



See Dwindle File

To: Mr Templeton

cc Mr Gamble
Mr McCann

From: Gerry Mallon

LABOUR PARTY DOCUMENT: JOBS AND PROSPERITY

Further to our earlier discussion, I would be most grateful for your first comments on the attached Labour Party document "Jobs and Prosperity" by 3.00pm tomorrow, Thursday. Please accept my apologies for the very tight deadline; the Minister is due to meet Dr Marjorie Mowlam tomorrow.

Thanking you in advance,

GERRY MALLON
PS/Baroness Denton
14 December 1994



DEPARTMENT OF ECONOMIC DEVELOPMENT

JOBS AND PROSPERITY

*Economic Regeneration and Restructuring -
Fair and Full Employment in Northern Ireland*

December 1994

Introduction

In this paper Labour is setting out proposals which we suggest the Government should adopt to assist economic restructuring and regeneration and employment creation in Northern Ireland. Labour wants to see a policy of fair and full employment implemented in Northern Ireland. We believe that measures such as these are crucial to the stability of the peace process.

These proposals are advanced in the context of Labour's belief in the overarching need to promote reconciliation between the two communities in Northern Ireland. Labour understands that the two governments are rightly considering cross-border co-operation as part of their discussion on the framework document. Many of the initiatives we advance will be made much more effective in conjunction with productive and positive cross-border co-operation. A new Northern Ireland Assembly will want to consider measures which will bring jobs and economic development to Northern Ireland.

Unemployment in Northern Ireland is presently running at 13% and particular problems exist for the 53,000 long term unemployed - now over half of the total - and the 24,000 young people - one in four of all people registered. Getting young people into meaningful training and work is essential if they're not to be attracted into violence and black-market activity.

The Northern Ireland economy needs to be regenerated and it needs to be restructured. At present some 60% of GDP in Northern Ireland is made up of government spending. A large proportion of this is for security measures. If the potential peace dividend is not to become a peace deficit in the future, with security staff joining the unemployment queues, then a comprehensive programme for investment and employment is needed.

Investment money from overseas is currently on offer. President Clinton has pledged \$40 million for 1995 and an additional £235 million over the next three years will come from the European Union in the form of a new investment package put together by Jacques Delors.

These aid packages could be crucial pump-priming resources, but **in order to translate resources into jobs, the Government must have an economic development strategy for Northern Ireland - a dual strategy for growth and jobs. This should include:**

- a strategy for the redirection of public expenditure towards investment;
- a strategy to tackle infrastructure and capacity problems;
- and a strategy to tackle the immediate problems of the social economy.

Taken together these three elements will utilise both public resources and international assistance to create an environment appropriate to expanding inward and indigenous investment. It is a package that combines the benefits of additional external resources particular to Northern Ireland with the new and innovative approach that characterises Labour's growth strategy for the UK as a whole. Northern Ireland needs both an immediate

action programme for jobs and measures to expand capacity, improve skills, rebuild infrastructure and stimulate innovation. These must be supported by macro-economic policies which set a growth target alongside a low-inflation target and make the most of European economic co-operation so that expansion of supply is matched by sustainable expansion of domestic demand.

Public Expenditure

As a result of conflict in Northern Ireland over the past 25 years, significant levels of public expenditure have been directed into the security services. In 1994-95 out of an estimated total public expenditure of £7492million, some £936 million is earmarked for *law, order and protective services* (NIO Public Expenditure Survey, December 1994). Expenditure at this level in Northern Ireland per head is almost 3 times the level of that in Britain.

If the cessation of violence continues, there should be a public expenditure 'peace dividend' as resources are redirected away from non-productive security measures and towards public investment projects. Expenditure plans for 1997/98 from the Northern Ireland Office propose to redirect some £180 million over the three year period from Criminal Damage and Emergency Provisions Compensation and from anticipated expenditure on Police over-time. This money will be reallocated to *"other important programmes"* with the caveat that, *"...if there is a return to violence by the paramilitaries, those resources which have been transferred to economic and social programmes would have to be restored"*. (NIO Press Statement 6.12.94)

If the people of Northern Ireland are to benefit from the freeing of public resources as a consequence of peace, then the government must redirect public spending on Northern Ireland towards investment in skills and infrastructure which, over time, will reduce expenditure on unemployment and free up further resources. Early evidence suggests the Tories have taken a typically short term view - within an overall real terms reduction in the Northern Ireland budget of some £75 million over the next 3 years, it is public investment which is bearing the brunt of the cuts"

Cuts include:

- spending on industry, trade and employment to fall by £9 million next year;
- spending on roads and transport to drop by £6 million next year.

