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Mr. Wolfson

Ind Policy

10 DOWNING STREET

From the Private Secretary

BF

12 September 1980

Dear John,

Industrial Support

As you know, the Prime Minister held a preliminary discussion this morning with the Chancellor of the Exchequer and Sir Keith Joseph on the question of possible industrial support measures. Robin Ibbs, John Hoskyns and David Wolfson were also present. They had before them Sir Keith's letter of 8 August and the various comments which other Ministers had made subsequently.

Mr. Ibbs, drawing on a note which he had prepared for the Prime Minister (copy enclosed), outlined the industrial situation as he saw it and some steps which might be taken. He was opposed to any general measure of relief which would simply weaken the pressure on industry to improve efficiency and reduce their pay settlements; but there were still some initiatives which the Government could pursue. In particular, it was crucial to get the exchange rate down to a more modest level. This should not be done by prematurely reducing interest rates, but rather by seriously considering the possibility of imposing inflow controls.

The Chancellor said that he too was worried about the exchange rate, and he had asked for an urgent review of the possibility of imposing inflow controls. Although there were some strong arguments against, he would certainly be looking again very seriously at the pros and cons. As regards other measures to ease industry's position, the Government had very little room for manoeuvre. However, he was considering the various options which had been put forward both on the tax and expenditure side. Any tax changes would have to wait until the next budget. One possibility which he had in mind was to shift additional resources out of the oil sector into manufacturing, but the scope for this was likely to be quite limited. Of the tax options put forward, the proposal to reduce the National Insurance Surcharge was the worst possible: not only would it be very expensive, but almost

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two-thirds of the relief would go to oil, banking and commerce. As regards the public expenditure options, there was very little money to spare; and they would have to be considered against the background of large additional bids from the nationalised industries and also from the Employment Secretary for new employment measures. It seemed unlikely that it would be possible to divert more than a very small amount of extra public spending to private industry. There was in any case a strong argument against the Government announcing a package of industrial measures and thus appearing to be responding to political pressures: if there were to be any additional spending, it might be better to announce new measures on an individual basis. He had a remit from Cabinet to bring forward a paper on industrial support, and this would set out his considered views. He intended to do this towards the end of October so as to fit in with the decisions on public expenditure generally.

Sir Keith said that insofar as there was scope, he hoped the Chancellor would do what he could to shift the balance of resources back in industry's favour. But he agreed with the Chancellor that the best way of achieving this was to get interest rates down and that, for example, a reduction in the National Insurance Surcharge would not be the best approach. For the moment he would be content if the Chancellor could agree to some quite modest extra spending; but if the pressures on industry got worse, it might be necessary to do more, and it was therefore important that the situation should be kept under careful review.

The Prime Minister said that she agreed with the Chancellor's general approach on the spending and tax options. She was also extremely concerned about the exchange rate, and she was far from convinced that the case for and against inward controls had been properly looked at. The experience of Switzerland surely showed that such controls could work, albeit for a short time, and a temporary relief was what industry was looking for. Even if the imposition of controls did not work, we would surely be no worse off. She hoped that the Treasury review could be completed with the utmost speed and that all the arguments should be examined afresh. She would like Mr. Ibbs to be involved in the review, and she would then like to hold a meeting on this subject next week (now fixed for next Thursday morning before Cabinet).

I am sending a copy of this letter to Ian Ellison (Department of Industry) and to Sir Robert Armstrong.

Yrs. ever,

Tim Lankester.

John Wiggins, Esq.,
HM Treasury.