NORTHERN IRELAND AND EEC MEMBERSHIP.
AN ECONOMIC PERSPECTIVE

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INTRODUCTION

For Northern Ireland, European Economic Community (EEC) membership meant a customs union in which trade preference among member states within a common external tariff provided an enlarged market potential but also increased competition in its traditional domestic UK market There were further implications for factor mobility, particularly the location of internationally mobile investment and Common Market access The process of economic integration also involved EEC competition policy to permit the functioning of a free market, a common agricultural policy (CAP) and industrial, regional and social policies to assist and compensate any imbalances as a consequence. The question to be asked about the impact of EEC membership is: how has a small peripheral regional economy, with an already difficult economic problem and having the lowest income level nationally and being a relatively disadvantaged area within the EEC, adapted to membership of a more competitive and advanced economic entity?

The fundamental problem is to distinguish specific EEC effects from all other factors that have caused economic change. Among the latter are continuing civil unrest, international recession, inflation, changes in the value of sterling and national economic and financial stringency. These make any objective aggregate estimates difficult methodologically and very unreliable because of the complexity of the relationships involved. However, the problem can be looked at from an economic point of view and possible effects indicated on an a priori basis. The following sections will consider Northern Ireland's membership of the EEC within this economic framework and assess the effects of industry and agriculture and the financial transfer of resources as a benefit to Northern Ireland

ECONOMIC THEORY AND EEC MEMBERSHIP

Economic theory predicts the welfare consequences of integration in terms of static and dynamic effects. The static or short-term benefits are concerned with improved resource allocation according to the principle of comparative advantage which can lead in the longer term to the dynamic benefits of reallocation generating economies of scale and increased efficiency within sectors, i.e. the effects on economic growth. [1]
The White Paper prior to entry (1971) noted explicitly:

> ***The effects of greater economies of scales, and of increased specialisation, the influence of a sharper competitive climate, the invigorating consequences of having to reconsider policy not only in relation to markets but to products and techniques of production, these dynamic considerations appear to have been among the main factors contributing to the high rate of growth of EEC since its***

inception. They could also be important influences on industry in Northern Ireland.[2]

In other words, to the extent that higher productivity and changes in industrial structure may occur as a result of increased competition and an enlarged market (the "cold shower" effect) giving rise to a more rapid rate of innovation, then a sustained increase in the rate of growth can be expected.

Theoretically, integration is supposed to bring convergence of member states' economies. But it has been conceded that it will, in most cases, increase regional imbalance with negative effects on employment and income levels.[3] *Hence the need for regional and allied policies, although it must be recognised that regional uncompetiveness may be a result of other factors such as relatively high wage levels, the absence of a bouyant market, demand shifts or national policies.*

The economic benefits and costs of joining a customs' union are seen in the distinction between trade creation and trade diversion. Trade creation involves a shift to freer trade by replacing domestic products with cheaper imports from another member; trade diversion is the cost of switching imports from the cheapest (world) source supply to a higher cost member. Apart from agriculture, the tariff effects are not very relevant to Northern Ireland. Trade is tied closely to the United Kingdom market where the majority of the province's manufacturing products are sold.[4] *Despite data deficiencies, it may be assumed that trade between Northern Ireland and Great Britain has been generally unaffected by EEC membership.*

The CAP has trade diversion costs due to the differential between food importers to producers. While the redistributive effects of CAP are a United Kingdom budgetary issue, the economic (other than budgetary) effects will be considered with financial transfers later. Thus the static-type tariff effects can be largely ignored. More directly have been the implications for employment, structural change and economic growth.

INDUSTRY; EMPLOYMENT, PRODUCTIVITY AND GROWTH

EEC membership has coincided with a period of severe industrial decline in the regional economy. Unemployment which was 36,841 in January 1973 at accession is now 120,597 (May, 1984), or 21.6 per cent of the workforce. While it is not valid to attribute these parallel events to any significant extent to EEC membership there are certain aspects where the EEC dimension has been relevant to employment.

A constant theme of regional industrial development strategy has been the attraction of inward foreign investment to reduce unemployment. Against a background of contraction in manufacturing employment, the contribution of externally-owned companies has been a consistent share of about 30 per cent of manufacturing employment, providing 27 per cent of total investment in production industries in 1980 (Table 1). There was concern that there would have been a loss of potential capital inflows to locations in other areas of the EEC. In the event, survey evidence on corporate strategies would suggest that Northern Ireland's position in relation to investment incentives both nationally and within the rules of EEC has been competitive.[5] Job promotions from overseas more likely have been affected by political uncertainty and recession than EEC membership.

More visible have been the operation of two contrasting sets of EEC policies. On the negative side, a combination of competition policy restraining the use of state aids and industrial policy has affected employment in the man-made fibres, textiles and shipbuilding industries. While the EEC has recognised and generally accepted the special regional aid incentives to attract industry to the province, regulations for rationalisation and production capacity reduction in response to changing patterns of competition on world markets and national protectionist pressures have meant redundancies. However, a sympathetic interpretation of the rules on sectoral aids, e.g. shipbuilding, has mitigated the full effects of external competitiveness (at times unfair) locally. Indeed, given the generous state aids throughout the 1970s and 1980s it could be argued that EEC competition and industrial policy has not had any real effect.

