cc JV

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

PRIME MINISTER

REVIEW OF REGIONAL ECONOMIC POLICY

The report of the Interdepartmental Group on Regional Policy ('The Quinlan Report'), which was commissioned by the Ministerial Group on Government Strategy at their meeting on 29 July 1982 (MISC 14(82)3rd Meeting), was submitted at the end of last year and MISC 14 had a first discussion of the various issues which it raised at their meeting on 21 February (MISC 14(83)1st Meeting). This minute is to report the outcome of that discussion to you and to invite you to consider, in particular, the handling of further work on this issue.

2. The Quinlan Group favoured the retention of distinct regional policies, but largely for social rather than economic reasons; regional policy ought no longer to be regarded as a means of increasing national wealth. It also agreed that the root cause of disparities in regional unemployment was the rigidity of the labour market, but, not unexpectedly, offered no new insights into how this intractable problem might best be tackled. The main recommendation of the Quinlan Report is that for the future regional policy should be much more directed at job-creating rather than capital-intensive projects. To this end regional development grants (RDGs) should be replaced by a system of less automatic grants involving cost-per-job limits and perhaps also enhanced

/grant payments

grant payments for the most labour-intensive projects. The Report also examines the different organisational arrangements in England on the one hand and in Scotland and Wales on the other hand, both of which have Development Agencies. Finally, the Report invites Ministers to consider the timing of any statement on the revision of regional polciies and theform that this might best take.

3. MISC 14 reviewed the ground that will need to be covered in further work, the areas where there is a degree of consensus among Ministers, and where views differ. Our very preliminary conclusions were as follows. The main question is how best to use resources; the question whether the justification for regional economic policy is mainly social or economic is secondary. MISC 14 favoured altering the present system of RDGs so as to reduce the bias towards capital-intensive projects and manufacturing industry. Any new system will have to take account of the need to attract support from Community institutions; nor must we overlook that regional policy has allowed us to compete, in a way that is acceptable to the Commission, for internationally mobile investment. Views were divided on whether a new grant system should retain the large element of automaticity which is a feature of the present arrangements or whether it should involve a significantly greater degree of discretion. Further work will be required by officials on the options for a new grant system before Ministers can reach final decisions. The Group did not favour imposing at this stage any specific and over-riding cost limitations on

/the options which

the options which might be studied although we recognised any decisions on possible changes had to take account of the fact that the resources which could be devoted to regional policy were limited.

4. MISC 14 noted that the institutional arrangements impinging on regional policy appear to work better in Scotland, Wales and Northern Ireland than in England. We agreed that coordination between English Ministers and Departments should be improved, but did not favour going further and establishing new arrangements in England or extending the geographical coverage of the Assisted Areas.

5. MISC 14 recognised the importance of improving the workings of the labour market but felt that this somewhat intractable problem required constant attention and perhaps also a rather pragmatic approach, which might best be handled separately from the discussion of other aspects of regional policy.

6. A great deal of further work is clearly required before final decisions can be taken on the form or details of any changes in regional policy. You will want to consider how this further work might best be handled. You will also wish to consider whether the aim should be to produce a major statement of policy, perhaps in the form of a Green or White Paper, before the General Election; or whether we should delay any announcement until after the Election but push ahead meanwhile with the development of policy so that

/changes in the

changes in the present arrangements can be the subject of legislation early in the life of a new Parliament. On this question MISC 14 were inclined not to favour a major statement of policy before the Election. Most of us felt that the better approach would be to take appropriate opportunities to make announcements in relatively low key about particular aspects of regional policy and the benefits to be gained for changing them in a variety of ways. It would be important in any announcement of measures giving particular benefit to one area to avoid suggesting that this was being given at the expense of other areas.

7. Finally, MISC 14 agreed that action to deal with the problems of the West Midlands should not be delayed until decisions have been reached on regional policy generally; it was important that the Government should be seen to be taking early and effective measures to deal with the problems of this area. But a pragmatic approach was required; it would be wrong to designate the West Midlands as an Assisted Area. The Secretary of State for Industry mentioned two particular proposals in this respect, on which he will no doubt be writing to colleagues in due course.

8. I am sending a copy of this minute to the Secretaries of State for Foreign and Commonwealth Affairs, Education and Science, Northern Ireland, Scotland, Wales, Industry, Employment and the Environment, to the Minister of Agriculture, Fisheries and Food, to the Chief Secretary, Treasury and to Sir Robert Armstrong and Mr Sparrow.

G.H.

24 February 1983

Regional Policy : Review of Regional Policy Pt 5

TPM

CONFIDENTIAL

cc FCO DES NIO SO WO DOI D/ETLP DOE MAFF CSO CO CPRS PA

10 DOWNING STREET

bcc JV & BT.

