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Prime Minister
8 March 1983

MR. SCHOLAR

NORTHERN IRELAND: A NEW ECONOMIC INITIATIVE

The Secretary of State's proposal is to introduce (a) a Corporation Tax Relief Grant; (b) industrial de-rating to 100%; and (c) some energy conservation scheme. By these measures he hopes that unemployment will fall. The proposals may have some small effect in increasing employment in Northern Ireland. However, this will be mainly at the expense of the rest of the United Kingdom. CTRG is a way of subsidising capital in Ireland and one would expect that it would attract capital intensive rather than labour intensive industry. Indeed, on present evidence I cannot reject the hypothesis that it will in fact reduce employment in the United Kingdom as a whole and perhaps even in the Province! It would provide additional impetus for a substitution of cheap capital for expensive labour.

The Secretary of State rejects any attempt to depress wage levels in Northern Ireland which he describes as not a realistic option. This is a pity because the evidence suggests that in crucial industries the wages in Northern Ireland are considerably higher than those in the rest of the United Kingdom. For example, in textiles where traditionally Northern Ireland has had an advantage, the earnings for adult males at £125 per week exceeds that of all the regions of England and Scotland. On the average it is 10% more than the English earnings of £112.7 and almost 18% more than the Scottish level of earnings.

Similarly, in vehicles the average Northern Ireland earnings are £144.22 which is equalled only by Greater London, all the other regions have considerably less. In the North for example the earnings of £110.70 is far below the Northern Ireland level they have a premium over the North of more than 30%.

In chemicals and allied industries, the average earnings for Northern Ireland, ie £158.64, exceed all other regions including Greater London and often by a substantial margin. (All earnings figures are for October 1982 from the Earnings Survey.)

Because of the conditions in Northern Ireland it is very likely that productivity is not sustained at levels above that of the rest of the United Kingdom. Thus wage costs per unit of output must be extraordinarily high. And we must expect no substantial reduction
/in unemployment

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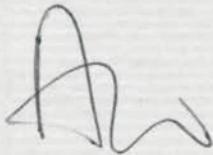
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- 2 -

unemployment until wage costs fall so that they are competitive with the rest of the United Kingdom and Europe.

Conclusions

It would be unwise to accept the proposals of the Secretary of State for Northern Ireland. They are wasteful and inefficient ways of trying to increase employment in the Province. We should ask the Secretary of State to bring forward measures such as were used on the proposed Blue Star order (you will recall that it was only on a suggestion from Number Ten that the Secretary of State introduced a wage constraint quid pro quo in the negotiations about the subsidy). Much more should be done along those lines. The Secretary of State, however, is not suggesting that CTRG is associated with a deal by the unions on wage constraint.



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