish to change the package at this stage. Besides the inevitable delay in introducing the necessary legislation any changes now might cause confusion in the minds of the investor.

In my earlier letters I emphasised the need to move quickly in designating further zones. I reiterate my point that we gain favourable publicity both from the announcement of the areas to receive zones and from the first things happening on the ground. Only if we announce within the next few weeks that we are prepared to consider bids for more zones will we be able to get the zones operational by Autumn 1983.

I am copying this letter to the recipients of my earlier letter.

Yours ever

MICHAEL HESELTINE

TABLE 1 : LAND DEVELOPMENT AND USE 1981-82, ha

	Trafford	Hartlepool	Corby
Total land area less roads 1981	140.8	105.2	107.3
Changes 1981-82*:			
Area brought into use	3.2	6.4	6.0
Area developed (buildings awaiting occupation)	0.6	0.5	8.5
Area under construction	0.9	0.9	12.9
Total	4.7	7.8	27.4

* Period covered: 1/6/81-31/5/82

TABLE 2 : DEVELOPMENT AND TAKE-UP OF FLOORSPACE 1981-82, sq. m.

	Trafford	Hartlepool	Corby
Total floorspace 1981	216,887	51,128	26,904
Changes 1981-82*:			
Floorspace completed	2,785	836	43,144
Floorspace occupied	16,147	13,365	23,576
Floorspace committed but not completed	4,153	2,470	109,369**

* Period covered: 1/6/81-31/5/82

** The floorspace figures for two schemes (sites totalling 4.55 ha) are not known and therefore not included here.

TABLE 3 : NEW FIRMS AND THEIR EMPLOYMENT 1981-82

	Trafford	Hartlepool	Corby
Total firms 1981	54	41	3
Total jobs 1981	1,248	299	-
Additions 1981-82*:			
New firms operating : firms	24	23	23
New firms operating : jobs	216	262	327
Firms committed to occupation but not yet operating**	6	3	10

* Period covered: 1/6/81-31/5/82
** Employment not known

TABLE 4: EZ PROMOTERS ESTIMATES OF NUMBER OF ENQUIRIES CONCERNING ENTERPRISE ZONES

	General enquiries about EZ	Enquiries which have led to serious discussions
Trafford	1,000*	35-40
Hartlepool	700	30-70
Corby	700 **	

* estimate - no detailed record kept

** companies and business enquirers who have visited Corby since EZ announcement