The Northern Ireland Office budget must not be cut simply because resources are available from international sources. At present all European aid and aid through the International Fund for Ireland is and must continue to be treated as additional to, and not a substitute for, public expenditure. Labour will continue to monitor this carefully to ensure that this existing principle of additionality is observed.

A Strategy for Growth

Throughout the 1980's capital investment per employee in Northern Ireland exceeded that of Britain. This may be one contributory factor to explain why Northern Ireland hasn't experienced the depth of recession witnessed in the British economy in the early 1990s. As such, in growth terms, the Northern Ireland economy is in a strong position to grow further and faster.

However, there remain significant impediments to growth in Northern Ireland. For example:

- Wage levels in Northern Ireland are on average lower than those in the UK.
- Productivity in Northern Ireland has been declining. In 1983 GDP per head in Northern Ireland was 79.4% of the UK average. It has declined each year since then and by 1991 stood at 77.1%.
- There are at present an insufficient number of medium to large size companies in Northern Ireland. The economy has become increasingly reliant on the small firms sector with companies employing less than 50 people accounting for 96% of total establishments in Northern Ireland.

Of course the other major difficulty for the Northern Ireland economy is the high level of unemployment - especially of long-term unemployment and youth unemployment - and the problems associated with the imbalances in employment levels between the two communities.

For example:

Unemployment in Northern Ireland October 1994: Not Seasonally Adjusted

Total Claimants as % of workforce	93,471 12.5%
Claimants aged under 25 as % of total	24,147 26%
Claimants unemployed > 1 year as % of total	53,049 57%
Claimants unemployed > 5 years as % of total	18,233 19.5%

Source: NOMIS - ED database

Labour suggest that the Government should develop a dual strategy for dealing with

unemployment in Northern Ireland. A package of urgent measures is needed to combat long-term unemployment in conjunction with an economic strategy to promote growth, investment and employment in Northern Ireland.

Labour believes that the key to a strong economy is sustained, long-term investment. Northern Ireland needs an increase in the quality and quantity of investment - in businesses large and small, in research and development, in the communications infrastructure, in the environment and, above all, investment in people.

Labour believes that governments have a responsibility to build partnerships. Partnerships between government and industry, between public and private sectors, between society and the individual, between employers and employees and their representatives.

Labour suggested a number of proposals for the Chancellor of the Exchequer's recent Budget. Labour also pinpointed - in *Tackling Tax Abuse, Tackling Unemployment* - 25 tax loopholes which we believe the Chancellor should have closed in the Budget. In fact he closed one.

Labour's proposals include

A New Public-Private Finance Initiative

- The Government should put high priority on those projects which are of strategic importance in Northern Ireland - such as the road and rail infrastructure which would clearly benefit from effective cross-border co-operation and co-ordination.
- The Government must put in place a mechanism that will allow public sector bodies to express preferences through favouring some projects more than others by a combination of the amount and type of public investment and the private sector to express views on what makes sense by funding its choice of projects on market terms.

Working in Partnership with Private Sector Investment to Achieve Public Service Goals.

- For example, the Cable Communications franchise in Northern Ireland has yet to be awarded. In inviting applications to tender, the regulatory authority could require companies to specify whether they will provide a cable link up free to all the Schools, Colleges, hospitals and public libraries in Northern Ireland.
- The further development of the telecommunications infrastructure in Northern Ireland could also be made more productive by deepening cross-border co-operation and co-ordination with the relevant organisation in the Republic of Ireland.

Labour is suggesting that the Government initiate consultation on the tax treatment of investment. Labour is also setting up an Advisory Panel on Corporate Taxation.

This year, seven leading industrial associations called on the Chancellor to take action to promote investment through:

- the introduction of tapered rates for capital gains tax on corporate equity to encourage longer term holdings;
- first year 100% depreciation allowances for the first £200,000 of investment in plant and machinery as an incentive for investment, and of particular benefit to smaller companies;
- maintaining the real value of existing capital allowances for plant and machinery.

Labour is sympathetic to the principles embodied in these proposals. In our Budget Submission we urged the Chancellor to explore, with consultation, whether the advantages of the rebalancing embodied in each initiative is regarded as sufficiently attractive to be worthy of implementation without additional net cost.

