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CABINET  
MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

ADDITIONAL ENTERPRISE ZONES

Memorandum by the Chancellor of the Exchequer

Colleagues will recall that in July last year we announced the number and location of sites where the experiment of enterprise zones was to be taken forward. We have now reached the stage of issuing statutory invitations to the local authorities at two of the zones; and it is intended that the necessary statutory invitations will be issued for all but one of the remaining zones before the end of the month.

2. We are agreed that enterprise zones are an experiment designed to test whether minimising government interference in areas of economic decay is more effective in stimulating activity than conventional regional and industrial incentives. They are thus a novel concept founded on our belief that new business will flourish given a free hand.

3. The paper E(81)7 by the Secretary of State for Wales sets out the case for an additional zone at Deeside. It is clear also

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that the Secretary of State for Scotland will wish to propose a second site. I believe that it would be impossible to reject a second site for Scotland if one is accepted for Wales (and indeed vice versa). I believe also that we should - if those two were accepted - find it politically impossible not to have another zone in Northern Ireland and probably an additional English one. In short, we would be seen as re-opening the list.

4. I see four main objections to accepting the Secretary of State's proposal for Deeside. First, it is unnecessary for the purpose we have in mind of testing the validity of the enterprise zone concept. We have already nominated a sufficient number of zones, and of sufficiently variable size and other characteristics, for that purpose.

5. Second, however the case is presented, it will be seen as a response to the job losses at Shotton. It could be seen as prejudging the success of the zones, suggesting not just that zones will be effective in terms of their own goal of stimulating new enterprise, but also that they are an appropriate policy instrument for promoting job creation to counterbalance job losses. Enterprise zones are not an arm of regional or industrial policy; they are not designed to create as many jobs as possible to replace job lost; and they cannot be expected to cope with the fundamental structural problems that beset a local economy in a situation such as Shotton. This response would give rise to further pressures for similar action whenever there was a similar sharp decline in employment, but we would be using the wrong policy instrument if we yielded to them.

6. Third, the cost of adding new zones must be seriously considered. The Secretary of State's paper gives only the cost of immediate rate income forgone for Deeside. But to that must be added the potential rate income forgone, the loss of potential land development tax and of corporation tax from enterprises displaced from elsewhere in the UK. The same considerations apply to any additional zone. The costs cannot be quantified,

but they are potentially large. The dilution of the rating and tax base is a necessary consequence of implementing the enterprise zone concept, but must weigh more heavily the greater the number and extent.

7. Fourth, the enterprise zone package offers two types of incentive - freedom from government interference and fiscal concessions on taxes and rates. Unless we believe the extra incentives are substantial, there is no reason to expect real benefits in terms of new growth above what would otherwise have happened. In the case of Deeside - a Special Development Area and within the areas covered by the Welsh Development Agency and BSC (Industry) - there is already a substantial package of fiscal and other incentives to invest in the area. Moreover planning restrictions - the removal of which is the major element in the other part of the package - have not I understand hindered new development in the area. Consequently I do not believe that the extra incentives provided by an enterprise zone in this particular case could be justified.

8. In the light of these considerations, I believe we should not designate any further zones for the time being, but rest on the position taken in July.

H.M. Treasury  
16 January 1981

(G.H.)