

PRIME MINISTERNORTHERN IRELAND: A NEW ECONOMIC INITIATIVE

Mr Prior's proposals fall unhappily together, and to some might tend to give the impression of a province whose tax system is halfway to declaring UDI from the mainland. Such a combination of measures seems scarcely politically wise, either from his own point of view or from that of the Government as a whole. Reaction in the rest of the UK might be: "I thought Northern Ireland was supposed to be part of Britain. If these measures are good for them, why can't we have them too?"

1. That is a pity, because there is much to be said for the reduction in the National Insurance Surcharge, applicable only to private sector firms in especially depressed areas. This improved version of the Regional Employment Premium was first suggested in this office. It attacks the distortion in the present labour market in these areas which discriminates against employment of the unskilled and low-paid. It would help to remove the bias against labour-intensive firms, particularly in the services sector. We originally hoped that such a scheme could be financed through the European Regional Development Fund, but the FCO said there were legal difficulties. Now the FCO is re-examining the idea. By any standards, Northern Ireland with its desperate employment problem ought to be entitled to a generous scoop from the pool.
2. I am not convinced that the Corporation Tax Relief Grant would be much of an improvement on the present system, assuming it is envisaged as a replacement and not an addition. And here Mr Prior's reasoning is a little muddly. He declines to say what would be reduced to pay for it, on the grounds that he cannot precisely estimate the cost so far ahead. But at the very least, the Treasury is entitled to a statement of intent. Uncovered commitments are the bane of modern British Government.
3. Mr Prior rightly draws back from his officials' third proposal, for a full-blown incomes policy to operate in Northern Ireland - and, they urge, on the rest of the UK. This somewhat mischievous suggestion masks one or two sensible detailed proposals for breaking the link between national wage agreements and Northern Ireland rates of pay. These ought to be pursued piecemeal and not merged into an SDP-type incomes policy.

4. The Northern Ireland Office notes that there has been very little growth in services employment in the province as compared with the number of industrial companies attracted there. Does the 75% derating of industrial property and the lack of any derating for commercial property have something to do with this? A "rates holiday" for service firms providing new jobs would surely be a more attractive reduction in unavoidable costs than Corporation Tax relief on profits which have not yet been earned.

It might be preferable to tinker with a rating system which is already substantially different from that on the mainland, rather than tamper with a national tax like Corporation Tax.

5. We certainly do not wish to appear to be unreasonably frustrating Mr Prior's attempts to bring jobs to Northern Ireland. But in order to make sure that his Ulster initiative is seen to be a consistent part of a national campaign, we suggest that the Committee should confirm:
- (a) that regional reductions in NIS should not be confined to Northern Ireland but should be directed to other depressed areas in the context of the Quinlan review;
 - (b) that the FCO should make every effort to ensure that the cost is met out of the European Regional Development Fund;
 - (c) that the Government should welcome efforts by the Northern Ireland Office to encourage unions to bargain in accordance with regional and not national conditions, and that the Secretaries of State for Scotland, Wales and Employment should also point out the advantages of regional realism in their areas;
 - (d) that the Corporation Tax relief grant should be further considered and compared with other methods of assisting industry, particularly the services sector; and
 - (e) that any such measures ought to be accompanied by clear statements of how they are to be paid for.

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