Public Enterprises: Commercial Freedom in the Public Sector

For the unique circumstances of public corporations such as the Post Office, Labour is proposing a new model of public enterprise. This requires a new relationship with the post office which:

- protects those core services - such as universal mail delivery at a uniform price - which are essential to every citizen; and
- allows the Post Office management the freedom to develop new services on a commercial basis.

Where other privatisation measures are proposed - such as water - the Government should abandon the commitment to privatisation now.

Help for Small Businesses

Small businesses are of crucial importance to the Northern Ireland economy. Labour believes in a close and constructive relationship with small businesses. They have an important role to play in sustaining a prosperous economy, responding innovatively to consumer demands and in generating jobs.

In addition to the proposals in investment set out above, we believe special measures are needed to address the particular difficulties confronting small businesses especially in raising finance and sustaining an adequate cash-flow. At present small firms are all

too often dependent on short-term, expensive finance, involving a high degree of personal risk and liability.

We propose:

- the establishment of a commercially-managed Business Development Bank for Small Businesses to raise private finance for long term investment in small and medium sized businesses;
- to encourage small firms developing new technologies;
- a Moratorium Law giving small firms in financial difficulty the time to develop a rescue package and avoid unnecessary bankruptcy;
- the introduction of a statutory right to interest on late payment, together with measures to promote prompt payment and greater accountability on the part of both public and private sector bodies;
- improved small business advice and support with more effective co-operation between local agencies.
- to work with existing agencies to encourage an attitude change among the management of small to medium sized businesses to broaden their horizons, to develop marketing techniques and to realise their export potential.

Investment in Innovation

We suggest that the Government works with others to build a strong partnership between researchers and businesses to agree a strategy for innovation, to reverse decline and build up Northern Ireland's strength in high value-added processes and products which will be the source of competitiveness, prosperity and jobs for the future.

Labour's corporate tax review will consider the merits of a new fiscal incentive to encourage research and development.

Investment in Skills

It is the skills and abilities of the workforce which will determine the ability of the Northern Ireland economy to compete in the modern world.

Nothing short of a skills revolution is required in Northern Ireland. The skills revolution requires education and training to move to the centre of economic policy.

Northern Ireland needs an education and training system which enables all workers to retrain continually throughout their working lives. This will require a great expansion

in education and training. Education and training are a crucial part of the infrastructure for economic development. The Government's approach of leaving training to be developed by market forces has failed.

Northern Ireland needs a long-term strategy to develop its training system. Labour wants to see:

- every young person encouraged to continue in mainstream education and training;
- a new system of education and training for 16 - 19 year olds which will provide a unified framework for academic and vocational qualifications. Such a new system should be based on modular courses which allow for the accumulation of credits;
- new opportunities for retraining for those in work by ensuring that companies invest in upgrading the skills of their workforce. companies who fail to train to a certain standard will face a training levy;
- a Northern Ireland skills audit (to be compared with information available for the whole island of Ireland) to identify the skills which are in short supply, with a view to targeting training resources on removing bottlenecks and on providing those skills most likely to lead to employment;
- a public-private partnership exploiting the communications link-up to bring the latest innovations in learning to upgrade the skills and qualifications of the workforce. We welcome the establishment of a think-tank by all the universities on the island of Ireland as the prelude to more extensive co-ordination of activities in Higher Education.
- a review of tax incentives, grants and the benefits system with a view to encouraging training and education.

Sectoral Activity

- Investment in the **Environment** generates jobs as well as improving efficiency, raising the quality of life, conserving Northern Ireland's natural heritage.

Labour is calling for the examination of a self financing energy efficiency initiative to improve insulation and save energy for households throughout Northern Ireland. This is particularly appropriate to Northern Ireland where household energy bills are 26% more expensive than in Britain.

- **Tourism** in Northern Ireland currently contributes around £120 million per annum to GDP and employs almost 10 000 people.

The absence of conflict can enable the full potential of Northern Ireland's

natural and built heritage to be realised so that in the medium to longer term, tourism's contribution to the economy could be expected to double, potentially creating another 8 to 10 000 jobs. This is an important area for expansion as jobs can be created relatively quickly.

- **Agriculture** and associated industries remain central to the Northern Ireland economy. Investment in skills and technological innovation will be of great assistance to the burgeoning food processing and packaging industries. This sector will particularly benefit from greater co-ordination within the European Union of the common interests of agri-businesses on the island of Ireland.

Policy initiatives such as these could be made far more productive by effective cross- border co-operation between the Irish Republic and Northern Ireland.

