Regional Analysis: The Northern Ireland Experience

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SINCE 1936 Northern Ireland has had a higher unemployment rate than any other region of the United Kingdom. For the period 1927–1936, unemployment was proportionately higher in Wales and in 1932 it was higher in Scotland. Even then the position was unsatisfactory in absolute terms since the proportion of insured workers, outside agriculture, who were unemployed was on average over 20 per cent.[1]

More recently, although absolute unemployment percentages have become much lower, Northern Ireland has had the uncomfortable distinction of an unemployment rate of 7+ per cent which has been 3—4 times higher than the national average and twice as large as the level in Scotland or the North of England.

The purpose of this paper is:

(*a*) to postulate the main reasons for the continuation of relatively high unemployment in Northern Ireland;
(*b*) to enumerate the policies which are being applied to try to remove this unemployment;
(*c*) to indicate the problems in evaluating the policies;
(*d*) to examine the results; and
(*e*) to examine the policies and results in relation to the workings of a devolved regional government.

This last point has become more important recently because of the establishment of the Royal Commission on the Constitution under the Chairmanship of Lord Crowther, which, *inter alia,* will be examining the merits of devolution in other areas in the United Kingdom. From a Northern Ireland viewpoint, this is a useful opportunity to review the existing arrangements and, if necessary, seek improvements.

The Northern Ireland Government is, *de jure,* responsible for the main economic and social policies affecting the province. Policies of agricultural or industrial development are the prerogative of Stormont, as is the execution of physical and

1. Derived from Isles and Cuthbert; *An economic survey of Northern Ireland;* published by H.M.S.O., 1957, p. 572.

economic planning in the area. These responsibilities can of course, be effectively exercised only with adequate government financial resources and it is through the Westminster-Stormont financial arrangements that Westminster has a major indirect influence. Northern Ireland has therefore a twofold interest in Westminster's policies. Firstly, that the United Kingdom economy should be regulated so that all its labour resources are, as nearly as possible, fully employed and secondly, that adequate financial resources and/or fiscal advantage should be available to Northern Ireland to enable the Stormont Government to pursue policies which are effective in reducing regional disparities in employment opportunities and standards of living within the United Kingdom.[2] In the period since 1945, average unemployment percentages for the United Kingdom as a whole have usually been low enough to conclude that the first of these has been achieved, although from a regional viewpoint, even lower national rates would have been attractive. For the second, an assessment is more difficult and discussion of this topic is deferred for the moment.

A. *The Reasons*

The reasons for the continued high unemployment are varied. Amongst them are:

(*a*) the structure of industry;

(*b*) the location of a large part of the population outside major urban centres;

(*c*) relatively low inter-regional labour mobility;

(*d*) relatively low inflow or creation of capital and enterprise.

These arguments can be partially quantified.

The structure of industry: In 1948, 40 per cent of the employment in Northern Ireland was in agriculture, textiles, shipbuilding and aircraft manufacture. By 1958 this had fallen to 32 per cent and 40,000 fewer people were employed in these industries. Ten years later, in 1968, the percentage had fallen to 22 and 48,000 fewer people were employed in the same industries as compared with 1958. (See Table 1, attached as Appendix).

Northern Ireland is not the only region to have experienced such a large change in its industrial structure. A comparison with Scotland is the easiest to make but, of necessity, must include the changing employment in mining. Over the ten-year period 1958–68, there was a fall of employment in these five industries in Scotland of 154,000; this is a proportionately smaller reduction than in Northern Ireland—7 percentage points in Scotland as compared with 10 in Northern Ireland. These contracting industries make up a smaller part of total employment

2. The extension of the objectives to include "standards of living" was made explicit in the report on Economic Development in N. Ireland by Professor T. Wilson in 1965, Cmd. 479 (N.I.), para. 9.

in Scotland (14 per cent in Scotland, 22 per cent in Northern Ireland in 1968).[3] The United Kingdom figure for employment in these industries is only 8 per cent of the total.

The location of the population: The following table illustrates the way in which the population of Northern Ireland is more "rural" based than that of Scotland or England and Wales.

TABLE 1: *Proportion of population living in urban/rural administrative areas*

	Urban	*Rural*
Northern Ireland		
1931	53	47
1951	53	47
1968	53	47
Scotland: 1968	73	27
England and Wales: 1968	79	21

The relative stability of the Northern Ireland figures is somewhat misleading since much of the population growth has taken place in areas denominated as "Rural Districts", but in fact in a suburban relation to an urban centre. However, any allowance for this would still leave a significant difference when compared to the rest of the United Kingdom.

The geographical spread of unemployment cannot be illustrated in the same way. However, of the 520,000 insured employees, 222,000 are in the Belfast area (as defined in terms of Employment Exchange areas) and the next largest is Londonderry with 27,000 employees.

TABLE 2: *Employment and unemployment*

(*a*) *Males*

	Insured Employees	%	Un-employed	%	% unemployed
Belfast Commuting area	182,500	57	10,534	37	6
Londonderry area	17,030	5	3,064	11	18
Rest of N.I.[1]	122,470	38	14,743	52	12
Total	322,000	100	28,341	100	9

3. An attempt to make a similar comparison with the North of England was unsuccessful but the percentage of employment in these "contracting industries" was lower than that in N. Ireland in 1968.

(b) *Females*

Belfast Commuting area	111,760	56	3,264	41	3
Londonderry area	10,400	5	387	5	4
Rest of N.I.[1]	76,840	39	4,299	54	6
Total	198,000	100	7,950	100	4

[1]Comprising 19 local office areas of the Ministry of Health and Social Services.

Source: Ministry of Health and Social Services, Abstract 2, March 1970.

