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Rt Hon Cecil Parkinson MP
Secretary of State for Trade & Industry

cc Chief Secretary
Financial Secretary
Economic Secretary
Mr Middleton
Mr Bailey
Mr Battishill
Mr Christie
Mr Rickard
Mr Ridley
Mr Chivers
Mr Anson
Mr Lovell
Miss Low

[27] July 1983

The Prime Minister's decision to defer consideration of the second Report on Regional Policy until September gives us more time to develop our thoughts on these important issues. But this has implications for the proposal in your letter of 1 July to Willie Whitelaw that Clauses governing possible changes in the Regional Development Grants system should be prepared for incorporation in the Co-operative Development Agency Bill, which QL has recommended for inclusion in the 1983-84 legislative programme. Normally drafting of the necessary clauses would not be put in hand until the underlying policy has been decided.

2. You mentioned to me your concern that the postponement of the policy discussion might inadvertently result in closing the option of legislation in this Session which we might subsequently decide was desirable. As you pointed out in your letter, there are substantial public expenditure savings in prospect, and it would be a pity to deter these because of lack of legislative cover, assuming our colleagues agree on the Report's general recommendations for changing the grant system.

3. I think it is generally accepted that the current system is very cost-ineffective - we want no more Sullom Voes, for example - and the sooner we can move to a more cost-effective system and so fulfil our Manifesto commitment, the better. Nor should we lose sight of the possible benefits to be derived from the European Regional Development Fund by changing the RDG system in the direction proposed in the Report. I hope therefore that you will be able to secure agreement that, exceptionally, contingency drafting should be put in hand so as to keep the 1983-84 legislative option open.

4. I should also like to comment on some of the points made in John Sparrow's letter to me of 19 July. I have a great deal of sympathy with the general thrust of John's comments.



In my view, the economic benefits of regional economic policy are questionable as the first report on Regional Policy recognises. Indeed, from the point of view of the national economy, it is arguable that the policy may well be counter-productive.

5. This gives further strength to the social and political case for modifying the system to make it as effective as possible in generating employment, and for securing substantial savings which can be put to better use elsewhere. In your 1 July letter you suggested a possible potential saving of £100 - £150m. In my view, we should aim a little higher than this. I believe we should set our sights for net savings of at least £200m and I can see scope for achieving still more. However, these possibilities will depend on the outcome of our future discussions. Once the general principles of the revised grant system have been established, much will depend on the levels of grant as well as on the shape and size of the revised Assisted Area map. When we come to these issues, we ought to give serious consideration, along with the other options, to John Sparrow's suggestion for a package which would combine a job grant set as high as possible (within EC constraints) with a low capital grant and a low cost per-job ceiling. This would reduce the bias in the system towards capital-intensive investment, and would be better geared to the creation of jobs.

5. I am sending copies of this letter to the Prime Minister, the Lord President and the Lord Privy Seal, to the Secretaries of State for Scotland, Wales, Northern Ireland, Environment and Employment, and to Sir Robert Armstrong and John Sparrow.

A handwritten signature in dark ink, appearing to read 'Nigel Lawson', written in a cursive style.

NIGEL LAWSON