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Oddi wrth Ysgrifennydd Gwladol Cymru The Rt Hon Nicholas Edwards MP From The Secretary of State for Wales

CONFIDENTIAL

Prime Minister (2)  
ms/13

1st

March 1982

Don Geoffrey

I have seen a copy of George Younger's letter of 12 February about the Budget strategy. I would like to add my support.

Generally industry in Wales despite recent encouragement remains in an extremely difficult position. Industrial firms continue to be worried about short term prospects and their capacity to respond when we move out of recession. I recently had talks with the CBI Wales who, while rehearsing the main points the CBI will have put to you nationally, were at pains to stress how many companies, despite positive attempts to operate at maximum efficiency, were able to survive only by Bank borrowing. Certainly, the CBI Wales see reductions in the NIS as the best and surest way to enable industry to improve their cash flow situation and to be in a position to benefit from the upturn in the economy. You will know that I would support this. Although I can see the attraction of seeking offsetting reductions in RSG, the practical objections described by Michael Heseltine in his letter of 25 February are very formidable and like him I hope you will not proceed with that idea.

Like George Younger I would be concerned if at the same time we did not maintain a level of regional aid which reflected the needs of the regions. Unemployment currently in Wales is 16.2% rising to over 25% in certain areas. Our main counter argument to those who are worried about unemployment and closures is that we are doing all we can to find replacement jobs in the regions. If we are to continue to attract inward investment and help sustain business confidence a commitment to at least the present levels of aid available in the Assisted Areas is essential. I welcome the decision of the Chief Secretary not to press the proposed cut in RDG rates.

/Representatives

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



Representatives of local authorities in Gwynedd whom I met recently emphasised the value of incentives for house building and improvement and as you know, in our recent Cabinet discussions I supported those who favoured a package of time limited boosts to the building and construction industry.

As to the difficult judgement you have to make on the appropriate level of the PSBR and the scope for tax reductions, nothing that has happened since our discussion in Cabinet has caused me to shift my own opinion that a figure close to £9 billion would be lower than is desirable in present circumstances. I can find very few in the City who believe that to go for a PSBR of somewhere in the region of £10.5 billion would represent an abandonment of the Government's central strategy or would have an adverse impact on interest rates or the exchange rate. In my view recent events in the oil market strengthen rather than weaken the case I made. Having had this view put to me by a Director of the Bank of England and having seen it repeated in leading articles in the Economist and the Financial Times, as well as by a number of people in the City and industry whose views I respect, I don't think it can be regarded as particularly rash or irresponsible. As I also pointed out in an earlier discussion the politics and psychology of the decision are also very relevant. It is important that, while sticking very firmly to the central objective, we should seek both to inject an element of optimism that will encourage recovery and unite the Party in defence of our strategy. I believe that these factors add to the case for not sticking too rigidly to the lower end of the realistic range of options.

/ I am copying this letter to the Prime Minister, the Lord President, the Secretaries of State for the Environment, Industry, Scotland, Trade, Social Services, Energy and Employment and to Sir Robert Armstrong.

*J. am*

*Nick*