From the Private Secretary

8 March 1983

Dear Margaret,

Review of Regional Economic Policy

The Prime Minister was grateful for the Chancellor's minute of 24 February, in which he reported the outcome of the discussion by the Ministerial Group on Government Strategy (MISC 14) of the report of the Interdepartmental Group on Regional Policy ('The Quinlan Report').

The Prime Minister broadly agrees with the conclusions of MISC 14. In particular, she agrees that there should be no major statement about regional policy before the election, but rather a series of low-key announcements, for example about the desirability of making regional incentives more effective as a means of job creation. She agrees, too, that action to deal with the problems of the West Midlands cannot be delayed until decisions have been reached on regional policy generally; she has noted what is in train on this matter.

The Prime Minister accepts that further work will be needed before final decisions can be taken on the form or details of any changes in regional policy. The Prime Minister hopes that this work will be carried forward under the supervision of MISC 14; and that when the time comes for decision-making the Chancellor will make a further report to her. She will then consider in what forum these decisions should be made.

I am sending a copy of this letter to Derek Page (FCO), Stephen Williams (Department of Education and Science), Derek Hill (Northern Ireland Office), Muir Russell (Scottish Office), Adam Peat (Welsh Office), Jonathan Spencer (Department of Industry), Barnaby Shaw (Department of Employment), David Edmonds (Department of the Environment), David Dawson (MAFF), John Gieve (Chief Secretary's Office), Richard Hatfield (Cabinet Office) and Gerry Spence (CPRS).

Yours sincerely,

Michael Scholar

Miss Margaret O'Mara,
HM Treasury.

CONFIDENTIAL

HL

Asked if the Chancellor agrees these conclusions. Tony Pte Office told me he agreed 4/3.

(1)

Not reached

CP/ For meeting with Chancellor 2/3/83

MCS 28/2

PRIME MINISTER

REGIONAL ECONOMIC POLICY

During your discussion with Mr. Tebbit a few weeks back, you were concerned to inject some urgency into the review of Regional Policy, in particular, its impact on the West Midlands.

You will see from the attached minute from the Chancellor that MISC 14 has concluded that the West Midlands needs to be dealt with separately from Regional Policy, both because urgent steps are needed, and because there is no desire to treat the West Midlands as an Assisted Area. Further, it is agreed by MISC 14 that there should be no major statement about Regional Policy before the Election, but rather a series of low-key announcements, e.g. about the desirability of making regional incentives more effective as a means of job creation, which could prepare the way for changes in the next Parliament.

When you talked to Mr. Tebbit and later to Mr. Gregson, you had it in mind to take charge of the follow-up to MISC 14. As things have developed, you may feel that it is not now necessary to become so closely involved at this stage. The key thing will be to ensure that the Budget package does in fact help the West Midlands. You can find out about this at your next meeting with the Chancellor, on Wednesday.

At the same time it might be worthwhile to agree with the Chancellor how the further work on Regional Policy referred to in his minute might best be carried forward. I have asked Mr. Gregson for his advice on this and it is that a new Ministerial Group would risk being publicised and raising expectations too high; that E(EA) would be ideal but for the fact that the Secretary of State for Industry who chairs it has now taken up a strong position on Regional Policy and made himself unpopular with the Secretary of State for Scotland and the Secretary of State for Wales; therefore,

/ that it would

that it would be best to allow MISC 14 to supervise further work for the time being until the time comes for actual decisions, when the whole matter could go to E Committee or to an ad hoc group.

Agree these conclusions?

MCS

Yes MT

25 February 1983

cc JV

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

24 February 1983

Michael Scholar Esq
10 Downing Street
Whitehall

Dear Michael,

REGIONAL ECONOMIC POLICY

.. I am enclosing a copy of a minute which the Chancellor is sending to the Prime Minister in his capacity as Chairman of MISC 14. He has asked me to point out that, as he has already explained to the Prime Minister, he will be bearing all these matters in mind in framing his Budget.

I am copying this letter to Richard Hatfield (Cabinet Office).

Yours sincerely,

Margaret O'Mara

MISS M O'MARA
Private Secretary

25 APR 1983

Reg Pol: Review of Regional Policy Pt 5

PA

P.0970

MR SCHOLAR

Regional economic policy

I understand that the Prime Minister will be seeing the Chancellor of the Exchequer this afternoon to discuss, among other things, the handling of future work on regional economic policy in the light of the discussion on 21 February in the Ministerial Steering Group on Government Strategy (MISC 14).