Table 2 illustrates the importance of the Belfast commuting area in the provision of employment and demonstrates that outside this area there are no substantial concentrations of population. Even Londonderry can be considered relatively small as an economic base. The fact that the "rest of Northern Ireland" (in 19 smaller areas) has a higher proportion of the unemployed is as might have been anticipated.

Labour mobility: It is possible to argue that labour mobility out of Northern Ireland has been lower than might have been expected in the light of the prevailing levels of unemployment and relative standards of living.

The evidence for this suggestion is the comparison of net emigration rates and unemployment rates for Northern Ireland, Scotland and the Republic of Ireland.

TABLE : *Net emigration per 1,000 of population p.a.*

Year	*N. Ireland*	*Scotland*	*Republic of Ireland*
1921–31	8·7	8·0	—
1931–51	2·9	2·3	6·9[1]
1951–61	6·8	5·5	14·1
1961–66	5·3	7·7	5·7

Sources: Derived from *Annual Abstract of Statistics* 1969 and *Statistical Abstract of Ireland*, 1968.

[1] 1936–1951.

In recent years Northern Ireland has had substantially higher unemployment than Scotland (usually double) yet the net emigration rates are not very different. Compared with the Republic of Ireland, unemployment in Northern Ireland has probably been slightly lower. Admittedly, emigration and unemployment are more difficult to relate in practice than might be anticipated, but a simple comparison of emigration rates and unemployment for the regions of the United Kingdom makes Northern Ireland seem out of line.[4]

As an explanation, an attempt could be made to argue that net emigration rates are inelastic with respect to differences in unemployment rates between regions or, an even stronger view, that a correlation of this kind is not to be expected at all. Alternatively, the emigration rates should probably be standardised with respect to the age distribution of the population since the 25–39 age group in Northern Ireland contains a lower proportion of total population than in Scotland. This problem worried Isles and Cuthbert but they were unsuccessful in their search for an explanation.[5] It may be that the labour market in the United Kingdom is less perfect in relation to Northern Ireland than to other areas or that differences in unemployment rates are a poor indication of differences in standards of living between areas. The former might be accepted if the separation of Ireland from Great Britain by the Irish Sea could be used to explain a reduction in labour mobility. The figures for the Republic of Ireland make this argument look thin. It might also be justified if one had evidence to show that there were non-economic factors at work (e.g. cultural differences).[6] The existence of a devolved administration with responsibility for local economic development might have had some influence in this way.

The inflow of enterprise: An argument that the inflow, or local generation, of new employment opportunities has been "too low" because it has not been large enough to reduce unemployment is simply to turn from the supply to the demand for labour.

Any attempt to assess whether the increase in the demand for labour in new, or expanding, establishments is too low with respect to other objective criteria is more difficult. The table below is an attempt to make a comparison with other areas. It indicates that new manufacturing employment, arising mainly from new location decisions, is more directly correlated to the size of the population in the regions than it is to the absolute numbers unemployed.

4. An attempt to relate net emigration to the natural increase in population also showed N. Ireland with a lower rate of emigration than Scotland or the Republic of Ireland. Geary and Hughes in a recent Economic and Social Research Institute paper(No. 52) have concluded that net migration of employees *is* correlated to average unemployment rates.

5. *op. cit.* p. 250.

6. See Robinson: *Backward areas in advanced countries,* for a general argument of this type.

TABLE 4: *Employment in manufacturing firms which have moved into an area or a region, between 1945 and 1965 compared to population and unemployment*

Area	Employment in "moves" in 1966		Proportion of U.K. population 1966	Proportion of U.K. unemployment 1966
	('000)	*% of total*	(%)	(%)
North West England	126·0	14·4	12·3	11·6
Scotland	103·2	11·9	9·5	16·2
Northern England	90·4	10·4	6·1	9·0
Wales	93·7	10·8	5·0	7·5
Northern Ireland	39·8	4·6	2·7	8·0

Source: R. S. Howard, *The movements of manufacturing industry in the United Kingdom*, Board of Trade, 1968.

In Table 4 Northern Ireland shows an increase in employment which is slightly better than its population ratio, but is well below its unemployment proportion. The following table indicates that in recent years this position has been changing and at first sight, may seem more optimistic from a Northern Ireland viewpoint.

TABLE 5: *Employment in 1966 in firms which have moved*

('000 of employees)

Moves between	*Northern Ireland*	*Scotland*	*Wales*	*Northern England*	*N.W. England*
1945–1951	14·2	48·7	69·4	63·3	46·6
1952–1959	7·1	20·1	8·4	13·2	34·2
1960–1965	18·6	34·3	15·9	13·9	45·3

Source: as in Table 4.

Ireland viewpoint.

These figures may mean that there has been a change over this period in the locational pattern of employment in firms that move which has been favourable to Northern Ireland. The doubt which remains, and on which no known evidence exists, is whether the proportionately higher figures in other regions for the earlier periods are made up of "small beginnings" and later "expansions" and whether the Northern Ireland figures have, in the past, not reflected the same pattern of later expansion. This point is clearer when it is realised that the figures in the table are of employment *in 1966* of firms moving into an area between the dates shown.[7]

The faster expansion of "new" employment in the later period has unfortunately not reduced the local unemployment percentage because it coincided with a period of rapid contraction in employment in other firms (noticeably shipbuilding).

