



I have spoken to J. Kew.

FERS

1.8.

Prime Minister

(4)

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

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

*I am concerned that the letter will be cancelled and its circulation will be less than 25/2. We must be more circumspect.*

27 July 1983

*Handwritten signature*

*Parliament, -  
Legislation,  
P411*

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.





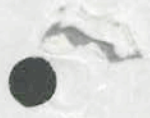
In my view, the economic benefits of regional economic policy are questionable as the first report on Regional Policy recognises. Indeed, from the point of view of the national economy, it is arguable that the policy may well be counter-productive.

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.

NIGEL LAWSON

27 JUL 1984







SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

*John*

Prime Minister (2)

CONFIDENTIAL

The Rt Hon Cecil Parkinson MP  
Secretary of State  
Department of Industry and Trade  
Ashdown House  
123 Victoria Street  
LONDON SW1

Too much "balance".

MUS 29/7

28 July 1983

Dear Secretary of State,

*ms*

I have seen Nigel Lawson's letter to you about the Second Report on Regional Economic Policy. I see the advantage of keeping open the option of legislation this session, and for my part therefore I would be content if contingency drafting went ahead despite the absence of the underlying policy decision.

*with mcs?*

I must however take issue with the suggestion made by Nigel, in commenting on some of the points made in John Sparrow's letter on the Report, that from the point of view of the national economy regional policy may actually be counter-productive. The review of regional economic policy was conducted very thoroughly over a long period by an inter-departmental committee under Treasury chairmanship - the Quinlan Committee - who arrived at a balanced conclusion about the economic and the social and political effects of regional policy. We ourselves considered the Quinlan Report in February and March of this year and did not challenge its conclusions on this critical matter. I am therefore concerned that the assertions in the second half of Nigel's letter should not pass unchallenged. When we come to consider regional policy again in the Autumn our starting point must be the inter-departmental reports we have commissioned - the basic document (the first or Quinlan Report) and the second report which developed further some of the issues opened up by Quinlan.

I am copying this letter to Nigel Lawson and the other recipients of his letter.

Yours sincerely

*[Signature]*

APPROVED BY THE SECRETARY OF STATE  
AND SIGNED IN HIS ABSENCE

Reg Pol  
Review  
A75

Two

29 JUL 1963