Conclusions of MISC 14

2. The Chancellor is on the point of minuting the Prime Minister to report on the MISC 14 discussion and I attach for convenience a copy of the draft minute which the Secretariat has supplied to him. As you will see the MISC 14 meeting served the purpose foreshadowed in my minute to the Prime Minister of 11 February. There has been a second reading debate of a broadly political kind and the next steps are entirely within the Prime Minister's control. Moreover there was agreement on the two matters of most interest to the Prime Minister, ie:

i. that the problem of the West Midlands has to be dealt with separately from regional policy, both because urgent steps are needed and because it would be politically counterproductive to treat the West Midlands as an Assisted Area;

ii. that there ought not to be a major statement about regional policy before the Election but a series of low key announcements of a non-controversial and not too specific kind (eg about the desirability of making regional incentives more effective as a means of job creation) which could prepare the ground for useful changes in the next Parliament.

Handling of future work

3. It now remains to decide how best to carry matters forward. MISC 14 agreed that it would be useful for officials to do more work on proposals for making

RDGs more job related but that the options should not be constrained by a requirement to save any given amount of money. There are also many minor recommendations in the Quinlan Report which the relevant Ministers ought to discuss, which probably do not raise difficult political issues, and which might, if approved, be implemented in a low-key way as and when the time seems ripe.

4. As things have developed, the Prime Minister will probably not feel that she needs to get involved herself. Within the cautious political steer which has now emerged from MISC 14 some further low-key official work needs to be put in hand. It would be useful to have another Ministerial discussion to go over the minor recommendations first and give more detailed guidance to officials and a later Ministerial discussion to review the further work by officials.

5. The Prime Minister may want to have a brief word with the Chancellor about the best machinery for that. The simplest course would be to set up a new Ministerial Group but the disadvantage would be that its existence might become known; this would give the exercise too high a profile and work against the desire to avoid a major statement of regional policy before the Election. Using E(EA) would be ideal but for the fact that the Secretary of State for Industry who chairs it has now taken up a strong position on regional policy and made himself unpopular with the territorial Secretaries of State. Moreover the Chancellor (who is not involved in E(EA)) would probably not wish to lose touch with the subject.

6. It may therefore be best to allow MISC 14 to supervise the further work on regional policy for the time being, despite the fact that it is not strictly speaking a decision taking body. When the time comes for actual decisions we can arrange for the Chancellor to minute the Prime Minister with copies to members of E; whether or not any discussion will be required in E at that stage will depend on the extent of agreement and disagreement.

PLG

P L GREGSON

23 February 1983

DRAFT MINUTE FOR THE CHANCELLOR OF THE EXCHEQUER TO SEND TO THE PRIME MINISTER.

REVIEW OF REGIONAL ECONOMIC POLICY

The report of the Interdepartmental Group on Regional Policy ('The Quinlan Report'), which was commissioned by the Ministerial Group on Government Strategy at their meeting on 29 July 1982 (MISC 14(82)3rd Meeting), was submitted at the end of last year and MISC 14 had a first discussion of the various issues which it raised at their meeting on 21 February (MISC 14(83)1st Meeting). This minute is to report the outcome of that discussion to you and to invite you to consider, in particular, the handling of further work on this issue.

2. The Quinlan Group favoured the retention of distinct regional policies, but largely for social rather than economic reasons; regional policy ought no longer to be regarded as a means of increasing national wealth. It also agreed that the root cause of disparities in regional unemployment was the rigidity of the labour market, but, not unexpectedly, offered no new insights into how this intractable problem might best be tackled. The main recommendation of the Quinlan Report is that for the future regional policy should be much more directed at job-creating rather than capital-intensive projects. To this end regional development grants (RDGs) should be replaced by a system of less automatic grants involving cost-per-job limits and perhaps also enhanced grant payments for the most labour-intensive projects. The Report also examines the different organisational arrangements in England on the one hand and in Scotland and Wales on the other hand, both of which have Development Agencies. Finally, the Report invites Ministers to consider the timing of any statement on the revision of regional policies and the form that this might best take.

3. MISC 14 reviewed the ground that will need to be covered in further work, the areas where there is a degree of consensus among Ministers, and where views differ. Our very preliminary conclusions were as follows. The main question is how best to use resources; the question whether the justification

for regional economic policy is mainly social or economic is secondary. MISC 14 favoured altering the present system of RDGs so as to reduce the bias towards capital-intensive projects and manufacturing industry. Any new system will have to take account of the need to attract support from Community institutions; nor must we overlook that regional policy has allowed us to compete, in a way that is acceptable to the Commission, for internationally mobile investment. Views were divided on whether a new grant system should retain the large element of automaticity which is a feature of the present arrangements or whether it should involve a significantly greater degree of discretion. Further work will be required by officials on the options for a new grant system before Ministers can reach final decisions. The Group did not favour imposing at this stage any over-riding cost limitations on the options which might be studied, although we recognised that the resources which could be devoted to regional policy were limited.