B. *The policies*

Prior to any discussion of the policies being implemented in Northern Ireland an indication of the objectives of policy for the region may be helpful. A recent statement of these objectives, as seen by the Government of Northern Ireland, was contained in the government statement issued in 1965 as a foreword to the first report by Professor Wilson on economic development in Northern Ireland. These were:

(i) to promote the further economic expansion of Northern Ireland and thereby to make a contribution to the economic growth of the nation as a whole;

(ii) to make orderly provision by planned physical development both for the present population and to take account of estimated population growth; and

(iii) to effect a substantial increase in employment opportunities, with the object of further reducing the levels both of unemployment and of net outward migration.[8]

The internal consistency of the first two of these objectives may be questionable, although the wording is such that any inference that national economic growth would be *maximised* is avoided. Also in the third, the regional ambition to reduce (and minimise?) net emigration is explicit although in a national context this might be criticised. Not stated explicitly in these aims is the further constraint that they are to be achieved whilst at the same time earnings differentials in similar occupations in Great Britain and Northern Ireland are not widened.[9] Even this statement may be too conservative: the local trade union officials would argue that differentials should be narrowed.[10] The assumption that is made is that labour is at least as efficient in Northern Ireland as in other regions. Indeed each development

7. It is to be hoped that the Board of Trade, now renamed the Department of Trade and Industry, will refine their analysis in a later publication on this topic.

8. *op. cit.*, para. 8.

9. The Report of the Joint Working Party on the Economy of Northern Ireland (The Hall Report), 1962 Cmmd 1835 (U.K.) discussed the prospect of encouraging the widening wage differentials (para 114) but made no recommendation.

10. Sometimes this point is confused by references to differences in average manual earnings for the whole of industry. These differences are wider than those for individual occupations because of the weighting of the different industrial sectors in the regions of the United Kingdom.

region seems to make this assumption—since there is no known evidence to the contrary—and regional analysis proceeds on the assumption of uniform labour efficiency in each occupation throughout the United Kingdom, so that variations in value added per employee in similar establishments are in different areas regarded as attributable to differences in capital intensity, entrepreneurial efficiency, or costs arising from the location of a particular firm.

In assessing the regional policies as applied in Northern Ireland two possibilities are, therefore, ruled out. These are (i) the encouragement of higher rates of emigration and (ii) the introduction of wider earnings differentials between Northern Ireland and elsewhere. That they are ruled out on the basis of social and political arguments is not necessarily defensible in economic terms if the primary aim is to secure full employment. Some attempt to defend this position might be made if it could be demonstrated that either or both of these policies would cause the position in Northern Ireland to worsen cumulatively. Hirschmann has postulated that heavy emigration may, through the effects on the structure of the labour force, make economic development in a poor region more difficult.[11] Robinson, in summarising the thinking at the Varenna conference, on this type of region, suggested that this point may have been reached in Southern Italy.[12] The evidence on emigration alone does not, *prima facie,* suggest the inclusion of Northern Ireland in this category, although in the last inter-censal period (1961–66), an analysis of net emigration rates by age group shows that in the younger adult age groups, and contrary to the overall average, net emigration rates have risen.[13] However, this has not been large enough to cause a reduction in the total population in the younger adult age group. The fall in other net emigration rates in the early 1960s was not quite large enough to reverse the decline in recent years in the population in the 25–39 age group but more recently this may have occurred. The population figures have been:

TABLE 6

Year	*Total Population ('000)*	*Population Aged 25–39 ('000)*
1937	1,280	280
1951	1,371	285
1961	1,425	263
1966	1,478	250
1970 (est.)	1,525	259

11. Strategy of Economic Development.

12. *Backward areas in advanced countries,* p. xiv.

13. The emigration in the age group 20–24 for males rose from 2·1 per cent p.a. in 1951–61 to 3·0 per cent p.a. in 1961–66 and for females the change was from 1·6 per cent p.a. to 2·2 per cent p.a.

The local labour market may have been distorted by this fall in numbers in a key age group but currently the natural increase in population is expected to more than offset net emigration, so that the decline in population in this age range may be reversed.

The policies adopted by the government in Northern Ireland in the past twenty years to try to reach the objectives stated above have gradually become both more extensive and expensive. In brief the main policies might be codified as attempting to:

(1) improve the economic and social infrastructure of the province;
(2) create a greater concentration of the population in the larger urban centres;
(3) improve the efficiency of agriculture;
(4) improve the efficiency and skills of the labour force;
(5) reduce the locational disadvantages to manufacturing firms already operating in Northern Ireland;
(6) encourage new manufacturing firms to locate in, or expand in, Northern Ireland;
(7) reduce the demand for employment by excluding non-residents from employment.

Under each of these headings it is possible to argue that not only is the position in Northern Ireland different from that in the rest of the United Kingdom but also that Northern Ireland has relatively more extensive, and considerably more expensive, schemes than any other development area.

1. *Infrastructure:* Northern Ireland contains 2·7 per cent of the population of the United Kingdom—and 6–8 per cent (1966–68) of the total numbers unemployed. In terms of public capital expenditure on the main items of the infrastructure, the proportion of the total spent in Northern Ireland as a percentage of that spent in Great Britain was, in 1968–69 as follows:

TABLE 7

	%
Employment, industry and trade[1]	46·1
Roads and transport	4·8
Housing and environmental services	3·1
Education	3·2[2]
Health and Welfare	3·3

[1]Main item: advance factory construction.

[2]Education is not strictly comparable: the percentage rises to 4·2 per cent if capital transfers are included in both areas.

(*Sources:* Cmmd 4238 and *N.I. Digest of Statistics*, No. 32.)

2. *Concentration of population:* Only since 1963, when the Matthew Report in the Belfast Region was published,[14] has an implicit recognition been given to the need to create larger concentrations of population which (i) have any chance of forming an adequate labour market for reasonably large industrial units and (ii) may generate the other internal economics which an establishment would find important in comparing the profitability of different locations. The proposals to concentrate major public development programmes on Craigavon, Antrim-Ballymena and Londonderry, each with the prospect of a population in excess of 100,000 within twenty years, represents an attempt to redirect the expansion of the immediate Belfast area—into Craigavon and Antrim-Ballymena—and an attempt to make Londonderry a growth centre in the North-West of the region. It is arguable in economic terms whether a population of 1·5 million is large enough to justify more than one growth centre, but social considerations make this argument untenable. In terms of the evidence offered by Allen, in his study on the minimum economic size of growth centres, then these areas may be large enough for public capital expenditure, although the effects on industrial location decisions are less certain.[15]

3. *Agriculture:* In addition to all the normal producers "deficiency payments" and production grants which operate in Great Britain, the farming industry in Northern Ireland receives special financial assistance costing £1·7 million per annum. This is spent on schemes to aid land improvement and drainage, bonuses on cattle sales above certain standards, extra payments on cattle breeding stock, to finance the Agricultural Trust and to assist the Pig Marketing Board; all of which expenditure has no direct counterpart in the rest of the United Kingdom.

