

MR MOUNT

23 March 1983

cc Mr Walters
Mr ScholarREGIONAL ECONOMIC POLICY

You will be attending MISC 14 tomorrow when papers on this subject by Mr Brittan and Mr Jenkin will be discussed. The purpose of the meeting is to provide a steer to the interdepartmental group of officials charged with developing this review further. We have two objectives at the MISC 14 meeting: to ensure that the more radical options are explicitly included in the officials' terms of reference (they will not address them if they are not and may disregard them even if they are) and to secure a place for the Policy Unit on the interdepartmental group (I would attend).

Mr Brittan's paper identifies the successor scheme to RDG as the single most important issue. Mr Jenkin's paper proposes a reassuring public statement on REP and outlines some possible ideas on what should replace RDG. Already the discussion has dodged three basic, and connected questions:

- 1) What makes a declining area decline?
- 2) Should we have a regional policy at all?
- 3) If we judge that we must, can we reduce its cost substantially?

In regard to (1), your note of 13 January to the Prime Minister (attached) addresses the first question but neither the Quinlan report nor the papers presented tomorrow do this. As a result we are moving rapidly towards a repackaging of existing industrial policies without any serious discussion of the origins of regional problems or their appropriate remedies. The chance to do this is unlikely to recur for years, in view of the entrenched regional interests and DoI officials' concerns about the 'stability' of regional policies, reflected in the proposed statement. Mr Jenkin raised many of the important questions in his excellent and

personally drafted 16 February paper (MISC 14(83)6) but his own officials disregarded his views in their contributions to Quinlan and seem to have taken over once again in the latest DoI paper, with its preamble about 'public reassurance' that REP is here to stay and will change slowly. It is important, therefore, that officials should be instructed to report on the causes of regional decline, preferably at the same time as their interim report (Mr Brittan suggests June 1983).

In regard to (2), Mr Jenkin's earlier paper observed (para 5) that "a sound economic case ^{can} be made out for having no REP at all" and listed this as one option. Subsequent discussion ruled it out, largely on political and Community grounds, but if we are to make sensible decisions on the size and shape of REP it is surely important to establish the strength or otherwise of the case for having no REP. If the case is a strong one, REP should be re-designed to minimise its cost and damage, within the political and Community constraints. [In this context, incidentally, shouldn't Ministers look hard at the political map? Why tax their own supporters to subsidise areas of the country whose cultures are predominantly socialist, anti-business, heavily unionised, lacking in entrepreneurship?]7

In regard to (3), the prospect of reducing the costs associated with REP is lost in the two papers for consideration tomorrow. Mr Brittan's paper puts the matter the wrong way round, observing (para 5) that "it is sensible to assume that significantly greater resources for regional policy are unlikely to be available". Mr Jenkin's paper (MISC 14(83)9) is a menu without prices. I believe that in practice, his approach could cost much less, because it would lop off the deadweight costs of supporting many manufacturing projects which would go ahead anyway, and would impose a cost per job limit. Its proposed initiatives for new firms are likely to be fairly inexpensive. But anything new we might press for on services could cost rather more because we would not want them to be confined just to what DoI refers to as 'mobile services' (eg data processing centres). As Alan says, the alternative to investing in services in assisted areas can be not to invest at all. Our concern should be to define the criteria for support for manufacturing projects (cost per job, additionality) tightly enough to leave enough funds for wider support for services and

to reduce the cost of REP. The discussion of costs should also expose the hidden elements of REP expenditure (in BSC, BS, NCB etc).

The other strand to this is the Urban Policy expenditure. Throwing money into the black holes of our old industrial cities is almost a parody of REP. Inner cities fail for many of the reasons that regions fail. But the Department of the Environment has wriggled clear of this review. Mr Jenkin is understandably aggrieved, and is unlikely to accept willingly any further substantial reductions in REP expenditure if Mr King is to spray the proceeds into economically exhausted inner cities. You should therefore support any effort which Mr Jenkin makes to pull this item back into the review process - see his recommendation (v).

Regarding the specific proposals in Mr Jenkin's latest note (para 3)

(i) No, the statement should not be made, at least in the form proposed. Officials have an exaggerated fear that investors will melt away, to Eire or Spain, if there is any hint that changes are afoot. They overlook the fact that many investors will come here anyway, regardless of grants, and that some capital-intensive companies who might choose not to if we imposed cost per job limits, are not worth attracting at the present cost of RDGs. The statement could make it difficult for this Government to make early progress on reforming REP eg imposing cpj and removing automatic regional grants.

(ii) Yes, let officials explore alternative grant schemes but avoid a clear steer at this stage: the DoI's annex A is far too muddled, and threatens to carry into REP the arbitrariness of its innovation policies: what for example, is the distinction in para 6 between 'restructuring through new technology' (good) and 'modernisation' (bad)? Job-related grants should not be ruled out.

(iii) Yes, small firms policies are our favoured instrument for REP: small firms are non-unionised and stand a better chance; and lack of entrepreneurs in the anti-business cultures

of the assisted areas is a central problem.

(iv) No, it is still too early in this review to start tinkering with institutions.

(v) Yes, but the work should be done concurrently with, and have a bearing on the rest of the work officials will be doing and not "on a longer term timescale".

n.o.
NICHOLAS OWEN