4. MISC 14 noted that the institutional arrangements impinging on regional policy appear to work better in Scotland, Wales and Northern Ireland than in England. We agreed that coordination between English Ministers and Departments should be improved, but did not favour going further and establishing new arrangements in England or extending the geographical coverage of the Assisted Areas.

5. MISC 14 recognised the importance of improving the workings of the labour market but felt that this somewhat intractable problem required constant attention and perhaps also a rather pragmatic approach, which might best be handled separately from the discussion of other aspects of regional policy.

6. A great deal of further work is clearly required before final decisions can be taken on the form of any new regional policy or on its details. You will want to consider how this further work might best be handled. You will also wish to consider whether the aim should be to produce a major statement of policy, perhaps in the form of a Green or White Paper, before the General Election; or whether we should delay any announcement until after the Election but push ahead meanwhile with the development of policy so that changes in the present arrangements can be the subject of legislation early

in the life of a new Parliament. On this question MISC 14 did not favour a major statement of policy before the Election. They concluded instead that the better approach would be to take appropriate opportunities to make announcements in low key about particular aspects of regional policy and the benefits to be gained for changing them in a variety of ways. It would be important in any announcement of measures giving particular benefit to one area to avoid suggesting that this was being given at the expense of other areas.

7. Finally, MISC 14 agreed that action to deal with the problems of the West Midlands should not be delayed until decisions have been reached on regional policy generally; it was important that the Government should be seen to be taking early and effective measures to deal with the problems of this area. But a pragmatic approach was required; it would be wrong to designate the West Midlands as an Assisted Area. The Secretary of State for Industry mentioned two particular proposals in this respect, on which he will no doubt be writing to colleagues in due course. [This is a matter to which I shall want to give some thought in the context of the Budget].

8. I am sending a copy of this minute to the Secretaries of State for Foreign and Commonwealth Affairs, Education and Science, Northern Ireland, Scotland, Wales, Industry, Employment and the Environment, to the Minister of Agriculture, Fisheries and Food, to the Chief Secretary, Treasury and to Sir Robert Armstrong and Mr Sparrow.

GH.

CONFIDENTIAL

Ref. No: IN (83) 1
21.2.83

Regional Pol

Debate on Regional Policy with reference to the West Midlands and Yorkshire and Humberside on Tuesday 22nd February 1983

Contents

Conservative Research Department,
32 Smith Square,
London SW1
Tel. 222 9000

Enquiries on this brief to:
R. Ehrman and
N. Hawkins

BACKGROUND TO GOVERNMENT ECONOMIC POLICY

The background to the economic problems afflicting the West Midlands and Yorkshire and Humberside, is the world recession. This is the severest for fifty years and it has hit British industry at a time when it was already finding difficulty in competing with other industrialised countries. The whole thrust of the Government's economic and industrial policy is to create a climate in which industry can be productive and profitable.

FIGHT AGAINST INFLATION

This has been the Government's main contribution. Last month inflation was down to 4.9%, the lowest since the 1960's. The Government has achieved this by maintaining downward pressure on its borrowing. It cannot control the world's financial markets, but by financing its deficit responsibly it has relieved the pressure on interest rates. Since autumn 1981 they have fallen by around 5% and this benefits industry by over £1,000 million a year.

REALISM ON WAGES AND EMPLOYMENT

Lower inflation has reduced the pressure for high wage settlements. The Government's policies on industrial relations have helped redress the negotiating balance in industry. The Government has stressed the connection between pay and jobs and this is now far more widely understood. The underlying rate of wage increases in November was 8.3% compared to 11.3% a year ago.

COMPETITIVENESS

This greater realism has led to greater competitiveness in industry. Over the last two years our productivity has risen faster than most of our competitors. Between 1979 and the third quarter of 1982 output per man-hour improved by 10.1%. Since the first quarter of 1981 industry's competitiveness has improved by 24%.

REDUCTION OF BUREAUCRATIC CONTROLS

The Government has taken steps to improve market efficiency by repealing many restrictions and requirements. Pay, price, dividend and exchange controls have been removed. Industrial Development Certificates and Office Development Permits have been abolished. These moves give industry greater control over their own affairs. The abolition of Industrial Development Certificates was particularly welcomed in the West Midlands.

GOVERNMENT REGIONAL POLICY

Mr. Norman Lamont, Minister of State at the Department of Industry told Parliament on February 14th that a review of Regional Policy is at present being undertaken, but that there would be no further substantial changes in the lifetime of this Parliament. At the moment parts of Yorkshire and Humberside qualify for Regional Development Grants, but the West Midlands do not.

