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Heseltine's lessons from the jungle won't help the regions [1]

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This week the UK former deputy prime minister Lord Heseltine will present a report on boosting economic growth in Britain's regions. The fact that the report is 80 pages long and has taken six months to compile is surely evidence that its analysis and conclusions are far too complicated. It is actually pretty obvious what is holding back growth, not just in Britain's regions, but all over.

Lord Heseltine, who as a business minister promised to 'intervene before breakfast, dinner and tea' is expected to propose the following.

1) Tax credit changes to encourage businesses to spend more money on research and development, and on developing skills.

Here we go again. Experienced business people make perfectly rational decisions on how much to invest in their future products, based on the cost of that investments and their predictions of its likely effectiveness in winning new business ? but politicians tell them they are wrong and that they ought to spend more. It seems so obvious: how can anyone be against spending more on research and skills development? But the fact is that these things have certain costs and uncertain benefits, and business people have to make their own judgement about whether the risk justifies the cost. And the fact is that companies right now are sitting on cash and not investing it for perfectly sound reasons ? they cannot see where the new business is likely to come from. Economic growth in Europe is flatlining. Consumers are doing what governments ought to do and are paying down their debt rather than spending like they did before. It is wrong to use the tax system in an attempt to suspend reality.

2) A big boost to the £1bn Regional Growth Fund, set up by the present government to help regional businesses.

And funded by whom? From the taxes, of course, paid by individuals and lots of other businesses in those same regions and elsewhere in the country. And as those taxes rise, business people find their budgets being squeezed as demands come in for VAT, national insurance, PAYE, the rates and all the rest. At best they decide not to hire any new people: at worse they have to lay workers off; at worst they cannot make the books balance and the business closes. But of course everyone sees the grants and loans made by the public bodies, while nobody notices the hundreds and thousands of small businesses crippled by over-high taxes. The policy is like quietly drawing water out of one side of lake, taking it round to the other side (spilling some on the say), and throwing it in with great fanfare, crowing about how much you are raising the level.

3) A wider role and more funding to Local Enterprise Partnerships, bodies comprised of business people and local authority officials.

You do not need vast funds to make local authority officers get up from their desks and find out what local businesses actually need. Nor to get business people to represent their concerns to local authorities. All top-down, enforced 'partnerships' are the same: they become a talking-shop between people who have the time and patience to talk. Most business people, however, are far too busy for such bureaucracy. The old Regional Development Authorities were a case in point. Everyone engaged in them thought they were wonderful, and enjoyed spending the taxpayers' money. Most others thought them a complete waste of time and energy. This policy will do no good at all.

4) Scrapping dozens of district councils in order to simplify local government.

An odd policy, given the government's aim of getting decisions made more locally than they are at the moment. It is a return to (or perhaps an extension of) the existing centralism and giantism that exists in local government ? a trend consolidated by the creation of super-authorities in the early 1970s. But larger local government bodies do not mean greater efficiency. Rather, they mean more distant decision making by people who inevitably, because of the size of the organisation, think more bureaucratically and less locally. There is a case for shedding a tier of local government, certainly: the present structure is confusing and allows many a buck to be passed. But with today's technologies the case is to have smaller authorities, not larger ones. Small organisations can still do big things, if they do them together. The trouble with big organisations is that they are very bad at doing small things or dealing with individual cases.

So what, then, do we really need to pull Britain's regions out of the doldrums?

We could start by lowering taxes on businesses ? things like national insurance, company and capital taxes ?and lowering them for good. Some people say that this would be folly because the government is already spending more than it rakes in through taxes. But you do not lower a deficit by raising taxes: that just smothers trade and economic growth. As the Nobel economist Milton Friedman pointed out, governments spend everything they collect in taxes, then as much as they can get away with. Higher taxes just mean bigger government and less careful spending ? as well as more grandstanding politicians and more interventionist reports.

A second growth strategy is to slash the regulation on businesses ? particularly regulation on small businesses and particularly all the workplace regulation that has been imposed in the last fifteen years. Perhaps the easiest strategy would simply be to exempt small businesses from it all entirely. The trouble is that workplace regulation like the Social Chapter provisions, the working hours rules, and maternity and paternity conditions have been imposed largely as the result of EU directives and regulations. So those who want to reduce workplace regulations in the UK find themselves hitting the brick wall of the UK's EU membership. And there are, of course, many positive benefits to EU membership. Yet the weight of this regulation has, in recent years, arguably turned the balance negative. It is another good reason (along with the banking and budgetary integration that is the only way to hold the euro together) to renegotiate the UK's relationship within the EU ? something that Lord Heseltine would hate. But there are signs that such a renegotiation may not be far off.

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