Also the standard quantity fixed for milk production in Northern Ireland is very much larger in proportion to liquid milk sales than in Britain with consequential transfers of about £4 million per annum through the British Treasury to the Milk Marketing Board and on to Northern Ireland farmers.

4. *Labour training:* Proportionately Northern Ireland has several times as many places in Government Training Centres as in Great Britain. They are extensively used for short courses of training for employees either in advance of employment or subsequent to their recruitment by an employer. In addition, Northern Ireland is the only region where apprentices are directly recruited by Training Boards (Engineering and Construction) and given initial apprenticeship training without having a direct employer. These apprentices are, in theory, therefore a means of expanding the skilled labour force—always providing that existing employers do not recruit after training instead of before!

14. Cmd 451 (N.I.)

15. See *Regional Policy in E.F.T.A.*, University of Glasgow, Social and Economic Studies. Occasional Paper No. 10.

5. *Offsetting locational disadvantages for existing establishments:* The principal *extra* measures in Northern Ireland are:

(*a*) capital grants of 20 per cent on plant and 35 per cent on buildings for all manufacturers (although no general investment grants now exist in other Development Areas);

(*b*) loans to supplement capital grants in special cases of major re-equipment;

(*c*) 75 per cent industrial derating continues—after its abolition in England and Wales;

(*d*) £1 million allocated annually to manufacturers in proportion to their expenditure on coal and oil.[16]

6. *Encouraging industrial expansion.* The Ministry of Commerce have the advantage here of a "bargaining position". The legislation, recently renovated in the Industries Development Act (1966), but which has, in principle, existed since 1945 permits the Ministry to

> "provide assistance by means of grants or loans or guarantees of loans (or by all or any one or more of such means)."

In practice this means that grants for capital expenditure, on special projects, can exceed 20 per cent and can be "tailored to suit a particular project". The composition of grants and loans and the method of their determination is confidential to the firm involved and the Ministry. The public interest is served by a committee of non-civil servants who advise the Ministry. It is known that (i) grants up to (or even in excess of) 40 per cent can be offered on occasion, (ii) grants can be on occasion related to employment rather than capital and (iii) loans have, in some cases, proved more attractive than grants. In addition government-owned factories are always available (in certain sizes) at favourable rents.

7. *The Safeguarding of Employment Act* prevents all non-Northern Ireland residents from obtaining employment in Northern Ireland without a permit. These are not available if it is felt that a suitable Northern Ireland resident is unemployed and could take the job. The Act is mainly designed to prevent a cross-border flow of labour, but in recent years has also hit many people from Great Britain—especially wives of men who themselves come in on employment permits.

C. *Evaluation of the policies*

If the regional objectives, stated above, are accepted, then the central question on examining this range of policies is whether they represent the optimum use of resources to maximise the growth of the domestic product and hence to increase employment and living standards. A related question is whether the resources

16. In addition, manufacturing industry enjoys the benefits of the Regional Employment Premium, which is due to be terminated in 1974, and "free depreciation". Both of these schemes also apply in other Development Areas.

used to finance these policies which are largely transferred from the rest of the United Kingdom are likely to be of a temporary and/or diminishing nature—i.e. whether the expenditure will produce self-sustaining growth or not.

Some of the assistance to established enterprises can be criticised under the latter statement. The milk marketing and pricing arrangements, which lean towards "equity" for farmers but as a result give an incentive to milk production in Northern Ireland, could hardly be described as optimal. Also, the fuel subsidy causes a distribution of resources to firms which are relatively more "fuel intensive" and therefore less likely to be optimally located in Northern Ireland. Equally, the continued existence of industrial derating[17] is a very indirect means of affecting costs and may be very marginally related to the maintenance of employment. The Hall Report[18] was critical of both schemes but the Northern Ireland Government persuaded Westminster that they should continue, probably on the grounds that their presence maintained employment in the short-term which was of immediate importance even though in the long-term their inefficiency was admitted.

An attempt can be made to justify the capital grants (and loans) which are paid to existing manufacturing establishments, towards the cost of re-equipment, rebuilding or relocation, and to new and expanding establishments, in three ways. Firstly, since a 20 per cent grant, for example, gives, after accounting adjustments, an advantage which may be effectively as small as 10 per cent, then their distortion of the optimum location of industry is likely to be small. Secondly, since they are based on capital expenditure at a point of time, and their existence cannot be taken as guaranteed when replacement is necessary the prospect of non-profitable industries being encouraged to continue in production, or unprofitable or new firms commencing production is reduced (i.e. through an "accountancy illusion"). Thirdly, if the industrial structure is modernised (and expanded) the hope is that the internal economies which are generated (particularly in labour productivity?), will mean that firms receiving capital grants at the present stage of development will be self-sustaining in the future.

The second and third of these arguments are, to a degree, contradictory. If an "accountancy illusion" is important in re-equipment decisions then some investment decisions which would be justified under the other hypothesis will not be taken.[19]

A further argument which is advanced to justify regional incentives, including capital grants, is that in areas like Northern Ireland social benefits may exceed private benefits. Sometimes this is expressed as a contrast with "congested" regions where the social capital is overloaded. In this form the argument is not very persuasive since underutilised social capital in Northern Ireland is not

17. Now to be phased out by 1972.

18. *Op. cit.*, Cmnd. 1835 (UK).