The main characteristics of Government Regional Policy are:-

Selectivity. Under Labour 44% of the workforce were in designated areas. Evidence has shown that regional policy becomes less effective as it becomes less selective. So the present Government has concentrated aid on the most deprived areas, and our regional policy now covers 27% of the population. The policy now operates primarily in Special Development Areas and Development Areas. Intermediate Areas no longer receive grants. The differentials between SDAs and DAs have been increased. The rate of Regional Development Grant is 22% in SDAs and 15% in DAs. SDAs are largely concentrated in the surrounds of the old industrial cities such as Glasgow, Newcastle, Dundee and Hull. DAs cover needy regions like Northern and Western Scotland, the remoter parts of Wales and Cornwall and parts of Cumbria.

Stability. Regional policy has to be stable and predictable if it is to effect investment decisions. So the process of downgrading areas to increase selectivity was slow and phased. This contrasted sharply with the way in which the Labour Government cut out the regional employment premium in a matter of weeks in December 1976.

Value for Money. The criteria for discretionary regional selective assistance under Section 7 of the Industry Act 1972, has been tightened

a) to include only those projects which would not go ahead without it.
b) to concentrate on projects that will strengthen the regional and national economy.

Flexibility. The Government acknowledgesthat changing circumstances require a range of responses. The policy had been flexible. For example, Shotton became a SDA and Corby a DA following steel closures in December 1979. Similarly Port Talbot became a SDA, Newport, Cumbria and Scunthorpe DA's in July 1980.

Attractiveness to Investors. The Government is determined to ensure that regional aid attracts investors to the designated areas. So as well as the grants mentioned above more specific incentives are available, notably the Government's factory building programmes.

Help with Training Costs. In April 1980 an in plant training scheme was introduced under Section 7 of the 1972 Act. Grants of up to 40% of the wages of trainees and instructors can be obtained, and as these attract a matching contribution from the European Social Fund, a company can receive 80% of its eligible training costs.

Other forms of assistance available to industry in the regions.

Section 8 Grants. These are authorised under the Industry Act 1972 and are made available throughout the UK, so the West Midlands is eligible. They are given on a selective basis under schemes designed to promote specific developments, usually in high technology, or to attract certain new types of industry. Between May 1979 and April 1982 £145.9 million of grants were offered under Section 8.

Regional assistance from the EEC. As a member of the EEC Britain receives grants under its regional schemes. The most important are:

1) The European Regional Development Fund gives grants towards projects which receive regional development grants from DOI. These sums are not additional; the EEC pays part of the grants the DOI gives. Since 1975 the UK has received £1,035 million under this scheme.

2) The Supplementary Measures Scheme. These grants arise from the refunds negotiated by the Prime Minister, on the UK's net contribution to the community budget. Once again these grants are only additional in the sense that without them public expenditure would have had to be cut. They mostly go to infrastructure projects. The UK also received nearly £250 million from the European Coal and Steel Community between 1973 and 1981. This money went to areas affected by pit or steel closures. Grants were given for retraining and redundancy schemes.

WEST MIDLANDS REGION

The West Midlands region consists of the West Midlands Metropolitan County, Hereford and Worcester, Staffordshire, Shropshire, part of Derbyshire, Warwickshire.

The major employers in the area are traditionally the engineering and allied industries, particularly vehicles. In round figures the Midlands formerly contained rather more than half the car assembly capacity and a third of the machine tool, iron foundry and drop forging capacity in the country, for which the vehicle industries were the main customers. When the recession began factory closures and redundancies were inevitably followed by closures and redundancies in supplying industries.

The traditional strengths of the West Midlands are its central location and good communications, its good supply of reasonably priced industrial land, and its skilled workforce. But the industries on which it is dependant, vehicles and engineering, are those in which the UK has proved particularly vulnerable. The region has outdated industrial structure, the lowest output per capita in the country and many of its skills are outdated. In the 1970's its car and component industries acquired a reputation for bad industrial relations and poor quality. These industries were very dependant on exports and the problems subsequently dogged them at a time when they were also having to contend with sterling's international strength. These factors have continued to hit the West Midlands particularly hard in the present recession.

The total number of unemployed people in the West Midlands has risen from 110,000 in 1979 to 367,000 in 1982. On a percentage basis this represents a rise from 5.2% to 16.1%, the biggest increase in Great Britain. Areas particularly badly hit include:

Oakengates	19.9%
Redditch	18.5%
Walsall	18.1%
Wolverhampton	17.1%
Dudley/Sandwell	16.3%
Birmingham	16.2%
Coventry	15.9%
Kidderminster	14.2%
Stoke on Trent	13.5%

Department of Employment Gazette
January 1983

The West Midlands do not qualify for Regional Development Grants but the area is eligible for assistance from European Funds, and from the Department of Industry under Section 8 of the Industry Act 1972 and the Special Employment Measures. For example between May 1979 and April 1982 the West Midlands received over £24 million out of the total of almost £146 million granted under Section 8. It has also been the main beneficiary of almost £1 billion that has been made available for BL in the lifetime of this Government. Enterprise Zones have been created at Dudley and Telford.