Trade with the Irish Republic is already increasing from a very low level. Since the announcement of the paramilitary ceasefire the flow of traffic and commercial interest across the border has also increased. We welcome plans for improved road and rail links between Northern Ireland and the Irish Republic and expect to see an increase in trading activity. Labour welcomes the number of recent reports which have endorsed the development of the Belfast to Dublin economic corridor.

A Strategy for the Social Economy

For Northern Ireland, Labour sets the twin goals of fair and full employment. We recognise that long-term unemployment occurs in both communities but it is especially concentrated among the Catholic population and in urban, inner-city and border county areas. Labour recognises that, in such circumstances, it is important to target social need by focusing on the skills, capacities and opportunities of the long term unemployed.

Labour believes that mass, long-term unemployment is the clearest symptom of the capacity problems of the Northern Ireland economy. The above proposals will create jobs through increased economic activity, growth and long-term competitiveness. Labour is also proposing that the Government examine a comprehensive package of measures which can be taken quickly to attack long-term unemployment and tackle the barriers in the welfare state which prevent many people - including working mothers - from getting back to work.

The high number of people employed in security activities is also a challenge with the onset of peace. Estimates of potential unemployment among existing security employees range towards 20,000 people. Clearly the re-employment of these people into civilian activities will place further pressure on the need to create new job opportunities in Northern Ireland.

Labour believes that governments have a responsibility to match individual obligations with community action to promote new opportunities. The following proposals are designed to:

- offer new routes back to work;
- tackle the disincentives for unemployed and low-wage people taking new jobs by sharpening incentives to work;
- end crude means-testing and introduce a minimum wage in order to under-pin the benefit system and ensure that in-work benefits do not simply act as a subsidy to low-paying employers;
- offer a new deal for the unemployed - opportunities to match obligations, rights and responsibilities;

Labour's Eight Roads to Work in Northern Ireland

1. Immediate Employment Measures

The particular problems of Northern Ireland's recent experience and immediate future prospects present a great challenge. Very long-term unemployment (over 5 years) can severely impair access to opportunity for employment. Since in Northern Ireland, this group constitute some 20% of the total unemployment, the problem is particularly acute.

Labour is proposing a package of emergency measures to tackle this problem, using resources available from international aid, and from redirecting public spending, to support a diversity of projects such as community work and development programmes, environmental work, local economic initiatives etc.

It is important to provide incentives to individuals become involved in such work - they must not be seen as work-fare or cheap labour programmes. Projects such as these must be attractive to the very long-term unemployed and will play a central role in providing them experience of work and the opportunity to learn new skills.

2. New Training Measures and The Reform of the 21 Hour Benefit Rule

Skills training is an important road back to work for many unemployed people. But the Government has been cutting the training budget throughout the recession and into the recovery. The 21 hour benefit rule is stopping long term unemployed people from seeking training and self-advancement. We suggest the Government should introduce training and re-training incentives targeting redundant workers who need to re-skill for new work. It should be easier for the long-term unemployed to seek training while continuing to claim benefit. We suggest the Government should relax the existing 21-hour rule in order to enable people out of work for more than a year to undertake approved retraining courses.

More needs to be done to help the unemployed find new jobs. Labour wants to see a renamed and re-focused Re-Employment service become more pro-active by, for example establishing a computerised vacancy data-bank to help people find new jobs. Labour suggests that the possibility of expanding and extending the ACE training programme in Northern Ireland should be considered.

3. A benefit Transfer Programme

For many unemployed people, a period of time spent working in the community in return for an agreed training course would be not only socially beneficial but personally worthwhile. There are already a number of schemes, often in the not-for-profit sector, which provide work and training for the long-term unemployed. We will investigate whether similar "benefit transfer" style schemes can be established more widely, but at no extra cost to the Exchequer, enhancing the community's ability to meet unmet social needs.

4. A National Insurance Holiday for Employers Who Hire People Unemployed for Over 1 Year.

Any private sector employer who takes on someone who has been out of work for 12 months or more should be offered a national insurance holiday for the first six months of employment as an initial incentive to hire the long-term unemployed. This tax holiday should apply to proper full-time jobs paying at least the minimum wage. There would be an obligation on the employer to provide training as a condition of the rebate. We would ensure, through monitoring and spot checks that the rebate was only available for new employees filling a genuine vacancy and was not abused by employers who simply sack their current staff.