19. The Regional Employment Premium with its minimum time guarantee may be less affected by this particular problem.

generally obvious. A more acceptable form of this argument is that some level of incentive to an employer, which thereby avoids creating unemployment or reduces unemployment, is justified if the transfer payments to the enterprise are less than the transfer payments which would otherwise be made to people who were unemployed.[20] The justification for the regional differential in favour of Northern Ireland is that the ratio of reductions in unemployment to increases in employment is likely to be larger than in other regions (and wage inflation, therefore, reduced).

At least two major criticisms have been advanced of the system of capital assistance. Firstly, its non-selectivity (as with the Regional Employment Premium) and secondly its effect on the relative prices of capital and labour, where labour is the factor in relatively plentiful supply. Neither of these criticisms is specific to Northern Ireland but if they are valid, then the higher capital grants in Northern Ireland for new projects would magnify the consequences of the second. Also, a decision to reduce the amount of finance allocated to flat-rate grants, for existing establishments and increase the range of variable grnts for new projects would be desirable if increased selectivity were recommended.

Professor Brown has argued strongly that the present form of regional incentives in the Development Areas give too much encouragement to capital-intensive industry.[21] He suggests that the incentives should be revised to be more nearly neutral with respect to the two factors. Although he does not take the argument this far, what he seems to be searching for is a form of incentive which can be proportionate to value-added. The Northern Ireland Ministry of Commerce would argue that the Industries Development Act allows them to do this for new projects.

What is more worrying about this proposition are the possible disadvantages. Labour intensive projects have a short-term appeal in maximising employment. This will only be a short-term gain and a long-term loss if labour intensive projects are (*a*) likely to be in industries whose total employment is contracting or expanding more slowly than in capital intensive industries and/or (*b*) likely to experience larger cyclical fluctuations in demand. The enquiry by Howard, for the Board of Trade,[22] and discussions with Northern Ireland officials seem to indicate that long-term growth is more likely to be correlated with capital intensity.

The argument about switching finance from fixed scale capital grants for existing establishments to increased "variable" capital assistance for new projects

20. A N. Ireland Government survey on the recruitment of new establishments showed that the ratio of people previously unemployed to new employees was 20–30 per cent. However to this must be added a multiplier effect and a replacement effect for employees recruited from other firms. As an approximation, unemployment of males may be reduced by one for every three new manufacturing jobs.

21. See *The Intermediate Areas;* Cmnd. 3998 (U.K.). *Note of Dissent* by Professor Brown, and Appendix J.

22. *Op. cit.*

is also not easily resolved. Evidence is needed on the proposition that, since many existing firms would make investment decisions, even if capital grants did not exist, the finance released by reducing or eliminating these grants would add more to regional output by raising the rate of capital assistance available for new projects which, in Northern Ireland, is already variable within fairly wide limits. This proposition would fail if it could be shown that there were unlimited funds available in the latter category already. This is hardly likely. Local officials would say, however, that the "variable" capital assistance per project cannot go beyond a certain maximum percentage of the total cost to the firm so that the firm has some commitment to good management. It is this line of reasoning that says that grants of 40 per cent, or even 50 per cent, together with "free depreciation" are about the maximum that can be given "in the public interest".

This seems to be suspect on two counts. Firstly, since these grants reduce depreciation allowances for corporation tax, their true value is approximately 50 per cent of their stated value.[23] Consequently, a 40 per cent capital grant in Northern Ireland may compare *unfavourably* with a 35 per cent grant in the Republic of Ireland since, in the latter case, there will also usually be exemption from any tax on profits.

Secondly, it is suspect, because it fails to recognise that the incentive is usually directed towards the joint factor of capital *and enterprise*. The latter element covers the knowhow, markets, patents, etc., which become available with the capital. If this is accepted then there is no reason why capital assistance should stop, even at 100 per cent, since (e.g.) the market outlets and production techniques may be more difficult to obtain than the capital.

The other two policy headings covered the extra expenditure on the infrastructure and the establishment of growth centres. The problem with infrastructure expenditure is that it is a very indirect means of encouraging expansion, almost wholly within the public sector and on which an assessment of "returns on capital" has not been attempted in Northern Ireland. This produces the possibility of resources going too heavily into "social overhead capital" and too little into "directly productive activity"—Hirschmann's phraseology.[24] On a purely subjective basis, the amount of expenditure on roads, outside the Belfast area, has been criticised on these grounds but it is difficult to think of other examples. An interesting confirmation of this type of thinking comes from Professor Brown in his note of dissent to the Hunt Report[25] where his first reservation is

> I believe that the emphasis placed in general on investment in infrastructure as a means of encouraging growth is excessive in relation to the part assigned to fiscal and financial incentives.

23. See Black, Cuthbert and Simpson: Investment Incentives and The 1965 Finance Act: Regional Implications; *Scottish Journal of Political Economy;* February, 1967, for a discussion of this type of calculation with the pre-1970 range of capital incentives.

24. *Op. cit.*

25. *Op. cit.* p. 165.

If this comment is applicable to English regions, "grey "or development, then it may be even more applicable to Northern Ireland. The difficulty lies in suggesting how this may be objectively assessed.

On the relevance of the growth centre philosophy for regions like Northern Ireland, Professor Brown has also adopted an interesting line of argument. He argues that:

> What evidence there is from recent British development seems to suggest . . . that because of the multifarious connections of British industrial establishments, the relatively short distances involved and the widespread existence of urban infrastructure and means of communication, the growth-centre doctrine does not apply here as strongly as it does in other countries. . . .[26]

Presumably he would accept that the Irish Sea and the different pattern of population settlement mean that this conclusion is not necessarily appropriate to Ireland.[27]

Thus, in evaluating the policies being pursued in Northern Ireland there are areas of criticism (derating and fuel subsidies) areas of doubt (infrastructure) and more generally, areas where the policies are basically acceptable but capable of further refinement (incentives to industrial expansion).

