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SWYDDFA GYMREIG

GWYDYR HOUSE

WHITEHALL LONDON SW1A 2ER

Tel. 01-233 3000 (Switsfwrdd)
01-233 6106 (Llinell Union)

Oddi wrth Ysgrifennydd Gwladol Cymru



WELSH OFFICE

GWYDYR HOUSE

WHITEHALL LONDON SW1A 2ER

Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)

From The Secretary of State for Wales

The Rt Hon Nicholas Edwards MP

5 October 1983

Dear Chief Secretary,

REVIEW OF REGIONAL ECONOMIC POLICY
E(A)(83)11 AND 12

I have seen your memorandum and also that by Cecil Parkinson which we are to discuss in E(A) on 6 October.

I agree that we should seek a more cost effective regional policy than the present one so that the overall cost of the policy may be reduced. But it is mistaken to assume that the benefit of regional economic policy is just social and political; the fact is that our worst areas of industrial decline will impose an increasing burden on public resources unless we can regenerate their economies and so induce commercially viable development. Industry will be looking to us to ensure that what replaces the present system is effective in helping manufacturing and service industry in the regions to be strong and competitive in today's conditions. Cecil's memorandum covers many of the points which concern me as a regional Minister and I would go along with his general approach.

In particular, I agree with him that, for inward investment in particular a selective assistance system will not on its own be enough. To be effective the new scheme for regional assistance must contain a significant element of automaticity and predictability which companies can take into account in the early planning stages of their projects. I strongly support Cecil on the importance of continuing to attract mobile international projects. Our current incentives are not at the upper end of those obtaining elsewhere in the EC. In my letter of 5 August (attached) I drew attention to this aspect in particular. My recent visit to North America left me in no doubt of the importance of retaining cash incentives to offset the relative unattractiveness of our capital taxation arrangements.

/Unless we

The Chief Secretary
HM Treasury



Unless we can compete effectively with others in the field, projects will be lost and the national economy will suffer along the regions.

I also share Cecil's views about job grants. It seems to me that Anson has gone about as far as we should on this. Job grants may be useful but it remains as important as ever that our manufacturing industry should be modern and competitive in its labour costs, in the Assisted Areas as elsewhere.

I agree too that the work should be taken forward as proposed, but am doubtful about the wisdom of fixing rigid financial targets at this stage. It was partly on that account that the 1979 review left us with a map that is now hard to defend. I am also reluctant to commit ourselves to a policy which would confine automatic grant to travel to work areas with the highest rates of unemployment or industrial decay. I fear that redrawing the map too tightly would merely serve to exclude attractive locations with better prospects for growth with the result that the areas which we had designated as being in greatest need of investment would fail to attract it. Regional Policy should be designed to maximise the attractions of a region and help industry establish itself in the best locations within it rather than force it into pockets of high unemployment that may not be suited to modern industrial needs. Indeed it is arguable that a two-tier map should provide automatic aid in both tiers with additional selective inducements in the inner tier. We ought not to exclude that option. I also agree with Cecil that the map will need to ensure that we maximise our take-up of ERDF and other EC grants.

I am sending copies of this letter to the Prime Minister and other members of E(A) and also to Sir Robert Armstrong.

Yours sincerely,
Leighton Dawson

Approved by the
Secretary of State
and signed in his
absence

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Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 6106 (Linell Union)



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From The Secretary of State for Wales

The Rt Hon Nicholas Edwards MP

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5th August 1983

Cecil

REVIEW OF REGIONAL POLICY: ANSON REPORT

We are due to discuss the Anson report in September, and I am very anxious to be present at that meeting. Nevertheless, in view of the correspondence so far, there are one or two comments I should like to make now.

I agree that we should keep open the option of legislation this Session, but I am anxious that we should fully discuss the merits of the recommendations in the Anson report before forming any view on future expenditure levels. Our primary aim should be to find a regime that is effective and stable. I do not dispute the desirability of making public expenditure savings. My colleagues will remember that it was I who argued as strongly as any for reducing the subsidy to highly capital intensive projects such as Sullum Voe. But I am sure that we should give a fair hearing to the proposals in the report to making regional policy more effective, (as well as those for reshaping the RDG/SFA scheme). I refer particularly to the recommendations for improving incentives to service and innovative industries in the regions. These proposals are relatively speaking not very costly and are highly relevant to the aim of improving the performance and self-reliance of regional economies; and I believe they might do so without seriously distorting the national economy. We are, of course, committed to maintaining "an effective regional policy", since we all see this as essential to ease the process of change and encourage new businesses in areas which have been dependent on declining industries. Such measures could help in this aim.

/I am unhappy

The Rt Hon Cecil Parkinson MP
Secretary of State for Trade and Industry



I am unhappy about the argument that it is somehow a bad thing to encourage capital-intensive firms in the regions and a good thing to encourage labour-intensive firms. We have consistently emphasised the need to improve national productivity and competitiveness, and this goes for service as well as manufacturing industry. I am therefore not clear why it is now being suggested that we should seek to aid firms in the Assisted Areas in a way which actively encourages them to increase their labour costs. I wonder what kind of labour-intensive firms are capable of standing up to competition and providing a secure basis for a long term improvement of employment in the regions, and I should be interested to hear the comments of those who support this suggestion. For my part, I think it more likely that such a policy would encourage the kind of projects or enterprises which do not compete effectively as to price or quality; these are precisely the sort of activities with which the disadvantaged regions are already afflicted.

I am also concerned about the effect on possible inward investors. The changes now proposed in the Anson report will themselves be significant and difficult to present effectively, since the scheme will be more complicated than the present one. I must say I am reluctant to compound this by shifting towards job-related grants to the degree suggested by John Sparrow. To signal a change of this kind might adversely affect inward investment and could lead to many potential overseas investors failing to enquire further about the incentives and to take their projects to other European countries. Our present package enables us to offer modern factories in pleasant surroundings to small and medium sized high technology firms looking for significant financial assistance with the capital costs of setting up a modern and competitive operation. Unless these companies can immediately see how much grant towards capital costs they can rely on (and 10% I think will be too low), they may well lose interest in the UK as a possible location. That would diminish the effect of regional policy and indeed it would be the national economy not just the regions that would suffer. I fully share George's concern about the assertion in Nigel Lawson's letter that regional policy has questionable benefits and may even be counter-productive to the national effort. The first report of the interdepartmental committee, whose conclusions and recommendations we largely endorsed in February and March, was clear that there remained a strong general case for a substantial regional policy and no evidence could be adduced to substantiate the arguments that national economic objectives were being compromised or damaged. I do not believe that we should now be deflected into further discussion of the underlying arguments.

/r am sending



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I am sending a copy of this letter to the Prime Minister, the Chancellor of the Exchequer, the Lord President, the Lord Privy Seal, the Secretaries of State for Scotland, Northern Ireland, the Environment and Employment, and to Sir Robert Armstrong.

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