BL and the Motor Industry. In January 1983 British manufacturers took 43.06% of the UK market, and BL had 16.94% of it. In 1970 the UK produced 1.64 million cars and exported 690,000. New car registrations in 1970 were 1,077,000. In 1982 the UK produced 888,000 cars and new registrations were 1,555,000. In 1981, the latest year for which export figures are available, the UK exported 349,000 cars. These figures illustrate the dramatic loss of competitiveness that has crippled the West Midlands' most important industry.

BL has had £990 million of state aid made available to it by this Government for investment. Much of this has been spent on modernising Longbridge, where the Metro is produced in one of Europe's most automated factories. BL have reduced their workforce by 93,000 from its peak and there was a 30% increase in productivity in 1981. Some divisions of BL are now trading profitably, notably Jaguar whose exports to the US doubled in 1982, Land Rover and Unipart. The product line is being rationalised and new models introduced to follow the Metro and Triumph Acclaim. The Maestro will shortly be launched and so will a new executive car, the XX developed in co-operation with Honda. All this has been made possible by the Government's investment and BL have recently been recruiting workers for the new models.

The Government is also attempting, through the EEC to reduce the inequalities in our vehicle trade with Spain. An announcement is expected later this month.

Rates. Rapidly rising rates are one of industry's greatest problems. The Government is aware of this and has taken action to restrain Local Authority spending. In the West Midlands this problem has been exacerbated by the extravagant attitude of the Labour controlled West Midlands County Council, who constantly increase this burden. In January they rejected calls for rate relief schemes for industry. By contrast Birmingham City Council, which is Conservative, intends to exempt redundant factories and warehouses from rates for the next two years. The CBI have recently urged West Midlands companies to demolish or deroof empty factories to save rates. In some areas of Birmingham empty space to let at 50p per square foot costs an additional £1 per square foot in rates. The connection between high rates and industrial decline is obvious, but Labour authorities still refuse to recognise it.

Inward Investment and Section 8 Grants. The West Midlands have benefited from the Government's success in attracting new investment to Britain, much of which is eligible for grants under Section 8 of the Industry Act, 1972. Unimation of the US, the world's leading robot manufacturer, is expanding its UK subsidiary at Telford to create 250 jobs. The scheme will cost £10 million of which the National Research and Development Corporation will invest £2 million and the Department of Industry will provide £1.5 million in grants under Section 8. Hitachi Maxell are to spend up to £25 million, also at Telford, on a new plant to make video-tapes and this project too is benefiting from Section 8 Grants. These companies regard Britain as a stable base for their EEC operations.

Special Employment Measures. Although ineligible for Regional Development Grants, the West Midlands does benefit from the Government's Special Employment Measures. At the end of November 1982 the figures for the West Midlands were as follows:

	Number of Places
Temporary Short Time Compensation Scheme	18,535
Job Release Scheme	6,481
Community Industry	285
Young Workers Scheme	28,890
Community Enterprise Scheme	3,683
Youth Opportunities Programme	
1. 1981-2	67,120
2. Entrants April-November 1982	84,600

European Assistance. ECSC grants have gone to the Staffordshire mining area and West Midlands steel producers have received over £10 million under the plan to reduce capacity. Projects in the area have received money from the European Social Fund.

Labour Record. Under the last Labour Government unemployment more than doubled in the West Midlands from 46,400 to 119,000.

YORKSHIRE AND HUMBERSIDE

This region includes a wide cross-section of producers, ranging from the heavy industrial plants in the old 'West Riding' to the farms of East Yorkshire. In addition fishing is important in Hull and Grimsby, whilst the coal mining industry is a major employer in South Yorkshire.

Historically much of the prosperity of the region derived from the wool industry, centred around Halifax. Towns such as Huddersfield, Dewsbury and Cleckheaton grew up because of the development of the textile industry. Gradually specialised products evolved from this industry, notably carpets, which created many jobs in the mill towns. In recent years many of the textile companies have incurred major problems, notably because of imports from the Far East and in the specific case of carpets, from the United States of America. The new Multi-fibre Arrangement should, however, curtail such imports.

Many of the country's larger coal pits are located in South Yorkshire, with the result that many villages have grown up round the local colliery. Some pits, though, are in the process of being closed down by the National Coal Board. By contrast the Board hopes to develop more fully in the Selby area, where there are substantial coal deposits.

Relying on the Coal Industry are many companies, involved in metal manufacture and engineering. The steel industry has been a major employer in Sheffield and Rotherham;in addition other industries like cutlery and wire manufacture have developed in nearby towns.

