

①

PRIME MINISTER

In general the White Paper draft seems satisfactory though Nick Owen has suggested a number of points at which the draft could be more forceful in support of change. The main need at present is to stop the territorial departments dragging regional policy back to its present structure - pro manufacturing and pro big incentives for capital intensive inward investment. The Treasury are likely to be resisting this.

Agree the Policy Unit draft suggestions be put to DTI, together with the suggestion at X.

→ ?
Turning &
expenditure
savings?

AT

Yes

ms

18 November 1983

PS: (i) No need to study Annexes.

(ii) Mr Younger's views attached

Region
with
AT 2/1



10 DOWNING STREET

Prime Minister ①

Mr Younger's views as expected.

There are two points where you might want to oppose his suggestions.

No. (i) The 2 square bracketed sentences in para 29 are important and should be retained

(ii) The proposed amendment to para 30 would let in all relocation projects for not selective assistance.

AT

18/11

It is not the policy change which leads to cash reduction but the extent of the areas & the % grants - ~~the extent of the areas & the % grants~~
~~2.2.11 - 1.10.11~~ p. 10

The point is much
better put later in
the same para. - and I
would keep that. The
same budget sentence
can go. ~~not~~

DRAFT WHITE PAPER ON REGIONAL INDUSTRIAL POLICYThe pros and cons of Regional Policy

Despite two very lengthy official reports, which pointed towards the conclusion that there is no economic benefit to be gained from regional economic policy - the message of the first fifteen paragraphs of the paper - we have ended up with the mixture much as before - automatic grants, biased towards capital-intensive investment, selective assistance on the woolliest of criteria, and the heavy emphasis on manufacturing. The proposed changes - reduced grant levels, capping the cost-per-job, and admission of a few (unmentioned) service activities - are pretty modest.

The paper goes in pretty hard on regional policy in the first fifteen paragraphs. There will be those who would say that this leads to an unbalanced paper - one that demolishes the case for a regional policy at all, and then going on to propose a revised one. Our view is that the paper needs to be blunt about regional policy, notwithstanding the Manifesto commitment, in order to win the argument for a substantial reduction in its provisions. To this end the paragraphs 5 to 9 might be sharpened further:

Paragraph 5, third sentence: insert after "good work":

"and a constructive attitude to productivity and industrial relations".

There is no point in inviting views on the effect of variations in wage rates if, in the next sentence, we point out that there are hardly any!

Paragraph 7: delete from fourth sentence onwards. There is no real evidence to support the need for this kind of "social engineering"; Bournemouth might also be said to have a "dependent" population in the sense implied here, but it poses no regional problem. And why should people be persuaded to live where infrastructure already exists? Surely infrastructure should respond to demographic changes? We would prefer a more positive statement here, along the lines of:

CONFIDENTIAL

^{wish to facilitate}
"the Government are determined to promote greater mobility, by removing some of the rigidities in the planning system, through their housing policies, and their approach to portable pensions. However, these initiatives will take time to have effect. They cannot be relied upon, at least in the foreseeable future, as the complete solution to regional imbalances in employment opportunities".

Paragraph 11, last sentence: replace by:

"Inward investment in particular, can improve national wellbeing through its contribution to output and employment, provided that the incentives, [which represent transfers to foreign managements,] are not excessive in relation to the net contribution of these projects."

Point can be made
without [].

Paragraph 14, second sentence: add:

" which crowd out other activities in the economy generally".

The Proposals

As to the proposed changes themselves, our main reservations are first that the new scheme will continue to offer an open-ended support for "modernisation" as distinct from "replacement". This distinction lies largely in the eye of the DTI: it is difficult to imagine a management replacing its equipment without modernising it, unless it was lovingly restoring Victorian industrial museums! We would suggest that in

Paragraph 27 (a) the reference to modernising should be tightened up in some way, possibly along the lines of "fundamental modernisation of an existing business".

Services

Our second misgiving concerns the lack of any specific reference in the draft to the service activities which would henceforward be allowed to qualify. Regional policy is fixated on manufacturing, even though service industries are likely to be a more substantial source of new jobs, and are, we believe, more footloose than the DTI is prepared to allow. There ought to be an explicit welcome to the public's views on which service activities might be suitable.

