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Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

18 September 1980

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The Rt. Hon. Sir Keith Joseph, Bt., MP,
Secretary of State for Industry

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Dear Secretary of State,

INDUSTRIAL SUPPORT

I was grateful for your letter of 8 August and the comments from colleagues which it stimulated. Your letter is pretty wide ranging, as are the tax and spending proposals which you suggest might be considered as possible means of helping industry. Cabinet, on 10 July, gave me a remit to prepare a paper on industrial support measures, but many of the ideas touched upon in your letter go well beyond what I envisage to be the scope of such a paper. I intend to put something round to colleagues by the middle of October so that we can have a first run over the ground before the public expenditure discussions at the end of the month.

In the meantime, a few points which I think are worth bearing in mind in connection with this exercise are as follows.

First, we must consider proposals in this or any other field against the extremely difficult fiscal and monetary prospects we are facing. There is no need to elaborate on the latter. You are aware of the latest monetary figures which to a large extent reflect the high level of Government borrowing. This poses immediate problems for the current year, and for next year also. We clearly need to ensure that a satisfactory fiscal position is achieved, and this is likely to rule out any net additions to public spending.

Second, the public expenditure prospect is particularly disquieting. You have had a copy of my minute of today to the Prime Minister which shows how difficult it will be to achieve our target and make room for any additional spending measures. We need to bear in mind also Jim Prior's proposals on training and employment. It is essential that we should reach conclusions on any such proposals for additional spending only in the context of our discussions on public expenditure as a whole at the end of next month.

/Your letter



Your letter was helpful in emphasising the distinction between measures designed to improve corporate liquidity and more limited measures aimed at helping individual firms to protect "seed corn" expenditure, which because of current difficulties they may decide to sacrifice for the time being.

The measures directed at corporate liquidity which have been mentioned in the correspondence would all involve large sums of money, namely in the form of reduced tax revenue. As far as tax measures are concerned these must be a matter for next year's Budget, and I will be considering them in that context.

My paper on industrial support will focus therefore on "seed corn" measures of the kind mentioned in paragraph 16 of your letter, though I am bound to say that, against the current fiscal and monetary background, the effective possibilities look like being very limited.

I am sending copies of this letter to the Prime Minister and to the recipients of your letter.

R. A. Folkier (Private Secretary)
, on behalf of,

GEOFFREY HOWE

19 SEP 1980

