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The Treasury Chambers, Parliament Street, London, SW1P 3AG
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3. The Northern Ireland economy is far from down. It has been growing faster than the UK average over the last 10 years.

4. But Northern Ireland is still the poorest region of the UK. Its GDP per head is 83% of the average. There is a chronic problem of long-term unemployment - 55% of the unemployed have been out of work for over a year (compared with 45% for the UK as a whole). The deprivation index for Northern Ireland is the highest in the UK. By contrast, spending on health and education in the Province is among the lowest in the UK. And its unemployment rate is the lowest.

The Rt Hon Dr Marjorie Mowlam MP
Secretary of State for Northern Ireland
Northern Ireland Office
Whitehall
LONDON SW1A 2AZ

13 January 1998

Dear Mo

REVIVING THE NORTHERN IRELAND ECONOMY

We spoke last Summer about the need for an economic package to revive the Northern Ireland economy as a counterpart to the peace process. What we want are striking and imaginative measures which will provide an immediate and sustained stimulus to the Province's economy, which will convince both communities that peace offers real rewards and which can be announced soon in a forum which commands widespread respect and attention, including in Europe and the US.

2. Our officials have been discussing the shape of such a package. Here now are my proposals which we are meeting on 15 January to discuss. I would hope that together we could make some sort of announcement of measures in the near future based on a package we are both agreed on.

6. Restart training for former members of the security forces: Welfare to Work will supersede some existing employment and training programmes. We should use the money freed up to fund training and support for members of the security forces and people in related



The challenge

3. The Northern Ireland economy is far from down and out. It has been growing faster than the UK average over the last 10 years.
4. But Northern Ireland is still the poorest region of the UK: its GDP per head is 83% of the average. There is a chronic problem of long-term unemployment - 55% of the unemployed have been out of work for over a year (compared to 37% for the UK as a whole), with stubborn areas of multiple deprivation like West Belfast and parts of the West of the Province. The economy is dominated by the public sector which accounts for 60% of the Province's GDP (43% for the UK). By contrast, spending on research and development in the Province is among the lowest in the UK. And manufacturing productivity is the lowest.
5. So sustained growth depends on tackling long-term unemployment and diversifying the Northern Ireland economy by promoting opportunity, investment and innovation.

The solutions

6. In my view, a coherent and attractive package of measures to deliver these objectives would have the following elements.

To promote opportunity

- a. Welfare to Work: we will spend £140 million on Welfare to Work in Northern Ireland. It will make a major contribution to tackling long-term unemployment and the social problems that go with it. We must take credit for this extra money and for the opportunities it will create. As you know I believe that commitment from employers is crucial to the success of the New Deal. I would like to hear from you how Northern Ireland has mirrored the concerted effort we have been making to engage employers, which in Britain has had a great deal of success in securing pledges to offer employment and training opportunities. It is essential we are on course for an effective launch from April.
- b. Re-start training for former members of the security forces: Welfare to Work will supersede some existing employment and training programmes. We should use the money freed up to fund training and support for members of the security forces and people in related



occupations who lose their jobs as peace takes hold. We need to reassure these people that peace is not a lost opportunity for them. And by including financial support for those who want to start small businesses, we can also back investment and innovation.

To boost investment

- c. Investment Zones in the most depressed parts of the Province: we could promote economic activity in the worst black spots by establishing "Investment Zones" in which the existing economic development bodies in the Province would direct their efforts. We could also focus a further EIB package on these zones. In the first instance this might take the form of a new tranche of subsidised lending - funded by money from the EU Special Support Programme and favouring small business and innovation - with a new venture/capital investment fund available in the medium term. You for your part might want to consider relaxing planning controls and offering concessions on non-domestic rates within the "Investment Zones".

To foster innovation

- d. Business taskforces: the "Investment Zones" could also provide the focus for a small number of business taskforces with a specific remit to foster indigenous small business. Their role would be to provide advice to very small businesses on marketing and the availability of finance; the provision of common support services; and help in coordinating the delivery of other government assistance.
- e. A "Powerhouse" economic development agency: the Industrial Development Board (IDB) and Local Enterprise Development Unit (LEDU) have done good work in the past, but the division of labour is now unhelpful. We need a new combined agency with an up-to-date remit to foster innovation and productivity in the Province by promoting small and medium local businesses and by attracting in managerially and technically innovative businesses from outside.

7. Alistair and I are agreed that whatever package we settle on must be deliverable within existing or planned resources. I would also however be prepared to consider some additional support for worthwhile capital investment in the Province's



infrastructure: for example, in the transport network or in higher and further education. This would depend on a clear economic case being made for such investment. It would also be conditional on your willingness to make better use of existing public sector assets - I think particularly of the publicly-owned bus companies and Belfast port - which could be run more efficiently in partnership with the private sector. In other words, I could contemplate recycling proceeds from the sale or franchising of other public sector assets in Northern Ireland if an economic case can be made for new investment.

8. I recognise that this package does not give you everything that you would like outlined in your recent letter of 23 December. I am not however prepared to agree preferential corporation tax concessions for Northern Ireland including accelerated capital allowances or exemptions from the long-life asset regime. Such concessions would undermine the UK's stance within the EU on fiscal State Aids and may conflict with the recently concluded Code of Conduct on tax competition. They would also be very difficult to justify to other regions of the UK: GDP per head in Wales, for example, is not much different from that in Northern Ireland. And preferential concessions for one part of the UK would create severe and costly administrative problems. Equally, I am not attracted to re-constituting in Northern Ireland Enterprise Zones on the current model. The evidence is that these Zones have offered poor value for money. I shall consider your other tax proposals in the context of the Budget in the normal way.

Next steps

9. We need now urgently to settle this package and to decide how and when to announce it.

10. I would very much welcome your views on the measures when we meet on 15 January.

11. One possible forum for announcement is the Northern Ireland Growth Challenge Convention on 29 January. I understand the Convention is comprehensive, bringing together both sides of industry, both communities and international representation. The question however is whether we can pull together a viable and presentable package in time for this event and whether the political climate will be propitious. We can discuss this at our meeting next week.



12. I am sending a copy of this letter to the Prime Minister, the Chief Secretary, the Paymaster General and to Sir Richard Wilson.

W. to best wishes
Gordon

GORDON BROWN

Letter and attachments dated
13 January 1998

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