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PRIME MINISTER

2 October 1984

YOUR PES MEETING WITH MR TEBBIT ON 3 OCTOBER 1984

Treasury are asking simply for DTI to get back to baseline. Other spending Ministers are faced with much more severe economies. If Mr Tebbit is to be credible as an active member of the "Star Chamber", he should volunteer much more - as he can well afford to do. You could remind him at the outset of this Government's determination to deregulate and to free up markets. That should reduce the functions of DTI, their intervention expenditure, and the Department's head count.

We have identified five major areas for saving:

1. Regional Policy

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Our separate brief recommends that total expenditure (in cash) on Regional Assistance should be held to £300m per annum over the 3 years 1985/86 to 1987/88. This would eliminate separate expenditure on land and buildings and on Regional Selective Assistance.

2. Non-Regional Assistance to Industry

This embraces general industrial R&D, costing around £300m per annum, and other forms of Selective Assistance

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costing £80-90m per annum. Keith Joseph managed on far lower sums: £102m and £49m respectively in 1980/81. We think you should tell Norman to get back to these levels quickly. Industry doesn't need this form of Supplementary Benefit. We suggest £50m (cash) per annum for Ministers to use as "Selective Assistance to Individual Industries, Firms and Undertakings". We could do more to exploit economies of scale in basic pre-competitive research within the EC.

3. Export Promotion and Trade Co-operation

Although not large in absolute terms, this expenditure has grown by a fat 50 per cent since 1980/81 - from £20m to £30m. We suggest it should be trimmed back to £25m, £20m and £15m over the 3 years.

4. Regulation of Domestic Trade and Industry and Consumer Protection

The same comments apply. It can, in our view, be cut down to a level £20m per annum from £30m plus.

5. Central and Miscellaneous Services

At over £140m, these look ridiculously high. They have more than doubled since 1979/80, and continue to show cash increases even on the baseline. The merger of the

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Departments of Trade and Industry has not merely procured no economy - it has cost more. We think you should persuade Mr Tebbit to reduce these costs - and the manpower which gives rise to them - by at least 5 per cent compound over the next 3 years. Cash figures of £130m, £120m and £110m look reasonable.

Summary of Savings

These are counted from the expenditure baseline (Summary Table Annex 1, attached to Peter Rees' letter of 2 August.)

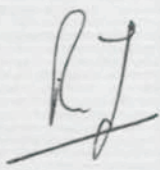
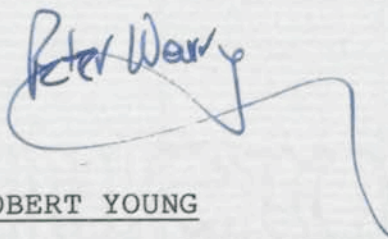
	<u>1985/86</u>	<u>1986-87</u>	<u>1987-88</u>
Regional Policy	175	163	175
Selective Assistance to			
Industry	45	31	33
General Industrial R&D	45	154	212
Export Promotion/Trade			
Co-operation	10	11	12
Regulation	11	12	13
Central and Miscellaneous			
Services	<u>15</u>	<u>29</u>	<u>45</u>
	<u>291</u>	<u>400</u>	<u>490</u>

Other Avenues

The expenditure headings which you will debate with Mr Tebbit are not the whole of the story. There is more yet

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to be squandered by the DTI nationalised industries. British Steel will be the most demanding, and British Shipbuilders could yet deliver a nasty surprise. This prospect should give you more than enough ammunition to press Mr Tebbit for more and faster asset sales. How about speeding up the disposal of Land Rover and Leyland Truck and Bus? And the war shipyards? And the shares which HMG still has in British Aerospace?

