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PS/Secretary of State for Trade and Industry

2 December 1983

Andrew Turnbull Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

*Dear Andrew
with AT/PM*

On 30 November, my Secretary of State wrote to the Prime Minister enclosing a revised draft White Paper on regional policy.

2 Since then we have heard that the Chancellor of the Exchequer has made a few suggestions for amendments and officials here and in the Treasury have therefore had further discussions about possible further changes. As a consequence, Mr Lamont, in the absence of my Secretary of State, has suggested a rewording of paragraphs 4-7 and 12. Attached are copies of the relevant pages with the changes in square brackets.

3 I hope that the Prime Minister will be content with these additional proposals.

4 I am copying this letter to the Private Secretaries of members of E(A) and to Richard Hatfield (Cabinet Office).

*Yours etc
Steve*

STEPHEN NICKLEN
Private Secretary

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INTRODUCTION

The Government are committed to maintaining an effective regional policy to ease the process of change in areas which have been dependent on declining industries and to encourage new businesses in those areas.

2 Hitherto the main measures in support of regional policy have been directed towards alleviating imbalances in employment opportunities. Nearly £20 billion (at 1982 prices) has been spent on them over the past twenty years.

3 But other expenditure programmes have also contributed to this aim. Our modern communication system, which has enjoyed massive public investment since the war, has opened up opportunities for substantial new industrial and commercial development in the regions hitherto associated with the basic industries. There have been policies to stem depopulation of rural areas. More recently attention has been given to stemming the decay of inner city areas; and the urban programme and, latterly, the use of urban development grant is encouraging private sector involvement in industrial and commercial development.

4 There are other national policies which are of special value [in a local context.] These include training schemes to equip the labour force for new technologies; assistance to the development of tourism; encouragement of private sector contribution to regional economic development, notably through organisations such as local enterprise agencies; and also experiments to examine other ways in which local economies can be stimulated, particularly the twenty-five enterprise zones and latterly the proposal to establish a limited number of duty-free trading zones (freeports).

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5 Together with our national policies to stimulate innovative development; to upgrade technology; our support for new firm formation and expansion throughout the country; and our policies for reducing the burdens on business, these all help to create confidence [so that] industry and commerce can flourish with less dependence on public expenditure.

6 [Since 1972, when the present structure of regional industrial incentives was introduced, there have been important changes in our environment. The United Kingdom has become a member of the European Community. Along] with other countries, we have experienced a period of recession and inflation following the oil price rise. Unemployment is now high throughout the country and not just in the Assisted Areas; there are fewer mobile investment projects and increasing competition for them.

7 It is essential to ensure that regional policies are economic and effective in creating genuine jobs. The time is right to review the efficacy of our present system of regional industrial incentives.

Estimates of its effectiveness, though subject to wide margins of error, generally suggest that expenditure on regional industrial policies has had a significant impact on the economies of the Assisted Areas and, in particular, that it has led to about half a million more jobs in these areas. Despite this, there are still significant variations in unemployment levels between regions, and sometimes even sharper contrasts at local level. Taking account of regional multiplier effects, it is estimated that the cost per additional job created in the Assisted Areas in the 1970s was around £35,000 at 1982 prices. Many of the jobs said to be "created" would otherwise have come into existence elsewhere in this country and should thus be described as "transferred".

the planning system, through their housing policies, and through their approach to portable pensions. However, these initiatives will take time to have effect. But labour mobility cannot be relied on as a complete solution as it tends to be the young, the more skilled and the more enterprising who are ready to move in search of work, possibly leaving the less-favoured localities with a still more dependent population and a workforce even less able to climb out of disadvantage.

11 The Government therefore conclude that wage adjustment and labour mobility cannot be relied on to correct regional imbalances in employment opportunities.

The Case for Regional Industrial Policy Today

12 During the 1960s and early 1970s, when labour was scarce in some areas and less so in others, there were restrictive controls on industrial and office development, as well as substantial regional incentives. It was argued at that time that regional industrial policy eased the pressure of demand in the prosperous areas by diverting activity to areas of high unemployment; and that more employment and output could thus be achieved nationally without unacceptable inflation. This argument is *[much weaker]* when there is no general shortage of labour in any region.

13 By influencing the distribution of industry within the country, regional industrial policy helps to reduce regional imbalances in employment opportunities. Regional industrial incentives also enable the United Kingdom to compete effectively for internationally mobile investment. Inward investment projects have brought notable benefits, particularly to Scotland and Wales. They can improve the national economy through their contribution to output and employment, provided that the incentives are not excessive in relation to the contribution of these projects.

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10 DOWNING STREET

From the Private Secretary

5 December 1983

White Paper on Regional Policy

The Prime Minister has seen the latest draft of the White Paper on Regional Policy, circulated under your Secretary of State's minute of 30 November. She is content with the draft and is also content for the White Paper to be published on 14 December.

I am copying this letter to the Private Secretaries to members of E(A) and to Richard Hatfield (Cabinet Office).

MR. A. TURNBULL

Callum McCarthy Esq
Department of Trade and Industry.

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