



Select Committee on Economic Affairs

Corrected oral evidence: Employment and Covid-19

Tuesday 29 September 2020

3 pm

Watch the meeting: <https://parliamentlive.tv/event/index/2c938a0f-4909-4f2d-b061-f6d193d15342>

Members present: Lord Forsyth of Drumlean (The Chair); Baroness Bowles of Berkhamsted; Lord Burns; Viscount Chandos; Baroness Kingsmill; Lord Monks; Lord Skidelsky; Lord Stern of Brentford; Lord Tugendhat.

Evidence Session No. 7

Virtual Proceeding

Questions 53 - 57

Witness

I: Rt Hon Michael Heseltine CH.

USE OF THE TRANSCRIPT

1. This is a corrected transcript of evidence taken in public and webcast on www.parliamentlive.tv.
2. Any public use of, or reference to, the contents should make clear that neither Members nor witnesses have had the opportunity to correct the record. If in doubt as to the propriety of using the transcript, please contact the Clerk of the Committee.
3. Members and witnesses are asked to send corrections to the Clerk of the Committee within 14 days of receipt.

Examination of witness

Lord Heseltine.

Q53 **The Chair:** Lord Heseltine, welcome to the Economic Affairs Committee. We are extremely grateful to you for taking time to join us in our inquiry.

Perhaps I may begin by asking the first question: what do you think should be done to reboot our economy and save so many of the jobs that are threatened by the Covid measures?

Lord Heseltine: First, let me say I am very flattered that you should ask to hear my views.

Going on to your question, the first thing I would say is that my knowledge is based entirely on what I read in the newspapers or hear from friends. I have no contacts inside the Government, so if I say things that are not substantially reflective of what the Government are actually doing, that is because I have not been at the receiving end of a communication from them.

We are in the middle of a double-whammy crisis. The first is, I believe, relatively short term because you can see an end to it—the Covid threat to world economics. A vaccine, which I would hope to see next year, should enable us to come out of that.

The underlying crisis is, of course, Brexit, which, added to the uncertainty of Covid, has injected massive uncertainty into our future. We all know the words that have been used to describe it, but there is absolutely no substance behind any of them. We do not know whether there will be a deal. We do not know what sort of deals we can do outside the European Union.

There seems to be no awareness in central government of the urgency of putting in place the structure of an industrial strategy to cope with our problems. Over the years, I have written and submitted to your Lordships documents on industrial strategy and competitiveness policy, and on devolution, all of which are interwoven, so I have, if you like, an agenda of my own and it is a very long way away from the Government's.

The Chair: The Committee is particularly interested in the work that you did in creating employment opportunities in the face of the recessions that we experienced in the 1980s. The Committee would be very interested in how you think we can deal with the many jobs that will be at risk because of the measures that are being introduced as part of the Government's policy on coping with Covid.

Lord Heseltine: The lesson that I learned in 1981 particularly, in the period when I spent 18 months acting as a sort of clerk of works for projects in Liverpool, is the absence of effective local leadership and the overbearing dominance of London in the decision-making processes.

The overbearing dominance of London is worse when you look at the structure of government in London, where you have 20 baronies of power

and very little interrelationship. This is a structure unlike that of any of the other major world economies with which we are broadly comparable. There is no driving mind working out what is in the best interests of industrial and economic strategy other than the Treasury. The Treasury has a classic counting-house approach, which I understand but do not totally sympathise with—it has to ensure that the money is there and all that—but the rest of government is unco-ordinated.

When I spent all that time in Liverpool, I learned that, with the authority of a Cabinet Minister, I was able to see things as they were on the ground and co-ordinate the necessary forces, including those of central government, to try to make things happen. They were very dark days, but those lessons of drawing together the public and private sector, drawing together the strengths of different government departments and local departments, and introducing choice and competition in the allocation of funds, were absolutely fundamental to what I learned.

In August 1981, because there was such a lack of confidence locally, I felt the only thing I could do to try to engender confidence was to produce a shopping list of some 30 schemes that were essentially all local. I then spent 18 months making them happen, because if I had not they would not have happened.

That is the basis of what I learned in Liverpool. We created the International Garden Festival, with government intervention, to deal with toxic land. We had created the urban development corporations to bring the private and public sector together and to co-ordinate funding and planning with land assembly.

