

Please see, too, the Policy Unit's
advise (attached).

Ref. A083/0038

PRIME MINISTER

*Yes -
then I will do
take the
larger meeting and*


Review of Regional Economic Policy

MCS 15/1

In his minute of 30 December covering a Report by officials on Regional Economic Policy the Chancellor of the Exchequer seeks your views on the procedure and forum for handling the Report, and suggests that you and he might discuss how the substance and timing fit into the Government's general political strategy.

Substance of the Report

2. Briefly the main content of the Report is as follows:
- i. It concludes that the strength of the case for a substantial regional economic policy may be debatable in net national economic terms but that the social and political arguments are powerful.
 - ii. It points to various defects in the present policy, of which the main ones are:
 - a. that the investment incentives, notably Regional Development Grant (RDG), are not sufficiently job oriented and are concentrated too much on manufacturing industry;
 - b. that the areas which benefit from the policy (the Assisted Areas) no longer correspond with up-to-date needs (with the West Midlands in particular now having problems more acute than some of the Assisted Areas);
 - c. that the machinery, especially in England, may need to be improved.
 - iii. It puts forward detailed recommendations in respect of a., while leaving open the question of rates of grant; it proposes that c., along with many other issues of detail, should be studied further.

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- iv. In respect of b., which is probably the most important issue politically, it makes no proposals but asks Ministers to give guidance on expenditure assumptions, so that options can be worked out both on rates of grant and on area coverage within those constraints.
 - v. It asks Ministers to consider whether they want a major public statement on regional economic policy within the life of this Parliament or would prefer a minimal statement (possibly confined to some limited changes to the RDG scheme).

You will recall that the Government decided soon after taking office substantially to reduce the coverage of the Assisted Areas, but agreed to review certain "double down-gradings" to non-Assisted Areas. The review was conducted by the Ministerial Sub-Committee on Economic Affairs and the results announced last summer.

Handling

3. Like the Chancellor, I agree that this matter cannot now be taken further until the major political issues about regional economic policy have been addressed, ie:

- i. How far is it desirable, mainly for social and political reasons, to distort the normal working of the economy with the aim of reducing disparities in employment opportunities in different parts of the United Kingdom?
- ii. Given a broad judgement about i. (which might be reflected in assumptions about future expenditure on policy instruments - more than, less than, or about the same as in the past) how should the benefit be distributed, ie thinly over a wide area or in more concentrated form over a small area?
- iii. How in particular should the problem of the West Midlands be handled - by merely adding them to the existing Assisted Areas, by substituting them for some existing Assisted Areas, or possibly by reducing the discrimination in favour of existing Assisted Areas?

4. The immediate next step would be for you to have a word with the Chancellor alone, as he himself has suggested, to discuss the politics and the handling. The steps thereafter, subject to your discussion with him, might be as follows:

- i. A primarily political discussion involving the Ministers concerned with regional economic policy designed to establish:
 - a. whether the Government should take major political decisions about regional economic policy before the Election;
 - b. if so, what the broad attitude should be to the political issues at paragraphs 3. i., ii. and iii. above.
- ii. Depending on i., submission of papers by responsible Ministers to the appropriate decision taking forum - probably in this case E Committee, and perhaps thereafter to some special Ministerial Group set up for the purpose.

5. If you want to be involved yourself from the outset in the political discussion at 4.i. above, the right course would be for you to convene an informal meeting of Ministers. This would need to involve, as a minimum, the following:

Chancellor of the Exchequer
 Secretary of State for Northern Ireland
 Secretary of State for the Environment
 Secretary of State for Scotland
 Secretary of State for Wales
 Secretary of State for Industry
 Secretary of State for Employment

Yes You might also wish to add the Secretary of State for Education and Science since he was a member of MISC 14 which initiated the review in the first place and has strong and critical views about existing regional economic policy; and also the Chancellor of the Duchy of Lancaster because of the political implications.

Yes



6. If however you would prefer to let the Ministers concerned have the broad political discussion in the first instance without your being involved but reporting the conclusions to you, the right course would be to follow the Chancellor of the Exchequer's suggestion of a discussion in MISC 14 which would need to be augmented for this item so that it corresponded with the list in paragraph 5. above, with possibly one or two other additions.

7. I hope that this minute can serve as a brief for your initial talk with the Chancellor. We shall be ready to advise further in the light of developments.

A handwritten signature in dark ink, consisting of the letters 'R' and 'A' in a stylized, cursive script.

ROBERT ARMSTRONG

7 January 1983

CONQUEROR



7 JAN 1985



COOPERATION

CONFIDENTIAL

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file
cc: F. Mount

10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG

REVIEW OF REGIONAL ECONOMIC POLICY

You minuted the Prime Minister on 7 January about the Report by officials on Regional Economic Policy which was sent forward to the Prime Minister on 30 December by the Chancellor of the Exchequer.

The Prime Minister has it in mind to discuss these issues with the Chancellor at a convenient moment. Thereafter she intends herself to take the meeting of the Ministers most closely concerned on the membership of the group. She agrees the list set out in paragraph 5 of your minute, with the addition of the Chief Secretary, HM Treasury, the Secretaries of State for Trade and Education and Science, and the Chancellor of the Duchy of Lancaster.

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17 January 1983

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