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Original on Scotland;
June 79; Regional Policy

10 DOWNING STREET

From the Private Secretary

4 July 1979

Dear Kenneth,

The Prime Minister held a meeting at 1230 p.m. today with your Secretary of State and the Home Secretary to discuss the application of the Government's policies in Scotland. They had before them Mr. Younger's minute of 25 June. The following are the main points which came up.

REGIONAL POLICY

Mr. Younger said that any reduction in regional assistance to Scotland would be seen by the Scots as an attack on the Scottish economy. Special assistance for Scotland was justified by its relative backwardness, its distance from the UK markets, and by the need to reduce imbalances in the national economy: it was in the interests of the UK economy as a whole that these imbalances should be reduced since expansion had too often resulted in "overheating" in the South East and the Midlands. While he accepted the need to reduce public expenditure in support of regional policy this should not be done too fast and the amount of reduction should not be too great. Against this background, Mr. Younger said that he was pleased that the Prime Minister had asked Sir Keith Joseph to moderate his regional policy plans; and he hoped a compromise set of proposals would be accepted by Cabinet.

The Prime Minister commented that it was essential for public expenditure to be reduced: the ratio of public expenditure to GDP was actually increasing this year as compared with last. However, she agreed that it would be a mistake to move too fast on regional assistance; otherwise a "U-turn" would all too likely follow. The Home Secretary agreed that, although regional support must be reduced, it would be wrong to move too fast. To do so would lose the Government political support in both Scotland and Wales.

SHIPBUILDING

Mr. Younger said that contraction of the shipbuilding industry was inevitable, but this had to be handled carefully. Provided the necessary closures were implemented in turn rather than all at once, the position ought to be manageable. Thus, it would be right to move to the closure of Scotstoun in September, while Govan should be kept going a little longer. In order to maintain activity at Govan, it would be necessary to obtain a further order

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after the existing Polish order; there was a reasonable prospect of such an order from P&O. Robb Caledon would also probably have to go; but in view of the heavy dependence on shipbuilding on the Lower Clyde, every effort must be made to maintain Scott Lithgow. It would be easier to proceed with these closures if the Government continued with a reasonable measure of general support in Scotland.

The Prime Minister said that she accepted this general approach. She hoped that efforts were being made to stimulate small businesses in Scotland so as to provide alternative employment for redundant shipyard workers. The Home Secretary commented that it was right to proceed with the closure of uneconomical shipyards, and that it had been a great mistake not to have implemented the closures on the Upper Clyde in 1971. However, he agreed that the timing of the closures was crucial.

DISPERSAL

Mr. Younger said that he hoped that the Government would be able to proceed with the previous Government's dispersal plans for the MOD and ODA to Glasgow. He accepted that it would be right to cancel the movement of jobs from the English regions to Scotland; but there would be a very adverse reaction if the dispersal of jobs from London were set aside.

The Prime Minister questioned whether any of the previous Government's dispersal plans were logical from the point of view of administration and expense. However, she agreed that political considerations would need to be taken into account with regard to the MOD and ODA dispersal proposals mentioned by Mr. Younger.

HILL SHEEP

Mr. Younger said that Treasury Ministers had decided that there should be no increase in the Hill Sheep subsidy over and above the 50p agreed by the previous administration. He had hoped that a further 50p increase could have been agreed; and he was prepared to find savings in his programmes to finance it. However, MAFF had not been able to provide offsetting savings. Although he understood the public expenditure reasons for rejecting a further increase, the decision would be strongly resented by Scottish farmers, and Lord Mansfield would have a difficult time explaining it to the NFU when he met them. Questioned whether it would not have been possible to have a higher subsidy for Scotland than in England, the Home Secretary said that any such move would have been bitterly opposed in England.

I am sending a copy of this letter to John Chilcot (Home Office) and Martin Vile (Cabinet Office).

Wm *W.*
Tim Laker