



*Regional Policy May '79*

SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

*Prime Minister*

*To glance*

*R 25/5*

*24* May 1979

*and*

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer  
Treasury Chambers  
Parliament Street  
LONDON SW1

In view of the preparations you are now making for the budget and the discussions we are having on public expenditure I hope you may find it helpful to have an account of how we see the economic outlook in Scotland. I am to have a meeting shortly with Keith Joseph to discuss regional policy but I am concerned that any forthcoming changes in policy should be seen against the wider economic background.

The various economic forecasts for the UK economy, though differing in detail, all agree that unemployment during 1979 is likely to rise. In part this is a consequence of the low growth rate in world trade, and in part the result of our own weak export performance stemming from the combination of a strong and stable currency with rising unit costs of production; but the result is that economic growth in the UK is unlikely to match the economies natural growth in productive potential so that there will be an increasing surplus of unemployed labour. Recent economic performance in Scotland has, if anything, been slightly weaker than for the UK as a whole; and with a serious situation affecting a number of our major industries, notably shipbuilding, we would expect this weaker performance also to be a feature of the year ahead. With seasonally adjusted unemployment in Scotland now at 7.3%, this means that rates of between 8 and 10% for Scotland as a whole, and much higher in difficult areas such as Strathclyde, are quite probable next winter with/ out any change in existing policies.

There is of course very widespread concern over unemployment in Scotland, particularly in Strathclyde, and over the difficulties faced by some of our major industries. There is no doubt that this was a major factor in the Scottish election results and I have made it clear publicly that I attach the highest priority to bringing the level of unemployment down. For the longer term I am in no doubt that reduced levels of direct taxation and a reduction in the cost of finance for industries through lower interest rates are a pre-requisite for fostering entrepreneurship and stronger economic growth. But the benefits of these measures will take time to work through. In the short term increased personal disposable income as a result of tax reductions is likely, particularly with the present strong exchange rate, to result in increased imports of consumption goods, while the offsetting reductions in public expenditure which we must make will necessarily give rise to higher levels of unemployment.

I accept that some discomfort in the short term is a price which it is necessary to pay for a better future. But I am particularly concerned that we should not press too far our economies on support for industry in regions of high unemployment and on the MSCs temporary employment measures, both of which are my responsibility in Scotland. If we do, I am convinced that we could rapidly increase Scottish unemployment to levels which become both socially and politically intolerable and jeopardise our chances of holding to our long term aim. We could also find that our hard earned savings were largely offset by a greater outlay on unemployment and social security benefits. The present industrial recession is so severe and the squeeze on company profits and liquidity is so intense that many companies face difficulties which in normal times could be confident of good long run prospects. Under the provisions of our 1972 Industry Act my Department has been able to use section 7 assistance to help in many cases and I attach very great importance to being able to continue to do this. Indeed in my discussions with the STUC I have said that so long as a good prospect for a viable future can be demonstrated we will do our best to help companies in difficulty. For new industrial projects also the level of assistance we can offer is of great importance since we face intense competition from other European countries, as has been evident from some recent cases. As to the temporary employment measures, these are of course only a stop gap in the present very difficult situation, but they reduce the unemployment register in Scotland by some 20 thousand and through the work experience and training they provide are of considerable social benefit. Thus while I accept that it is clearly right to review both regional and industrial policy and the MSCs temporary measures to ensure that we have the maximum cost effectiveness, I hope that the general framework of the 1972 Act can be kept intact and that we will not attempt drastic savings on these policies.

Finally, I must add a political note. We remain the only political party which in the post war years has ever won a majority of the total Scottish vote, but our position in recent years has slipped very badly and, despite the set-back to the SNP, was disappointing at the last election. If we are to improve our position as I believe we must, we have to demonstrate that our policies particularly in the economic field match up to Scotland needs. Regional policy, at least in its modern form, owes its origin to the conservative Government of the early 1960s and since then much can be claimed to its credit; over 100,000 additional jobs in Scotland according to the best independent estimate, greatly reduced emigration and levels of prosperity much closer to the UK average. We would do Scotland and ourselves a great damage if we were to allow that momentum to be lost.

I am sending copies of this letter to the Prime Minister, Keith Joseph, Jim Prior, Michael Heseltine, Nicholas Edwards, Humphrey Atkins and John Biffen.

GEORGE YOUNGER

25 April 1964