Out of that came the second big leap forward in the 1990s. In Liverpool, I was dealing with derelict land. In my city challenge of the 1990s, I dealt with council estates of perhaps 10,000 to 20,000 people, but the same lessons were learned: a central organisation; a discrete organisation to try to help; competitive allocation of funding so that you drove up the quality, allowing 30 local authorities to bid and only 10 to win; and the involvement of all the local participants—the tenants, the teachers, the police and the forces of wealth creation—in looking at these acute problems of social deprivation.

Again, they worked, but, of course, that led on to looking to see how Governments were structured. From that, it was a relatively small leap forward to realise that most international countries—our competitors—have local mayors, local executive power and the ability to co-ordinate their economies based on the SWOT analysis—strengths, weaknesses, opportunities, threats. We have nothing like that in this country. It was my privilege to work with David Cameron's Government, and particularly with George Osborne, where we managed to create six conurbation mayoral authorities. That was a big leap forward, but the progress since has been relatively limited.

The Chair: I do not want to put words into your mouth, but do you think that the Government ought to have a new challenge funding scheme

where local authorities can bid according to their own knowledge of what is happening on the ground? Is that what you would suggest the Government do?

Lord Heseltine: George Osborne created a single pot of, if I recall, £2 billion a year for six years. Alongside that there was the regional funding from the European Union. The single pot has gone, because the barons hated the idea that some of their skills, housing and transport money had been hypothecated by the Treasury into this bidding process. That has come to an end, and that is very sad.

However, the mayoral authorities have been asked to do an industrial strategy, which I think is quite right, but there is no government machinery locally to co-ordinate the response of central government. If the local mayor wants to work out how to make his industrial strategy work, he has to phone perhaps eight or nine different government departments to get answers. This is completely unco-ordinated.

It is not just a question of the challenge funding, although I am very keen on that because I believe, first, that it drives up quality and, secondly, that you can associate it with gearing. The first thing you say is, "We will give you some of the money, but we want to know what you will add to it, what the universities will add, what the private sector will add, what foreign investors will add, so put to us the best package you can".

Again, I found extraordinary results of that challenge process. Of course, there was an outcry from those who lost, but they immediately went off to find out how the people had won, and in the second round the quality soared.

The Chair: Indeed, I remember it well.

Q54 **Lord Tugendhat:** I should have liked to pursue that further, but let me come back to the agenda.

The Government have come into power with a variety of policies. To what extent should existing employment and support policies, such as the job support scheme and the extension of the loan schemes, be used to pursue other government objectives such as the levelling-up agenda, as distinct from pursuing the current issues—Covid and the Brexit points to which you drew attention earlier?

Lord Heseltine: I think it is important to look at both components of your question, the Covid component and the levelling-up agenda. I have never been a critic of the Government's Covid policies. It is easy to do that and easy to find things that you could do differently, but, as someone sitting outside it, without all the professional briefing and with no scientific knowledge, I give the benefit of the doubt to the Government in what is an appalling situation.

That is not the same agenda as levelling up. I personally would not use the phrase "levelling up", because it is very difficult to see how you level

up without levelling down somebody. If you will rebalance, it means in effect that London will be held back to bring up the statistics. You will never make a success of an economy by holding back the most successful core part of it.

The agenda I liked was the one that said that we will level up the powers of the conurbation mayors to those of London. That seemed to make absolute sense to me, but I have seen no evidence that it has happened.

Much more important than the actual structure that is implied in that is the devolution of the decisions about money. This is where I think the Government, frankly, appear to have no real understanding of what is necessary. You can take the individual ideas of Covid that you mentioned, but you need to see them on a much wider scale. They should be saying to the conurbation mayors, "Look, you know the strengths and weaknesses of your local economies. You have the interrelationship of the public and private sectors through the LEP arrangements and through your own experience and knowledge. You tell us what you think you could do to make your economy more effective". Of course, that will have the effect of levelling up and of course it will play a role in the fight against Covid, but this is a much longer-term strategic phenomenon.

The place you start is in skills and education. If you read the inspectorate reports of our education system, you see chilling references to an atmosphere of tolerance of failure over the years in certain parts of our education system. The skills agenda is top down when it should, essentially, be based on the knowledge and experience of the people living in areas, who know what jobs they are creating, what futures their companies have, what the public sector will require.

