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10 DOWNING STREET

cc Mr Lamont
Mr Vardar
Mr Scholten -
Mr Smith

Reg Pd

Norman Lamont, Esq., MP,
Department of Industry,
Ashdown House,
123 Victoria Street,
London, SW1.

25 May 1982

Dear Norman

E(EA)(82)13: REVIEW OF ASSISTED AREAS

I have read with great interest your memorandum on this subject and the accompanying report by your officials. I agree generally with your recommendation and I see it as most important from an economic policy standpoint that we stand by our declarations of concentrating on areas of the greatest need and the concomitant but not insignificant public expenditure savings.

I am, however, somewhat concerned about one aspect of the European Community considerations, namely the possibility that it could be difficult to demonstrate that we shall not be able in future to fill our "quota" of receipts from the ERDF. I fully appreciate your reasoning, but bearing in mind the rapid growth recently of the ERDF which is expected to continue, could I put to you one idea that we have had here which might serve to alleviate some of your difficulties.

Special interest has been expressed here on measures which would be aimed to increase the productive capacity and utilisation of the labour force. One particular idea I would like to suggest to you in an ERDF context is that of an explicit regional labour assistance funded by the Community. This would equate in some way to the former Regional Employment Premium which was, of course, withdrawn by an earlier Administration. But instead of a Premium we would see such assistance in the form of a regional reduction in the Assisted Areas in the present employer's National Insurance Surcharge. More important, we believe it should not be discriminatory (like the old SET) but apply to all employees of private firms or agencies. We would exclude only public sector employees.

We think a good economic case can be made for such a reduction. It would attack particular distortions now evident in the labour market caused by the present tax-benefit system by reducing labour costs in areas where this distortion appears heavily discriminatory against the unskilled and low-paid. Since regional wages cannot drop below national benefit levels, there is at present no mechanism to reduce wage costs to get such immobile workers back into jobs. It should be possible to provide estimates of the

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- 2 -

cost per job created. The proposal should therefore be seen not as a subsidy, but as a positive means of removing distortions, bringing about more competition and increasing employment opportunities.

Perhaps you will give me your reaction to this suggestion.

I am copying this letter to James Prior, George Younger, Nicholas Edwards, Douglas Hurd and Adam Ridley.

James Prior
Alan Walters

ALAN WALTERS

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