5. A £75 Tax Rebate for Employers Taking on the Long-Term Unemployed (over 2 years)

Tackling the problem of entrenched long term unemployed requires tough action. Labour propose that employers are offered substantial tax rebate of up to £75 a week for six months for every person currently out of work for 2 years whom they take on in full time employment. This rebate would apply only to proper full-time jobs paying at least the minimum wage and there would be an obligation on the employer to provide training as a condition of the rebate. Again a similar system of spot checks would apply to deter abuse.

6. Training and Work Opportunities for Young People

The level of unemployment among young people in Northern Ireland is economically wasteful, socially disastrous and needs priority attention. Every young person should be offered a choice of further education - academic or vocational - or work in the private sector with a guaranteed training component. For many, basic education will be a necessary first step.

7. Tackling the Poverty Trap and Crude Means Testing

The Government's promotion of a low-wage economy and their failure to update the welfare state means that a growing number of people are trapped on benefit, unable to make the transition into employment because of poverty traps and benefit rules which can even mean that families are better off if people do not work. They have allowed systems such as Family Credit to become a subsidy for low wage employers; not addressed the harsh transition between income support and family credit if people take work of more than 16 hours per week and ignored the low take-up of benefits.

Labour is proposing a number of possible reforms to tackle these problems:

- **A Minimum Wage:** to outlaw exploitatively low wages and to under-pin the benefit system and provide new incentives for the unemployed to take jobs at decent wages.
- **Smoothing the Income Support/Family Credit Transition:** To stop people being deterred from taking full-time work because of the delay in processing Family Credit applications. Income support should continue to be made available until Family Credit comes on stream.
- **Tackling Low Take-up:** Take-up of benefits like family credit remain below 70%. Labour is proposing that anyone starting work for more than 16 hours and whose income would qualify for Family Credit should automatically be sent the relevant claim forms and told they may eligible for Family Credit.

8. A New Deal for Working Parents

The absence of high quality, affordable child care in many parts of Northern Ireland and rigidities in the welfare system are a deterrent to many women who may wish to go out to work. Labour is proposing the following changes to help mothers into work:

- making the services of the re-employment service available to non-working women, encouraging them to participate in existing training, job clubs and find help looking for work;
- the promotion of public-private partnerships to increase the availability of high quality child-care ;
- benefit changes to prevent partners giving up their job because of the withdrawal of household benefits. Consideration should be given to measures such as a working parent's disregard on family credit to allow a portion of earned income for each parent which would be excluded from the assessment of household income for family credit;
- although the above will make a difference, training programmes which are focused on women will also be crucial.

The measures set out above will set Northern Ireland on the road to full employment. Labour will also continue to work to promote fair employment in Northern Ireland. Having fought for it and won - alongside the Irish Congress of Trade Unions - Labour welcomes the decision by the Secretary of State for Northern Ireland to transfer responsibility for the forthcoming review from the Government's Central Community Relations Unit to the more independent Standing Advisory Commission on Human Rights (SACHR).

We urge SACHR to address matters such as improving existing measures for tackling discrimination and the need to identify new measures and programmes to achieve targeted and identifiable change. For example:

- the Government should consider extending the powers of the Fair Employment Commission to deal with private and public employers who repeatedly face charges of discrimination;
- the role of Government departments and public bodies in Northern Ireland to develop and implement policies which improve the position of under-represented groups needs to be properly examined by the review. There should be an assessment of the Policy Appraisal and Fair Treatment Guidelines to ascertain, for example, the extent to which policies are adopted which utilise the skills of the long-term unemployed or target training to ensure genuine equality of opportunity in all sectors. Further, the location of new industries and the role of the IDB and LEDU should also be investigated. The Targeting Social Need and Making Belfast Work programmes need to be reviewed to gauge their impact and effectiveness as part of an equality strategy.

We urge the Secretary of State to take note of and to act upon the conclusions of the review with urgency.

Conclusions

The absence of conflict in Northern Ireland can bring enormous economic benefits:

- public expenditure will be freed from security purposes and can be redirected into social and economic programmes;
- aid from overseas will provide additional resources for capital and revenue investment;
- the tourism and retailing industries will benefit from an influx of new visitors spending new money in Northern Ireland;
- a peaceful and prosperous Northern Ireland, with a well educated young workforce will be a great attraction for inward investors.

The continuation of the ceasefire provides a great challenge and a great opportunity for the people of Northern Ireland. Labour is suggesting that the Government implement the proposals contained in this paper.

Marjorie Mowlam MP
Paul Murphy MP
John Spellar MP