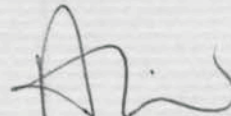


MR. SCHOLAR

THE BUDGET/INDUSTRIAL DEVELOPMENT AND INNER CITIES

1. The Secretary of State for the Environment quotes with approval a letter he has received from Keith Hampson. The substance of Hampson's letter is that industrialists are not investing enough in factory building. He wants to encourage more of it to "help the construction industry" and "improve future industrial performance". He believes it is primarily a "cash problem". And he suggests that the cost of factory improvement should be deferred by some Government grant or other.
2. He suggests a domestic ECGD. No doubt he rightly thinks that if the Government would guarantee repayments of loan and interest, then the interest rate to the borrower would be considerably lower. Similarly, he suggests a Government guarantee for a lease-back system, with presumably the same end in view.
3. This by any other name is a subsidy, and we should call it that. In the context of the heading of his letter he clearly wants subsidies for factory building in inner cities. I should have thought that we have experienced enough disappointments with subsidising industry to build in areas where they do not wish to build. Furthermore it is by no means clear that new industrial plant is what inner cities need. Yet ~~another~~ <sup>more</sup> subsidised <sup>for</sup> capital is hardly the sort of medicine one would prescribe for what are thought to be chronic levels of unemployment of labour.  

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4. There has been extensive borrowing by industry which they have used to finance what they believe is their best capital programme. Similarly, there are a large number of financial instruments that are at their disposal, such as lease-back arrangements. But more than that, the new Budget will, over time, enable growth industries, and one would suspect that growth industries are going to be the main purchasers of industrial buildings, to obtain capital by rights issues without the capital appreciation of such equities being taxed away by an inflationary CGT.
5. I can see little or no merit in Mr. Hampson's half-baked ideas.



16 March 1982

ALAN WALTERS



*cc AW JV*



Prime Minister (1)

2 MARSHAM STREET  
LONDON SW1P 3EB

*MS 1*

*Marshall*

My ref: H/PSO/11048/82

Your ref:

*Keith Hampson is in effect, proposing a subsidy (see Alan Walker's note attached). Shall I write discouragingly, on the lines of Alan's note if the Chancellor does not squash the proposal?*

*12-10-82*

*Deputy*

*MS 16/3*

Keith Hampson has written to me setting out some proposals for stimulating factory improvement. A copy of his letter is enclosed.

I have had no time to consider his proposals fully, but I should like to commend the general concept most strongly. As you know from my letter of 5 February I believe that we should be giving priority to boosting the construction industry, and an incentive of this kind would give it a welcome fillip. Keith's proposals are based on the same sort of premise as Chancellor Schmidt's scheme, which I mentioned in my letter, of giving 110% tax allowances for capital investment. I can see advantage in an arrangement of this kind for a limited period of 2-3 years whereby Government paid the loan charges which would then be repayable over a fixed period.

The proposals are not altogether dissimilar from Industry's existing loan guarantee scheme, and I am therefore also writing to Patrick Jenkin to see whether our officials can work up a more detailed arrangement which we could put to you later on.

I am copying this to the Prime Minister, Patrick Jenkin and Leon Brittan.

*For Mr  
Heseltine*

MICHAEL HESELTINE

The Rt Hon Sir Geoffrey Howe QC MP



From Dr. Keith Hampson, M.P.



HOUSE OF COMMONS  
LONDON SW1A 0AA

Al Balls

cc Soft House  
V Klein

urgent advice, please

Michael



The Budget/Industrial Development and Inner Cities

Much of Britain's industrial plant is out-of-date. We have consistently provided grants for machinery, but stimulating the improvement of factories could both help the construction industry and future industrial performance.

A key problem, however, is the unwillingness, in a recession, of companies to respond to Government grants because of the cash problems this would cause. The trick must be to both offer the company an incentive to modernise, while at the same time deferring the cost, so that payment is made when the company has the prospect of benefitting from its improved performance.

Central to this must be the role of the banks and financial institutions. The obvious model, I suggest, would be a domestic ECGD: the Government would provide guarantees to banks which provided the capital for factory improvement on the basis of delayed repayment.

An alternative would be a lease-back system; with a Government guarantee, a financial institution could buy the property, thereby providing cash which would help the management operate and expand the firm, while reconstruction of the plant would not only up-date it from the point of view of performance, but also increase the value of the investment the bank had made.

Keith

KEITH HAMPSON

8th February, 1982