The Government should make available access to these public funds to stimulate, at the local level, gearing, exploitation of opportunities and a profound local appreciation of what opportunities they have or they could have. That should be the basis upon which the Government allocate a lot of their spending on housing, transport, and skills and education. There should be no presumption that civil servants in London designing schemes that seem sensible to Ministers should be imposed on local economies.

Q55 Lord Stern of Brentford: Thank you, Lord Heseltine, for joining us.

I want to take the discussion on skills and productivity a little further. If you look at the UK in relation to G7 and other comparators, we are, on the whole, low in skill, low in productivity and, in terms of fractions of GDP, low in R&D and investment. Many Governments have struggled with that problem.

Can you help us to understand how and why they struggle and how we might move from a lower-skills to a high-skills economy, particularly thinking about the investment of private firms in the skills of their workers and in R&D?

Lord Heseltine: In a sense, I would find myself repeating a lot of what I have said, because trading up, improving skills and improving productivity are all part of a SWOT analysis that you would make if you were the mayor of the West Midlands, Birmingham, Liverpool or Newcastle, wherever it may be. If you were faced with the very question you put to me, you would ask your colleagues, "What are the best opportunities here? What should we do?" I believe you would ask, "Are our schools producing the quality that they should be on any international comparison?" You would ask, looking at the skills agenda, "Are these the skills that we need for the jobs that we can see?"

You would immediately find that you have to involve the employers much more in the skills and the education system, because, after all, they will recruit the products of the education and skills system, or not recruit as the case may be.

You would talk to the public sector about its performance, its objectives and about the way it works and contributes. You would talk in partnership with the private sector: what can we do more that will help you?

I have given examples in the pamphlets I have produced. It is perhaps trespassing on your time, but let me give you one example. The classic education model is to have 30 children in a room and a teacher. In the nature of things, those 30 children will be very different in aptitude and interests. If we have learned anything from the Zoom economy, it is that we can communicate person to person and it should be possible to have an education system that is tailored to the individual child, not to a common analysis of 30 children. Why do the Government not say to the education publishing industry, which is very good in this country, "Work with one of our comprehensive schools to develop the technology that could be world beating"? Why not?

Another example is that our rivers are often below not all world standards but certainly European standards. My guess is that 20 or 30 years from now the urban electorates will not tolerate polluted water. I think water will be a scarce commodity and much more valued, so why not say, to start with Liverpool, in 25 years the Mersey will be clean and there will be no alien discharges into the Mersey? There will of course be people who protest, but in 25 years every piece of capital equipment will have had to be replaced anyway in the nature of depreciation, so giving them 25 years merely tells them that they have to aim higher and have no pollution.

What will happen is that people will start producing kits that do it. Consultants will start looking at how it can be accelerated. The amenity world will start saying, "What can we do with the water when it is clean, what sporting activities, leisure activities, entertainment, hospitality?" We will become a model for the world, and British companies working locally will suddenly find that people are flooding in to find out why in the third world they have polluted water and we do not.

There are endless ideas of this sort if you draw together the strengths of a community, but nobody is saying this to the mayoral authorities.

A second point is that they have simply talked about the mayoral authorities. We will be facing a major public expenditure crisis in this country as a result of Covid. Everybody knows it and it is a terrifying prospect. So why do we need two tiers of local authorities—the counties and districts? When I was Secretary of State in the 1990s, we got rid of the two tiers in Scotland and Wales. Nobody wants to bring them back. We need the counties to be unitary authorities with mayors, and subject to the same incentivisation of challenge funding and gearing as the rest of the country. You cannot build a successful economy by just taking the main conurbations. There are some vitally important city authorities that have a big opportunity to play a part.

The Chair: Thank you. Lord Stern, are you happy with that? I am conscious of time.

Lord Stern of Brentford: I would love to go back to some of those points, but I realise that we do not have time, Chair, so please carry on.

The Chair: I appreciate that.

Q56 **Lord Skidelsky:** Lord Heseltine, what place would you allow for public sector training and job creation in your view of what should be done if, as expected, unemployment rises substantially in the next 12 months—taking into account, of course, what you said about local responsibility for choice of scheme and for implementation of scheme? How would you see a public-private partnership working in the devolved context?