D. *A look at the results*

In view of the initial structure of industry and the natural increase in the population, it is possible to argue that no worsening of the position is a success in Northern Ireland. Such an argument is necessary to find progress in the absolute fluctuations in unemployment in recent years. In the past ten years unemployment has fluctuated (as a yearly average) between 6·1 per cent and 7·7 per cent of the insured employees; being lowest in 1966 and highest in 1963. This is too simple—and pessimistic—a view. Since unemployment in Northern Ireland is correlated with changes in unemployment nationally, an alternative approach of comparing unemployment in Northern Ireland in years of similar average unemployment in the United Kingdom partially removes fluctuations which are caused by factors outside the influence of local policy.

TABLE 8: *Years of high and low unemployment*

	High unemployment %			*Low unemployment %*	
	G.B.	*N.I.*		*G.B.*	*N.I.*
1952	2·1	10·6	1953	1·4	7·9
1958	2·1	9·3	1957	1·4	7·3
1962	2·0	7·5	1961	1·5	7·5
1969	2·4	7·3	1966	1·5	6·1

26. Brown: Survey of Regional Economics; *Economic Journal*, December, 1969.

27. The evidence of the Buchanan Report: Regional Studies in Ireland and the Matthew report, *op. cit.*, support the growth centre philosophy, based, it should be added, mainly on the expansion of existing centres of population.

These figures give rise to a small amount of optimism; although, for example, 1952 was an exceptionally bad year for the textile and clothing industries and could hardly be regarded as typical of other periods of higher British unemployment.

Since Northern Ireland has had so many years of high unemployment, there is a worry that unemployment cannot be removed "quickly" by *economic* forces because of the problem of an ageing and aged number of unemployed. This proposition was tested in order, if it was confirmed, to make allowance for it in calculating the limits to reducing the unemployment percentage. In order to remove the consequences of fluctuations in the demand for labour the dates chosen to test this proposition have nearly the same rate of total unemployment (7·5 per cent) and were in the same month (December) in 1957, 1966 and 1968. In 1957 the percentage of males unemployed, by age group, showed a small variation, adverse to the older age groups. Over the twelve year period, the change in the age-distribution of the unemployed has been consistent with the proposition but the change was not large—35 per cent of the unemployed were over 45 in 1957, 37 per cent in 1968. This change has been reinforced by a larger change in the duration of unemployment which has hit the older age groups hardest. Older men have been, therefore, experiencing a higher unemployment rate and, when unemployed, tend to be so for longer. The proportion of the men over 45 who are unemployed, who had been unemployed for over one year rose from 19 per cent in 1957 to 27 per cent in 1968.

Combining the "age" and "duration" ratios, men over 45 who had more than one year's continuous unemployment rose from 6·7 per cent of the unemployed in 1957 to 10·3 per cent in 1968 (i.e. in 1968 they comprised 0·9 per cent of the insured employees compared with 0·6 per cent in 1957). This gives some credence to the view that there is a growing "generation" problem as (or if) the main unemployment problem is being reduced.

After obtaining the above results, the next step was to try to relate this to the observed widening of the gap between the unemployment ratios in the Belfast commuting area and the larger towns farther from Belfast (Londonderry, Strabane, Omagh, Enniskillen and Newry).

TABLE 9: *Percentage of unemployed men over 45 unemployed more than 1 year*

	1957	*1969*
Belfast commuting area*	9·6	13·0
Provincial towns (5)	7·7	15·6

* Excluding Belfast "city".

This evidence suggests that labour mobility *within* Northern Ireland is large enough, at the existing differences in unemployment rates, to offset the creation of a "residual" unemployment problem in the areas where employment is growing fastest. The number of insured employees (in employment) in the two areas has changed as follows:

TABLE 10: *Number of insured employees in employment*

	1957	*% change to 1969*
Belfast commuting area*	37,000	+73%
5 provincial large towns	55,700	+18%

*Excluding Belfast "city".

The emergence of the Belfast area as the major growth centre has, as a secondary effect, made the structure of unemployment relatively worse in relation to age and duration in *other* areas.

An assessment of the results requires an examination of items other than unemployment.

Employment: Over the ten years (1959–69), the number of insured employees in employment in Northern Ireland increased by 10 per cent (45,000). In Scotland the numbers increased by less than 1 per cent (9,000) and in the North of England there has been no change. The change for the United Kingdom as a whole has been 5 per cent (1,140,000).

Net output per employee in manufacturing: The comparative figures from 1958 to 1968 are:

Northern Ireland	+68%
Scotland	+28%
Great Britain	+46%
Republic of Ireland	+61%

Income: The gap between income per head of the population in Northern Ireland and the rest of the United Kingdom has been narrowing slightly

TABLE 11: *Income per head of population*

	1958	*1969*
Income per head of population as per cent of U.K. average	69%	75%
Income per member of the working population	82%	89%

Self sustaining growth: One piece of encouraging evidence is that the proportion of new employment in manufacturing which is arising from projects already located in Northern Ireland has been increasing:

TABLE 12: *New employment announced in manufacturing (with Government assistance or sponsorship)*

Year	*Total*	*% in expansions of existing firms*
1950–54	12,000	4,800
1955–59	14,400	7,100
1960–64	28,400	10,700
1965–69	33,600	18,300

Source: Ministry of Commerce.

In summary, therefore, unemployment has remained high but there are some indications of a slight fall, relative to the rest of the country. The structural problems in unemployment have increased. Employees in employment have increased more rapidly than in any other major development area and the difference in income levels has been slightly reduced. Output per head, in manufacturing has increased faster than the national average (possibly because of capital intensity?) and emigration rates have fallen in recent years. This has all occurred before the policy of building up new centres of development has gained much momentum.

