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PRIME MINISTER

You asked me to consider whether there is anything else I can offer to the Chief Secretary in the reduction of my Department's expenditure. I have looked again at whether I can go further.

2 Let me be clear about what the Chief Secretary is asking me to do. I have already made the strongest efforts to reduce expenditure, including a number of cuts which will be very unpopular. I have decided to end the small firm loan guarantee scheme; I have volunteered a moratorium on RDGs; I have given up the materials initiative; and I have made other painful cuts. In consequence I have provided from within my PES for launch aid for the A320 and the V2500, and for over a third of the extra costs of regional policy in the short-run, resulting solely from changes in economic assumptions. Given these steps already agreed, it is common ground that the ^{only} way I can make deeper cuts is by reducing still further the spend on support for industrial research and development. It is also common ground that my headroom in these areas, after allowing for existing commitments, is limited. In round terms, it is £193 million in 1986/87 and £285 million in 1987/88. I volunteered yesterday evening, in the hope that this would enable me to come to the agreement with the Chief Secretary, reductions of £43 million and £50 million. This

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represents 22 and 18 per cent of my total uncommitted spend in this category.

3 The Chief Secretary has remained firm that he is looking for reductions in these years of £147 million and £249 million. This would leave me with just £46 million and £40 million for each year. The change in direction of our policies would be striking and potentially very damaging. Between 1980/81 and this year, support for science and technology has grown from £170m to £369m.

The Chief Secretary would have it fall by 1987/88 to £165m. In practice it would mean I should have to wind up, almost at once, our support for industrial research and development. I could not take in new applications, and should simply have to end schemes which are widely welcomed by industrialists, and to whose expansion we are committed in the Manifesto. We should be abandoning our ability to exert further influence on industry's research and development. I could not pretend we were doing this because I believed it correct. It would have to be recognised that the decision was forced on us by lack of cash. This, on top of all the other decisions to cut I have accepted, would leave us defenceless against criticism. Yet that is what the Chief Secretary is demanding.

4 I find this all the more humiliating because, at the same time that I am being asked to abandon policy to which we have all - including yourself - properly drawn attention and from which we

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have derived credit, I am also being refused the authority to manage my Department in one singular way I have made clear to you I regard as necessary. I have no doubt that this, and the addition to my Ministerial team of an eighth Minister at a time when I believe it should be reduced, will be contrasted with the policy I am being asked to accept of denying assistance for industrial research and development. I would not know how to defend such a sense of priorities.

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4 October 1984

Department of Trade & Industry

Of course if settlement is a matter of £5-£10 million a year in years two and three and the £3.4 million in year one which we discussed last night, I would find some way to achieve it. However if I am to be treated like a salsami sausage by Peter — or indeed as an anvil on which MAFF expenditure might be hammered — then I have no choice but to resist.

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