British Technology Group

Lastly, we do not think that the paper should invite comments on the regional investment role of the British Technology Group, at Paragraph 33. It was agreed that the BTG should henceforward

CONFIDENTIAL

concentrate on its primary, technology transfer role, and that its investments should be disposed of as soon as possible. The invitation should instead relate to ways in which the BTG can assist innovation in the assisted areas through its technology transfer role.

Timing and Expenditure Savings

X The draft closes off an option to accelerate the savings which the proposals make possible. At paragraph 38, it announces that all changes should be introduced simultaneously. It is open to the Government to exclude replacement investment from automatic RDGs from 1 January 1985, without legislation, in fulfilment of a commitment to the Commission to do so. This would realise savings at the rate of £70 million a year, 6-12 months before the new arrangements are finally in operation.

If the Prime Minister agrees, this suggestion might be put to Mr Tebbit. It would complicate the transitional arrangements but it would simultaneously fulfil a Community commitment, remove dead weight from regional support, and accelerate expenditure savings.

NICHOLAS OWEN

FILE

EA: HMT
NIO
D. Energy
SO
WO
DOE
LPSDTI
CDL
D. Emp
MAFF
Chief Sec
D. Trans
CO

10 DOWNING STREET

M: M. OWEN

From the Private Secretary

21 November, 1983

DRAFT WHITE PAPER ON REGIONAL INDUSTRIAL POLICY

The Prime Minister is generally content with the structure of the draft. She would, however, like a number of drafting suggestions to be considered. These are set out in the attached note.

She has noted that in paragraph 38 it is intended to make all the changes simultaneously. She wonders whether replacement investment could be excluded from automatic RDGs from 1 January, 1985, without legislation. This would release savings at the rate of £70 million a year, 6 - 12 months before the new arrangements are finally in operation. While she recognises that this would complicate the transitional arrangements it would simultaneously fulfil a Community commitment, remove deadweight from regional support and accelerate expenditure savings.

The Prime Minister has commented on the lack of any specific reference in the draft to the service activities which would henceforth be allowed to qualify. She feels there ought to be an explicit welcome to the public's views on which service activities might be suitable.

She doubts whether the White Paper should invite comments on the regional investment role of the BTG, as in paragraph 33. It has been agreed that the BTG should henceforth concentrate on its primary, technology transfer role and its investment should be disposed of as soon as possible. The invitation should instead relate to ways in which the BTG can assist innovation in the assisted areas through its technology transfer role.

The Prime Minister has also seen the comments of the Secretary of State for Scotland. She feels that any reference to the incentives for inward investment, as in paragraph 11, need to be counter-balanced by a reference to the need to ensure that these incentives are cost-effective. She agrees that in paragraph 29 the square bracketed sentences can be omitted as the point is adequately expressed later in the paragraph.

- 2 -

In paragraph 30, she feels that the amendment suggested by the Secretary of State for Scotland would, in effect, make all re-location projects eligible for selective assistance as virtually all re-location will involve some element of re-structuring and rationalisation.

I am sending a copy of this letter to the Private Secretaries to the members of EA and to Richard Hatfield (Cabinet Office).

(Andrew Turnbull)

C. McCarthy, Esq.,
Department of Trade and Industry

DRAFTING SUGGESTIONS ON WHITE PAPER ON REGIONAL INDUSTRIAL POLICY

Paragraph 5: third sentence: insert after "good work":
"and a constructive attitude to productivity
and industrial relations". ✓

Paragraph 7: delete from fourth sentence onwards and replace
by: "The Government wish to facilitate greater
mobility, by removing some of the rigidities ✓
in the planning system, through their housing
policies, and their approach to portable pensions.
However, these initiatives will take time to have
effect. They cannot be relied upon, at least
in the foreseeable future, as the complete
solution to regional imbalances in employment
opportunities."

Paragraph 11: last sentence: replace by: "Inward investment
in particular, can improve national wellbeing
through its contribution to output and employment,
provided that the incentives are not excessive
in relation to the net contribution of these
projects."

Paragraph 14: second sentence: add: "which crowd out other
activities in the economy generally."

Paragraph 27(a): the reference to modernising should be
tightened up in some way, possibly along the
lines of "fundamental modernisation of an
existing business."

21 November, 1983