In terms of the objectives for economic policy expressed in 1964, there had at least been a modest degree of success before the outset of the present "troubles".

E. *The role of the Northern Ireland Government*

In 1955 Isles and Cuthbert concluded that it was

> . . . hard to resist the conclusion . . . that Northern Ireland is worse off economically than it would be if . . . the semblance of self-government were removed. . . .[28]

They argued that action

> to keep the growth in industrial employment abreast of that in Great Britain can most effectively be taken by the central government itself, or with its financial backing.[29]

Their conclusion seemed to rest on the general proposition that Northern Ireland had been given the responsibility, inter alia, to initiate its own policies for economic progress and was, therefore, likely to be ignored by the policymakers in Whitehall. Also that Northern Ireland had been given inadequate financial resources to live up to its responsibilities.

28. In *Ulster under Home Rule*, edited by Professor T. Wilson, p. 166.

29. *Op. cit.*, p. 182.

The arrangements by which the Northern Ireland Government obtains finance are divided into two parts. Some taxes are transferred to the Northern Ireland Government—the main net revenue earners being the S.E.T. and Motor Vehicle licences. Other taxes are reserved to Westminster and are levied at United Kingdom rates, although the proceeds, less collection costs, are paid over to Northern Ireland. This includes income and corporation taxes, and customs and excise taxes (including purchase tax). Since Westminster discharges certain obligations for the country as a whole, provision is made for a contribution (the Imperial Contribution) from Northern Ireland towards these (i.e. defence, the Civil List, external relations and interest on the national debt).

These arrangements were fairly rigidly enforced in the 1920s but the financial needs of Northern Ireland, to secure economic development and to provide adequate social services, soon eroded this position. After the Colwyn Committee (1925) and the Simon Declaration (1938), the Imperial Contribution came to be accepted as a residual rather than a first charge on revenue. By 1943, it was accepted that this residual would be determined on the presumption that Northern Ireland could spend to gain "parity of services" or to make up "leeway".[30] In theory this should have resulted in a *negative* Imperial Contribution if necessary. For some reason, this has always been avoided and the financial arrangements have, by chance or design, always been changed in other ways to avoid this item becoming negative. It is shown as a nominal £0·5million in 1969–70.[31] (On any minimum conventional apportionment of the items involved, Northern Ireland's share would be over £70 million p.a.)

The two concepts of "parity of service" and "leeway to make up in order to attain equality of standard with the rest of the United Kingdom", once accepted by the U.K. Treasury in 1943, have been the basis for a gradual shift *from* a policy of leaving the Northern Ireland Government to balance its own budget *to* the current position where the Northern Ireland budget is, in the main detail, approved by the Treasury and the financial problems are solved subsequently. In the past twenty-five years, the financial arrangements have often been altered in Northern Ireland's favour. The main changes have been:—

		Value in 1968–69 (estimated) million
1948	Re-insurance with G.B. National Insurance Fund made complete	£13
1949	Social Services Agreement—to meet 80 per cent of the per capita difference in costs on certain social services	£19

30. House of Commons Debates 26.C2090; quoted by Lawrence, *The Government of Northern Ireland.*

31. The Imperial Contribution started in 1920 at £7·9 million; by 1935 it was as small as £24,000.

1957	Agricultural remoteness grant introduced	£2
1961	Tobacco duties reattributed (approx.)	£1
1963	All customs and excise duties reattributed on population basis	£6
1967	Grant to Northern Ireland to offset part of loss of revenue on R.E.P.	£10
	Approximate value of the above in 1968–69	£51
1971	Further revision of the Social Service Agreement	£36
1971	Revision of attribution of corporation tax	£2

The financial arrangements have, therefore, been flexible enough to cope with the government expenditure approved for Northern Ireland. Expressed in an alternative way, it can be argued that although Northern Ireland appears to be a devolved form of administration, since it has very little financial independence, devolution exists more in theory than in practice. In consequence the argument is that Northern Ireland might have nothing (in economic terms) to lose by shifting the "responsibility" to the place where the "power" resides—Whitehall.

This argument can be faulted in a number of ways. Firstly, economic and physical development requires some local level of executive responsibility and the value of this is evidenced in the activities of the Ministry of Commerce, the Housing Trust, the New Towns Commissions and the manpower section of the Ministry of Health and Social Services. A regional government enables the "users" to get closer to the "decision maker".

Secondly, Northern Ireland has managed, over the years, to move the "power" from Whitehall by securing a commitment that Whitehall will find the finance for approved expenditure. Of course, the expenditure must be approved, which may seem like letting Whitehall make the decisions but an important difference is that Whitehall approves—*not* Westminster. This point is well made if it is accepted for example that M.P.s from other regions would not have let Northern Ireland have such a large number of incentives and subsidies without insisting on the same for other Development Areas. For example, would M.P.s from Scotland approve of over 40 per cent of the building of advance factories being in Northern Ireland? The advantage of a regional government structure is that it is the Government and not the Parliament of the United Kingdom which accepts proposals for new expenditure.

The assumption behind the reasoning which led Isles and Cuthbert to suggest the ending of "the semblance of self government", may therefore have been proved invalid. Northern Ireland has shown that its arrangements can enable it to do better than the other Development Areas; the financial arrangements with Westminster have not unduly limited expenditure (and might even be argued to be generous) and a decentralised administration appears to have had beneficial results rather than the reverse.

