

MR. TURNBULL

E(A) DISCUSSION OF REGIONAL POLICY

General Objective

1. The Prime Minister's first objective in the meeting will be to secure agreement that substantial savings should be achieved. Treasury, DTI and Department of Employment agree that regional policy has doubtful economic value and warrants fewer resources. The Territorials will, of course, resist this, and will try to secure compensation for reductions in RDG levels and eligibility.

endorsed  
by Mr Gregson  
para 12

See  
Mr Edwards  
letter

2. Their arguments can be firmly resisted:

- RP does not increase jobs in the UK; it merely redistributes them;
- by pushing industry towards less preferred locations, RP probably reduces overall national efficiency;
- RP isn't very cost-effective at steering jobs to the regions (perhaps £50,000 per net job). These costs choke off jobs elsewhere in the economy;
- the problems of many assisted regions persist, despite decades of RP;
- inward investment can be a benefit, but not if we pay foreigners too much for it.

Savings Target

3. The Chief Secretary proposes savings of £200 million - a figure which already allows DTI substantial offsetting increases (£60-£85m a year) in regional selective assistance. Mr. Parkinson appears to envisage savings of only half this level. If we are not careful, the savings achieved from reductions in automatic grants will be frittered away on "schemes" dear to DTI's heart. We must go for savings of £200 million.

/RDG Options



RDG Options

- 4 Mr. Rees suggests that the new RDG options should be considered separately and that a wider range of options should be considered. Mr. Parkinson wishes to exclude one of these immediately - the jobs-only grant. Most of his reasons for doing so are bogus: the labour grant would make labour cheaper in the "regions", simulating the effect which a properly functioning labour market would produce. However, it would be difficult to introduce legislation without having resolved whether the new scheme would be entirely capital or entirely labour based. Tactically, it is important not to dismiss this option without securing some agreement that the new scheme must avoid a strong bias towards capital. The DTI's preferred scheme (involving a capital grant of 20%, a cost per job limit of £12,500 and a job grant of £3,000) would only offer job grants to a tiny proportion of regional investment (labour intensity more than double the average). If the jobs-only grant is dropped the Treasury wishes to substitute another job-orientated option (with a maximum cost per job of £5000) which we would wholeheartedly support. We would advise that the Prime Minister ensures that this option is firmly recorded in the minutes for inclusion in the next discussion.

Selective Assistance

- 5 We advise that the Prime Minister should resist the proposal in paragraph 9 of the DTI paper - to increase support for "desirable modernisation which safeguards jobs". DTI proposes to top up automatic grants for new investment with selective assistance and offer assistance, up to the same overall cost per job of these two measures combined, for "desirable modernisation". This is an open-ended commitment: which company could not claim that its investment was "desirable" and that it "safeguarded jobs"? How could the DTI know whether this was true or not? And in any case, even if it was, why should the Government subsidise companies to do what is sensible and obvious: those companies which are efficient and viable will modernise in any case.
6. All selective assistance falls foul of this point; if projects are any good, companies will go ahead with them anyway; and if projects are not sound, why should we want them?

/We suggest



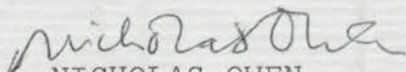
We suggest allowing selective assistance for "modernisation" only up to the cost per job limit which is agreed in the new RDG structure.

Innovation

- 7 Mr. Parkinson also proposes to introduce a degree of regional differential in the support for "innovation" schemes, eg 50% grants, rather than 33%. It is very odd that Mr. Parkinson should come forward with such ideas in a review designed to achieve savings. We suggest greater regional emphasis in existing schemes but without raising the levels of grant.

Timetable

- 8 Mr. Parkinson's proposals on this look sensible, except that it seems unwise to invite views on grant levels and assistance schemes. An invitation of this kind will lead to clamours for additional expenditure from all quarters of the country. We would suggest that a White Paper should not have 'green edges'. Far better to indicate firmly that the Government intends to reduce the levels of grants which are automatically available; make the structure of RDGs more job orientated; and revise the map, on the basis of simple criteria. Officials could be asked to begin preparing it on the basis of local unemployment data already available.

  
NICHOLAS OWEN  
5 October 1983