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CONFIDENTIAL

PRIME MINISTER

Industrial Support Measures
(E(80) 109 and 116)

BACKGROUND

The Chancellor of the Exchequer was invited by Cabinet on 10th July to circulate in due course, and in consultation with the Ministers concerned, a paper on the options for further measures of industrial support (CC(80) 28th Meeting, Item 2, Conclusion 2). You will recall that this was in response to a request by the Secretary of State for the Environment.

2. In E(80) 109 the Chancellor confines his proposals to the possibility of additional expenditure, within the overall public expenditure ceiling, in support of research and development. He envisages that these measures should cost no more than £60 million a year and warns that it may be necessary to go for less. He recommends that, if the Committee gives a fair wind to these proposals, the Chief Secretary should be invited to consider the prospects for accommodating them by adjusting public expenditure priorities, and to make proposals in the paper on the public expenditure exercise which he will be putting to Cabinet for discussion on 30th October.

3. The measures, which are described in paragraphs 6 to 9 and 11 of the paper, are designed primarily to meet the Secretary of State for Industry's argument that the Government should help to protect 'seed corn' expenditure which firms might otherwise cut back in the face of short-term cash flow pressures and at the expense of their future competitive position. The Chancellor suggests that these measures might include some improvement in the Secretary of State for Trade's market entry guarantee scheme which helps firms breaking into export markets; and that there might be some increase in funding of the energy conservation demonstration project. His proposals would allow for some further selective assistance in the regions.

4. These proposals apart, the Chancellor rules out at this stage further measures to ease liquidity pressures, though he will be ready to discuss any tax proposals with colleagues nearer to the Budget. In particular he rules out as too

costly the possibility of removing the four month deferment of payment of regional development grants (his paragraph 5).

5. The CPRS, in paragraph 7 of E(80) 116, support the proposed package, provided that it can be accommodated within the public expenditure ceiling. They point out however that, if it is to go ahead more work, will be needed on the criteria for selection - though this should not be too difficult since it will largely be a matter of developing existing schemes of assistance.

HANDLING

6. After the Chancellor of the Exchequer has introduced his paper it is likely that most members of the Committee will wish to comment and in particular the Secretaries of State for Industry, the Environment, ~~Trade,~~ Scotland, Wales and Northern Ireland (who would expect a further £1.5 million if Great Britain were to get £60 million extra).

Energy Govt.

7. If it is accepted that public expenditure constraints rule out the possibility of anything more ambitious, the main question will be whether it is right to give priority from whatever funds may be available to 'seed corn' measures. The Secretary of State for the Environment proposed in his letter of 26th September to the Chancellor that some of the expenditure should be directed towards environmental improvement, pollution control and the recycling of waste. He put the annual cost of such measures very provisionally at £25 million. The Chancellor proposes, in his paragraph 10, that if these ideas are to be pursued they should be financed by re-ordering of priorities within the environmental programme. This apart it may well be that Ministers will not want to press for further expenditure, since this would be at the expense of their own programmes - as indeed will be the proposed £60 million - and possibly to some extent of the employment measures proposed in E(80) 110.

8. Some Ministers may nevertheless be reluctant to accept that nothing more can be done at this stage to help with liquidity measures. In particular they might refer to:-

(i) the National Insurance surcharge - but reductions would be very expensive, and almost two-thirds of the relief would be to oil, banking and commerce;

(ii) the four month delay in RDG payments - the Chancellor points out that the benefits would be widely diffused and the public expenditure cost of £140 million extremely difficult to accommodate (his paragraph 5);

(iii) the increase in the redundancy rebate from 41 per cent to 50 per cent - an increase to 60 per cent has been ruled out for the time being as too expensive, and the Chief Secretary will shortly be proposing in E(EA) that the increase to 50 per cent should be deferred from November to April to offset the cost of extra loans to the National Docks Labour Board.

CONCLUSIONS

9. In the light of the discussion you will wish to record conclusions:-

(i) on whether the Committee provisionally agrees with the 'seed corn' measures discussed in paragraphs 6 to 9 of E(80) 109, and, if so

(ii) inviting the Chief Secretary to consider, in the public expenditure proposals which he will be putting to Cabinet for discussion on 30th October, the prospects for adjusting public expenditure priorities to accommodate these measures.

RTA

(Robert Armstrong)

13th October 1980