To accept that the existence of a devolved responsibility for economic affairs is desirable, or has on balance been beneficial, is not to say that the arrangements, originally made under the Government of Ireland Act (1920) and as they have since been adopted, are the best possible.[32]

One criticism of the present devolutionary arrangements is the lack of regional fiscal flexibility. Although some flexibility was envisaged in the Government of Ireland Act, the interpretation of discussions on reductions in Estate Duties rates, in the early 1950s, and on the proposal to remit the tax on profits, for an initial period, in new manufacturing establishments gives rise to the suspicion that the United Kingdom Government will not readily approve of this sort of arrangement.

For example, in argument against the proposal to offset the tax liability of new firms, the Hall Report[33] argued:—

> To exempt the grants to offset tax from tax would create a very striking difference in fiscal treatment between Northern Ireland and the rest of the United Kingdom. . . . Further, it would involve a breach of the principle . . . that there should be parity of standards of taxation. . . . (para. 124)

and, in discussing possible abuse of the suggestions:—

> Further, firms in Great Britain might set up subsidiaries in Northern Ireland and channel their profits into them in order to obtain the benefit of the concession. (para. 125)

These observations can be criticised as saying, firstly, that although variations in expenditure can be justified in order to promote economic growth, variations in taxation for the same purpose cannot; secondly, that if it were allowed, the risk of abuse of the incentive would be too great for civil servants to curb and thirdly, that it is not to be implemented because it might be too successful. If Professor Brown is to win his argument for stronger *direct* incentives[34] then this type of thinking on fiscal policy will need to be altered.

Section 25 of the Government of Ireland Act gives the Northern Ireland Government the power to:

> . . . grant relief from income tax and surtax or either of these taxes to individuals resident and domiciled in . . . Northern Ireland . . . and such relief may be given generally to all such individuals or to individuals whose total income is less than such amount as may be determined by the Act granting the relief.

32. The writer has, for example, argued to the Royal Commission on the Constitution (1970) that the main social services should be made a Reserved Service and the tax arrangements altered accordingly.

33. *Op. cit.* Cmnd. 1835 (U.K.).

34. *Op. cit.* Cmnd. 3998 (U.K.).

It is doubtful whether this would include corporation tax, but if this kind of flexibility were to be used a clause in a Finance Act (U.K.) could clarify the position. This is not to suggest that relief from income tax should apply to individuals—in view of the earlier remarks on emigration, the reverse might be more appropriate.

Although from a Northern Ireland viewpoint, the plea is being made for fiscal flexibility, this is not to be interpreted as an argument for a greater degree of economic independence. It is an argument based, implicitly, on the desirability of a redistribution of resources to secure faster economic growth in the less developed areas of the United Kingdom. The importance of this caveat to the discussion is illustrated in Table 2 attached in Appendix 1 which shows that if Northern Ireland were to operate as a separate self financing unit, providing the same services, its Government revenue in 1967–68 would have been £110 million p.a. below requirements, to which should be added £16 million under the National Insurance agreements. (A similar calculation for Scotland, completed by the Treasury, shows that Scotland in 1967–68 would have been £276 million p.a. short of revenue. Scotland's population is 3½ times larger than that of Northern Ireland.)

To revert to the Hirschmann phraseology, Northern Ireland probably has more to gain from maximising the "trickle down" process within the United Kingdom than from further separation which attempted to avoid the losses caused by "polarisation" in the United Kingdom. This "trickle down" process is made more difficult by geographical separation and the recent political instability. The evidence of recent years has been that, too slowly, the policies for economic growth have been considerably refined, and adapted, and that economic progress was being made. It would be unfortunate if the assessment of the role of a devolved parliament in civil and social affairs should obscure the debate on the economic issues.

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APPENDIX

TABLE 1: *Estimated distribution of employment in Northern Ireland (,000)*

	Total	*Agriculture*	*Shipbuilding and Vehicles*[1]	*Textiles*	*Total of "3"*	*Rest of manufacturing*[2]	*Other sectors*
1948	541	103	(39)	(69)	(211)	78	252
1958	527	81	39	51	171	94	262
1968	557	57	18	48	123	113	321

1. Including aircraft manufacturing.
2. Estimated on 1958 S.I.C.

TABLE 2: *Central Government Transactions in Northern Ireland 1967–68*[1]

					£ million
Current revenue			*Current expenditure*		
Reserved taxes, etc.			*By Northern Ireland ministeries*		
Income tax	51		Goods and services	63	
Corporation tax	19	(23)	Subsidies	14	
Customs and excise	99	(85)	Grants to persons	32	
Other	5		Grants to Local Authorities	44	
less: cost of collection	2		Debt interest	14	
Transferred taxes			*Paid to U.K. Government*		
S.E.T. (net)	6		Land annuities, pensions	1	(71)
Motor vehicles	7		Imperial Contributions	—	(25)
Estate duties	2		Agricultural subsidies		
Excise (mainly betting)	1			—	
Stamp duties	1		*Surplus* on current transactions	59	(−49)
Other revenue			Capital transfers (mainly		
Interest on advances	13		industrial assistance)	32	
Land annuities	1			—	
Factory rents	2		*Surplus* for capital purposes	26	(−95)
Loan (industrial) repayments	1				
Other	4				
Transfers from U.K. Government					
Social Services agreement	10	(—)			
Agriculture: remoteness grant	2	(—)			
R.E.P. assistance	4	(—)			
TOTAL	226	(200)	TOTAL	226	(200)

Capital receipts			*Capital expenditure*		
Current surplus	26	(−95)	Government capital		
Borrowing (net)			formation	27	
—from reserves, etc.	7		Lending (net) to Local		
—from local sources	5		Authorities and public		
—other (mainly U.K. Govt.)	26	(37)	corporations	37	(−110)
			Short fall on "attribution"	—	
	64	(−46)		64	(−46)

[1]Figures in brackets are based on estimates if Northern Ireland collected its own taxes at U.K rates and had to pay its own attributable costs in the United Kingdom while maintaining current standards of expenditure (excluding National Insurance).