Agriculture is concentrated mainly on Humberside and in the Northern part of Yorkshire, whilst fishing has created many jobs in Grimsby and Hull, but developments in recent years, notably agreements on fishing ground limits and catch restrictions, have resulted in less employment.

When the Labour Government left office in 1979, the total number of unemployed in the region was around 113,000. The current figure is 292,000, giving a total percentage of 14.5%. The worst areas affected are:

Mexborough	22.6%
Rotherham	20.3%
Scunthorpe	17.2%
Doncaster	16.8%
Hull	15.9%
Barnsley	15.6%
Bradford	15.2%
Dewsbury	14.9%
Grimsby	14.3%
Sheffield	13.8%

Rotherham and Scunthorpe have suffered as British Steel production has been reduced, whilst employment in Sheffield has suffered both directly and indirectly from the problems in the steel industry. Other towns like Bradford and Dewsbury are seriously affected by

redundancies made by textile companies. Hull and Grimsby, both substantially dependent on fishing, have a high unemployment level. In many of these areas, insufficient new industries have developed and as a result recession in Yorkshire and Humberside has been harshly felt.

The Government's regional policy takes some account of this and the region has received aid in the form of Regional Development Grants. Between 1972/3 and 1981/2 inclusive a figure of about £290 million was paid in grants by the Department of Industry (N.B. the figures include some adjustment for selective financial assistance, which was measured differently in the first five years of the above period).

In the last financial year the region received a total of £47 million in Regional Development grants, as compared with:

Northern Region	£144 million (23%)
North West	£143 million (23%)
Scotland	£143 million (23%)
Wales	£122 million (20%)

In percentage terms Yorkshire and Humberside received about 7½% of the total grant, whilst the region accounts for approximately 8½% of the total working population. In addition a figure of about £15 million was given during 1981/2 through the Selective Financial Assistance and Local Employment Act Assistance schemes.

The region has also benefitted from the Enterprise Zone policy. Wakefield was included initially in the scheme and four of the five factories vacant when the area was designated have been let. It has been recently announced that the Wakefield zone will be extended ~~and~~ **further** that Scunthorpe and Rotherham will be incorporated with the scheme. Both these towns have suffered from the problems of the steel industry and it is intended that some redundant workers will establish small enterprises. These will become progressively more important there as employers, as opposed to the dependence in recent years on one major industry, like steel, which is presently suffering from serious over capacity.

LABOUR REGIONAL POLICY

The Labour Programme 1982 outlines the party's plans for a cumbersome and expensive tripartite national planning system to control and direct the economy on Socialist lines. Companies will be obliged to agree plans with the extensive new bureaucracy that is to be set up for this purpose. It will have powers to control prices, credit, investment, companies purchasing and production, and employment. Those that do not co-operate are threatened with having an Official Trustee put in control of their affairs, those that comply will benefit from relaxed price controls, preferential access to credit, import protection and subsidies. This system could of course be used to direct investment towards the regions for political purposes. Labour are not unduly concerned that investment decisions, even those involving public money, should be based on sound financial criteria. In addition to the national planning bureaucracy the Labour Programme proposes new forms of regional planning and bureaucracy. 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 44% 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.

Labour plans for nationalisation and co-operatives would also adversely affect regions such as Yorkshire and the West Midlands. Old and new industries alike are threatened with nationalisation, including those privatized by this government, electronics (special mention is made of GEC), pharmaceuticals, construction and building materials, timber and oil. This threat would, if Labour came to power, discourage sound commercial investment in just those areas that need it most. Small business too, is threatened by Labour's proposal to "provide a statutory right and mechanism for workers in private firms - subject to government consent - to convert their enterprise into a workers co-operative by acquiring the assets of the firm, and provide assistance for this prupose." No mention is made of the need for the owners consent. In his book "Inside the Treasury" (Andre Deutsch 1981) Mr. Joel Barnett says that the workers' co-operatives financed by the last Labour government were "sometimes known as Benn's Follies". The present government has encouraged the creation and growth of small businesses in the regions. Policies such as Labour's will destroy them.

SDP REGIONAL POLICY

The Social Democrats' regional policy is set out in their White Paper on industrial strategy. This concentrates on the need for reflation, and the SDP hope that the effects of this, combined with their plans to decentralize government, will give the regions a boost. They aim "to encourage high-level management to move out of the South East" and expect more public expenditure in the regions. Subsidised finance and investment by British Technology Group will be used to boost investment in the regions. They propose a ceiling on Regional Development Grant paid "on any one premises" and want to use the saving to fund a new type of regional employment premium for highly qualified manpower. This might deter important capital-intensive industries, such as might be expected to need highly qualified manpower, from locating in the regions. Apart from this limitation however the fate of the present system of concrete incentives and grants which have attracted many enterprises to the regions is not clearly stated in the White Paper.

