



PRIME MINISTER

cc Mr Hoslegns

MICRO-ELECTRONICS

In his letter of 11 June your Private Secretary said that you would welcome comments from the Treasury and the CPRS on the proposals by the Secretary of State for Industry for continuing public expenditure in support of the manufacture and application of micro-electronics.

2. If the supply side of the economy were working efficiently there would be a very strong case for leaving it to the private sector companies concerned to take the initiative in developing, manufacturing, and applying new devices promptly and effectively. However, in deciding on this, we have to consider what weight to give to the widely held opinion that in practice British industry is sadly lacking in its awareness of the potential impact of micro-electronics. As you know, this was the finding of the 1978 study by the Advisory Council on Applied Research and Development.

*On which
based?*

3. There seems no doubt that if British industry does not respond quickly and effectively our relative competitiveness will suffer seriously. The introduction of micro-electronics will have pervasive effects throughout the economy - in, for example, manufacturing industry and process control equipment, consumer durables, shop and office equipment, and the entertainment industry. If our manufacturers are slow or inefficient in the application of these devices they will lose out to their overseas competitors. As it is, the other main industrial countries are already highly active in the development of micro-electronics, and apparently ahead of us. No doubt this is in part due to the initiative of their private sectors. But it appears that in most countries,

Government support, by various routes, is having a considerable influence on both the development and the application of micro-electronic devices.

4. Against this background, I believe that the Secretary of State is right to conclude on balance that the objections to some Government intervention by way of public expenditure are outweighed by the risks of standing back and leaving it entirely to private sector initiatives. We would benefit from having strong and growing companies capable of manufacturing the devices and I accept that, where necessary, we should be ready to give some financial inducements to attract internationally mobile investment here and to stimulate existing activities. I think it is probably even more important that we should be willing to do something to encourage applications. Our record as a country has not always been impressive in the exploitation of new technology and, in this instance, it is vital that a very wide variety of companies, large and small, should be made to realise the significance of the changes which are coming and that they should act upon them promptly.

5. In considering this, I think that you should also take into account the views of the TUC - something which the Secretary of State does not mention in his paper. Their recent report on Employment and Technology focussed on the so-called micro-electronics revolution. In general they seem to be taking a positive and responsible line, recognising the need of the trade union movement to meet the challenge and the changes that are coming. It is important that they should continue to do so and that they should feel that this Government is fully alive and sensitive to the social and employment strains which the introduction of micro-electronics will bring. There is some risk that if we were to abandon these two schemes they would regard that as hostile to them - particularly if we decide that NEB must withdraw from Inmos. I am not of course arguing that the TUC's views on this expenditure are in any way decisive. But I do not think that we should forget them when reaching our decision.

6. I have also considered the public expenditure implications of continuing support. I understand that the Department has now tabled realistic options which should enable us to reduce the Industry programme broadly in line with the very substantial cuts we planned in Opposition (mounting to over 40% in 1983-84). There would be room in the remaining programme for continuing expenditure on the two micro-electronics support programmes and so, subject to our decisions on the Survey, I am satisfied that the public expenditure costs should be manageable.

7. The Secretary of State proposes to tighten the criteria for project support under the Applications Scheme. I think that there is a good case for doing likewise with the Industry Scheme. In line with his ideas for the Selective Investment Scheme, which has somewhat similar objectives, we could concentrate expenditure on internationally mobile projects and those offering very significant advantages. But we would keep out of marginal cases - for example, those allegedly offering some acceleration of expenditure; and assistance to subsidiaries of holding companies which are themselves financially strong. I assume that the Secretary of State will vet individual proposals himself and keep this expenditure under close review. In this way we will have the opportunity to switch off support if this turns out to be justified.

8. In principle I am attracted by the idea of giving more support by use of public procurement. But before deciding on this we need to know much more about how it would operate in practice. In particular, it will be important to take account of two constraints. First, our EEC and other international obligations place restrictions on helping British industry through public procurement. Secondly, we need to weigh the advantages of help through public procurement against the need for the public sector to get good value for money in its procurement activities and against the possibility of additional public expenditure costs which might arise from any change in direction. I note that the Secretary of State says that savings from restrictions on the Applications Scheme

could be diverted to provide a public procurement stimulus. But I question whether these relatively small savings would be sufficient to make any significant impact, or indeed whether we would want to surrender them for this purpose. I should be grateful if the Secretary of State could take account of these points when he puts forward his proposals for a more constructive use of public procurement, in micro-electronics and more generally.

9. I am sending copies of this minute to the Secretary of State for Industry, and to Sir Kenneth Berrill and Sir John Hunt.

W.J.B.

JOHN BIFFEN
2 July 1979

3 JUL 1979