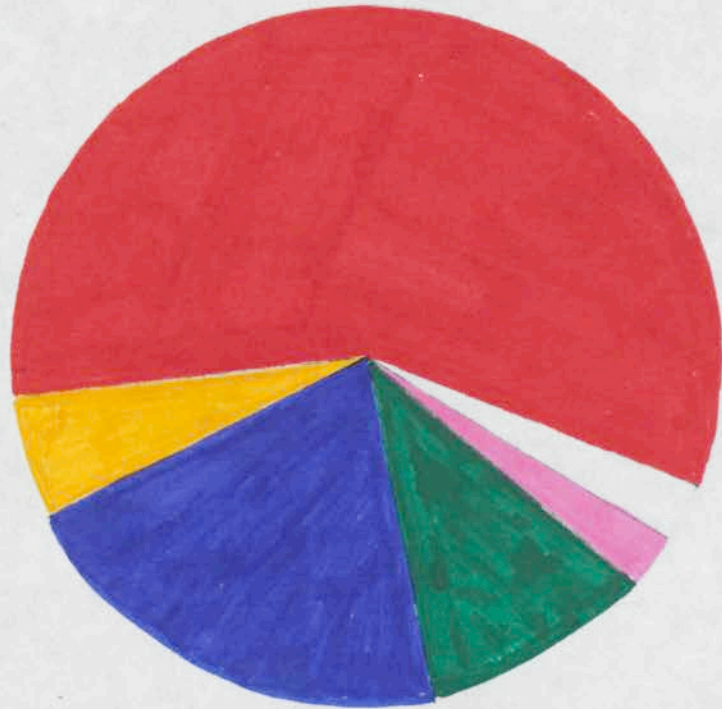
 

JOHN REDWOOD/PETER WARRY/ROBERT YOUNG

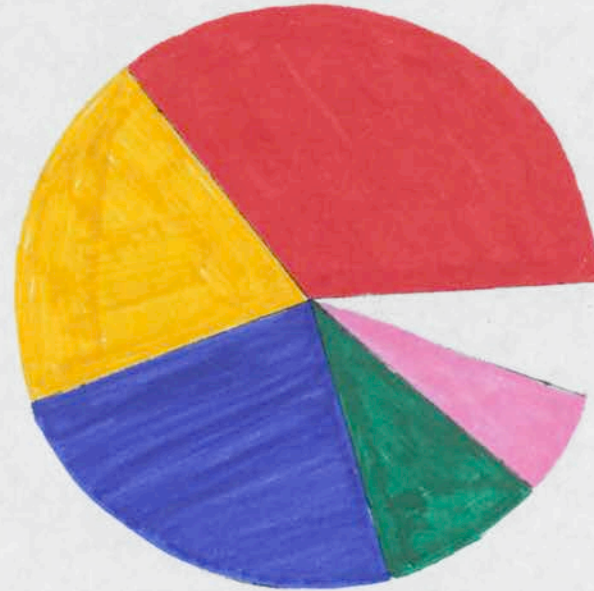
CHART 3

MAJOR COMPONENTS OF DTI SPEND

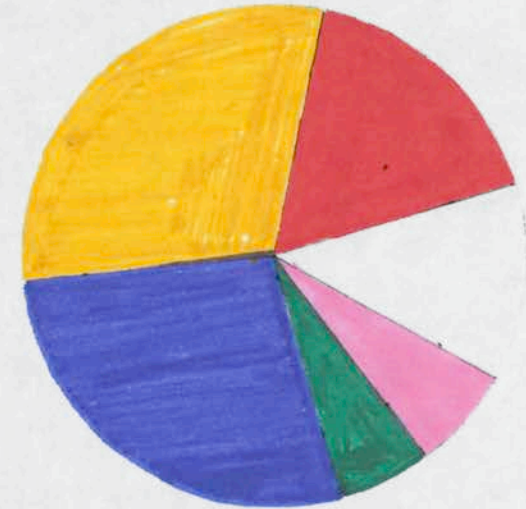
1980/81



1984/85



1987/88
PES BID



- NATIONALISED INDUSTRIES INCLUDING BL
- SCIENTIFIC & TECHNOLOGICAL SUPPORT
- REGIONAL SUPPORT
- OTHER INDUSTRIAL SUPPORT
- TRADE REGULATION & EXPORT PROMOTION
- CENTRAL & MISCELLANEOUS SERVICES