Lord Heseltine: I am not persuaded that there are huge differences in the motivations of people in the public and private sector. I think people are ambitious and hard-working. They want skills and want to do a job well. Some people move to the public sector, some to the private sector, but the interrelationship is very considerable. My guess is that the unemployment problem will be harder in the private sector than in the public sector. That is my guess, but a guess it is.

I do not believe that the approach mayors would take is, “We will create private sector employees or public sector employees”. They would say, “We will produce skills that are applicable to either side depending on what vocations and instincts the person involved may have”. I would not see it as a public or private sector division.

Lord Skidelsky: In other words, you would not do a Rooseveltian new deal. You would not be willing to consider the public sector providing jobs.

Lord Heseltine: The public sector will provide huge numbers of jobs. Let me take universities first. Within British universities, which everybody knows are world class, there are huge numbers of potential initiatives because the research has application. We need to encourage the universities to come forward in areas they believe to be potentially

exciting with private sector partners, and perhaps public sector partners, or quangos. We have not mentioned quangos, but here is another vast area of British public life with huge economic potential if anybody said to them, "To your duties as quangos, add wealth creation". They do not think like that, but they should.

Q57 Lord Monks: When you were at the heart of government in the 1980s there were profound structural shifts in the British economy at a very rapid rate, particularly from manufacturing towards services. To what extent do you think the lessons of the 1980s are relevant today? In a sense, what would you do to confront what could be very big structural changes that are taking place now, not just in retail but in working from home and these kinds of changes? What lessons do you reflect on from that period that might help us as we go forward?

Lord Heseltine: I think it is important to think about what human beings are and what their ambitions are likely to be. People want to work. They want to earn a decent living standard. They want ambitious opportunities. Of course, where restructuring, such as you analysed it, from manufacturing to service is taking place, there will be declining parts and increasing parts. One should not try to resist the change. One should try to get ahead of it and keep ahead of it. That means reskilling. It means high-quality education. It means finance being available. It means climate being incentivised. It also means, in my view, an interrelationship between public and private sector.

In much of its public articulation Britain has no idea about the way the world is changing. The sort of money that is now poured by the United States and China into leading-edge technologies is beyond the wildest dreams of anything this country can afford.

You would expect me to say this, but leaving Europe is a self-inflicted wound of massive proportions. I helped to create the European Space Agency and I can give you the figures—I will never forget them. I was sitting at my desk and I was asked to produce a subsidy of £6 million to keep up with the French and the Germans. I said "Look, it is very interesting. Tell me what Europe spends in total on space". They came back, "£200 million a year, Minister". "Good. How much does America spend?" "It spends £1.2 billion a year", but Europe was spending it all in little penny packets, all national, all trying to outdo one another.

We created the European Space Agency and Britain got the satellite leadership. Now Britain has opted out of the European Space Agency. Nobody has come up with any coherent reason for why we have done that, except the idea that somehow we can be independent. We cannot be independent when our competitors are spending money out of any accord to what we can afford on the leading-edge technologies.

I am sorry, we are short of time, I know, but I have been so privileged to have been at the heart of these dilemmas, and I have to tell you about General Abrahamson in 1984, if I recall. President Reagan put him in charge of the star wars programme, the ultimate defensive system to

stop missiles coming through. One day he turned up in my office and said, "Secretary of State, you know what I'm doing. I have a \$29 billion"—I repeat the figure of \$29 billion—"programme to build this technological miracle". He said, "You know, Secretary of State, I could put \$100 million into Heriot Watt University today", which had a leading edge in some defined technology he outlined.

He was expecting me, I think, to say how grateful I was. What I heard him say, but he had not put it quite like this, was, "Look, Secretary of State, I have \$29 billion and I am going around the world where all the leading-edge technologies relevant to this particular phenomenon are to be found, and I will do partnerships with every one of them, and that will take back into the American industrial infrastructure leading technologies in an incredible range of vitally important future industries".

Britain has to understand that China has been doing that, India will do it, America is a leader in it. I am not criticising those countries. I would do the same. That is why I helped to create the European Space Agency and the Eurofighter project.

The Chair: Lord Heseltine, the Committee is really grateful to you for giving time to us. Sadly, our time is up with you. I am sure we would have wanted to explore further, but if you have any other thoughts we would be very happy to receive written evidence adding to what has been a very interesting session. Thank you very much.