Reg Pol.

Prime Minister (2)

For your Wednesday meeting with the Chancellor (no more than an aide-memoire of Peter Graysm's discourse yesterday).

MCS 11/2

CONFIDENTIAL

P.0963

PRIME MINISTER

Regional Policy and the West Midlands

You have it in mind to speak to the Chancellor of the Exchequer next week about:

i. the major issues raised by the report by officials on regional economic policy;

ii. what should be done to help the West Midlands;

iii. the handling of the MISC 14 discussion of the Regional Economic Policy Report which the Chancellor will be chairing on 21 February.

Regional Economic Policy

2. In his memorandum to MISC 14 covering the report by officials (MISC 14(83)1) the Chief Secretary has made two main proposals:

i. legislation in the next Parliament to make the Regional Development Grant (RDG) scheme more job-related with a saving of about £100 million a year;

ii. a statement about regional economic policy before the Election covering the RDG proposals and some other minor matters.

3. The proposal about RDGs has much merit in terms of the Government's economic policy. The officials' report makes it clear that the present expenditure of about £650 million a year on regional economic measures is justified primarily for social and political rather than economic reasons. There is therefore much to be said for continuing the trend in recent years of reducing this expenditure within social and political constraints. Moreover, as the CPRS Report on Unemployment brought out, the present expenditure is weighted too

CONFIDENTIAL

far in favour of capital intensive projects. The proposed change to the RDG scheme would help to correct this.

4. This change, though desirable in itself, does not however help with the major current political problem of regional economic policy, ie the fact that the West Midlands does not have Assisted Area status although its January unemployment rate was 15.6 per cent, higher than that for Scotland (14.6 per cent) and the North West (15.4 per cent) and only a little lower than that for Wales (16.2 per cent). Possible ways of helping the West Midlands in the context of the proposals in the regional policy report would be:

a. using some or all of the savings from changing the RDG scheme to bring the West Midlands within the Assisted Areas;

b. removing Assisted Area status from some existing Assisted Areas, and substituting the West Midlands, thus keeping Assisted Area coverage at about 27 per cent of the working population.

5. The problem about the solution at a. is that it would run counter to the Government's policy of reducing Assisted Area coverage from over 40 per cent in 1979 to 27 per cent now. Inclusion of the West Midlands would increase coverage to around 35 per cent. The difficulty about b. is that there would probably be strong opposition from the areas displaced, especially if some of them were in Scotland or Wales. If therefore these options are ruled out, the Government's only line of defence in relation to the West Midlands, so far as regional policy is concerned, is that the Government has reduced discrimination against the West Midlands by reducing Assisted Area coverage and would be carrying this further by cutting expenditure on RDGs. Any positive help for the West Midlands would have to be provided outside the context of regional economic policy.

Help for the West Midlands

6. In reality the best way of helping the West Midlands, which accounts for about one in ten of the population of the UK, is through Budget measures which

will benefit the UK economy generally. It is however desirable presentationally for the Government to be able to point to specific measures which might have a particular relevance to the West Midlands. The industrial structure of the West Midlands is heavily weighted towards engineering. It is also historically an area in which small businesses have flourished. This suggests that measures related to the engineering sector, and to small businesses might be particularly helpful to the West Midlands.

7. The Chancellor is already considering a package of minor measures to supplement the major taxation measures in the Budget. The Secretary of State for Industry made some specific suggestions in his letters to the Chancellor of 6 December 1982 and 12 January 1983, for example:

- a revival of the Small Engineering Firms Industry Scheme (SEFIS) on an expanded basis (ie available to firms of up to 500 employees) at a cost of about £30 million a year;

- a new scheme for supporting innovation-linked investment at a cost building up to about £20 million a year;

- a relaxation of limits and conditions in the Business Start-up Scheme;

- easing the Corporation Tax and VAT burdens for small firms.

Regional Grants towards the grant : not disadvantaging the Northeast

8. You will wish to draw the Chancellor's attention to the possible relevance of these and similar measures to the problems of the West Midlands and explore with him what might usefully be done on these lines.

Handling of MISC 14 discussion

9. MISC 14 is not a decision taking body. Any major proposal, such as that relating to RDGs would eventually, after further work, be brought to some appropriate forum (probably E Committee) for decision. The purpose of the MISC 14 descussion will therefore be to have a Second Reading debate of a rather general kind. If you and the Chancellor have a reasonably clear idea of the

way in which you would prefer to proceed between now and the Election, you will probably wish to avoid opening up the issues too far in MISC 14. The best course might therefore be for the Chancellor to do no more than collect some general reactions to the officials' report from the members of MISC 14 and summarise them in a minute to you. You could then consider further at that stage what the next steps might be.

PLG

P L GREGSON

11 February 1983