

CONFIDENTIAL

Prime Minister

Edwin Pugh

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The Rt Hon Sir Geoffrey Howe
Chancellor of the Exchequer
HM Treasury
Whitehall

I am arranging a talk for you
with George Younger and Geoffrey Howe
this week.

Mus 15/2

12 February 1982

MS

I would like to follow up ^{or} on discussion of general Budget strategy on 28 January by ~~commenting~~ on the points made in Patrick Jenkin's letter to you of 26 January. I am broadly in agreement with the points which Patrick has made: in particular I am persuaded of the priority which cuts in the National Insurance Surcharge should receive in our macroeconomic strategy, and of the need for increased assistance to innovation. But I should like to qualify and supplement them in some respects. My main concern is to add to the points made by Patrick, the need for recognition of the special problems of the Assisted Areas: I think this omission could have serious economic and political consequences.

As you will know from your recent visit here, the situation in West Central Scotland and the Highlands is particularly bleak. Already unemployment rates in Strathclyde are running at just under 18 per cent with male unemployment well over 20 per cent; and the problems are even more acute in North Ayrshire and North Lanarkshire. Although Scottish industry had fared quite well in relative terms during 1980/81, the signs are that this position has not been maintained and a number of serious threats are looming up in the immediate future.

While I very much favoured the principle of concentrating regional aid in the areas most in need, any further steps to reduce the amount of assistance available in these areas at this time would be very damaging. They threaten the process of investment and renewal which is vital to longer-term recovery, and they risk losing important new projects of the type that are urgently required. We need now to do what we can to boost industrial confidence and it would be particularly helpful in this respect if we could abolish the present 4 month period of deferment in the payment of RDGs. The delay contributes to firms' cash flow difficulties and presentationally, is a thoroughly bad adjunct to a system designed to help industry in the regions.

Our experience in Scotland with the various Department of Industry schemes concerned with advanced technology confirms that there is substantial potential which proposals for enhanced assistance could unlock. If we are to regenerate some of our most difficult industrial areas, it is essential that they participate fully in the newer

technologies. It seems anomalous, therefore, that in many of the Schemes listed in Patrick Jenkin's letter, promoting developments which are likely to have the most profound long-term effects, there is no preference given to Assisted Areas. And yet the problems of the older industrial areas in developing new products and applying new technologies have emerged as one of the main issues for those of us directly concerned with their development. I suggest that the maximum assistance under MAP, PPDS, and other Science and Technology Schemes, should now be set significantly higher in the Assisted Areas. I believe that an increased emphasis on new technology, on the lines which in Scotland we have already been striving to achieve with the Scottish Development Agency, would help to bring the new growth we need and be seen as an effective response to our regional problem.

I recognise of course that you will have many competing claims for funds even within the field of industrial policy. For my part I fully recognise the importance of the measures taken already to help enterprise and small firms. These are beginning to pay off. But I should not like to see the emphasis on general support for the small firms sector crowd out a response to the need of the assisted areas for further help.

I am copying this letter to those to whom Patrick Jenkin copied his.

Approved by the Secretary of State
and Signed in his Absence