The main mechanism for supporting employment has been the European Regional Development Fund (ERDF) designed to the objective of economic convergence. In a recent analysis of the impact of the ERDF on investment and jobs over the period 1975-1982, it was estimated that the number of jobs created/maintained in Northern Ireland with state and ERDF aid was consistent with 2,000-3,000 jobs per annum.[6] In assessing the performance of ERDF alone the results were less optimistic. The ERDF element in job creation/maintenance was assessed to be small and only then assuming the operation of the principle of additionality of EEC funds. Realistically, to the extent that job losses have continued it must be concluded that EEC (and national) measures have been inadequate with no significant impact on employment. More revealing was the conclusion: "the impact on manufacturing has not been to stimulate new, expanding, future growth industries (in employment terms)".

Economic theory sees growth of output relative to productivity growth as crucial for employment growth. The White Paper (1971) had hoped that the competitiveness for the local economy and hence economic advance would be determined within the EEC by exploiting the technology of new production processes and new or more sophisticated (higher technology) prodcts. The former improves productivity, the latter is reflected in sectoral switches in production and combined they produce structural change and are the principal source of long-term growth. Start-up barriers to exploiting economies of scale exist for the smaller indigenous companies which larger mostly overseas companies with their linkages and stronger financial backing could overcome. However, the Northern Ireland Economic Council found that there had been little expenditure on research and development located in Northern Ireland, although it may have been undertaken elsewhere.[7] The productivity performance since 1973 has been disappointing.

Table 1. Employment in NI Manufacturing Industry by source of location

	1960	%	1970	%	1973	%	1979	%	1981	%	1982
Jobs promoted in companies new to NI	2,360		1,883		1,116		1,865		348		82
EMPLOYMENT in firms from outside NI[1]	20,764	(11 5)	51,345	(28 9)	53,542	(32 3)	41,744	(29 4)	35,777	(30 2)	n a
EMPLOYMENT in indigenous firms[1]	106,518	(88 5)	126,136	(71 1)	112,282	(67 7)	100,206	(70 6)	82,673	(69 8)	n.a
Total manufacturing employment	181,282	(100 0)	177,481	(100 0)	165,734	(100 0)	141,950	(100 0)	118,450	(100 0)	106,500
NI total employees in employment in all industries	449,285		486,229		481,111		519,100		485,900		473,500

1. since 1947

Capital expenditure by foreign firms as a percentage of NI GDFCF in Production Industries (Classes 11-49, SIC (80))

	1960	1970	1973	1974	1975	1976	1977	1978	1979	1980
From US	5 4	8 8	14 4	7 3	6 5	5 0	8 6	9 2	13.3	18 2
From EC	0 4	16 4	8 1	5 8	7 0	3 5	3 2	4 5	4 5	7 1
Other	0 5	0 2	0.6	0 8	0 2	0.9	0 7	0 6	0 7	1 9
Total	6 3	25 4	23 1	13 9	13 7	9 4	12 5	14 3	18 5	27 2

Source DED (NI), IDB for NI

Table 2: Average Annual Growth Rates of Output, Employment and Productivity

	NORTHERN IRELAND		REPUBLIC OF IRELAND	
	1965-73 %	1973-83 %	1965-73 %	1973-83 %
All Sectors				
Output	4 6	0 4	4.3	2.1
Employment	0.1	-0.2	-0.1	0.7
Productivity	4.5	0 6	4.4	1.4
Industrial Sector 1				
Output	3 5	-3.9	5.8	4.1
Employment	-0 6	-4.6	1 1	0.3
Productivity	4 1	0 7	4 7	3.8
Agricultural Sector				
Output	1 9	-2 2	2 0	2 0
Employment	-2 8	-0 9	-3 3	-3 2
Productivity	4 7	-1 3	5 3	5 2

1 The annual growth rates for NI refer to the Manufacturing sector

Surce: DFP (NI); Northern Ireland Annual Abstract of Statistics; DMS gazette. National Income and Expenditure, CSO, Dublin; Economic Review and Outlook, Department of Finance, Dublin.

Although the productivity performance has detiorated since 1973 (Table 2), the trends must be evaluated circumspectly as productivity declines have occurred in most countries of the EEC including the United Kingdom largely as a result of a fall

in world demand (trade)[8] Therefore, there is no reason to believe that EEC membership has been responsible for this outcome It may be noted, however that whereas Northern Ireland and the Republic of Ireland had a fairly similar pattern of performance 1965-1973, the productivity and growth rates in industry and agriculture respectively have diverged since 1973

More critical is evidence of a more technologically orientated change in industrial structure. A proposed test of the capacity to adapt and innovate, is trends in the ratio of NACE 3 to NACE 4 industries (EEC classification, equivalent to SIC (80) Divisions 3 and 4). This regional manufacturing index was used in a recent analysis of locational influences on EEC regional development.[9] The study takes NACE 3 industries as incorporating the majority of the EEC's newer, more technologically-advanced and research-intensive industries. (In the UK they accounted for about 80 per cent of all public and private expenditure on, and employment in, research and development on new products and technology.) Division 4 industries are taken as combining the older less advanced, skilled or semi-skilled labour intensive sectors. It should be pointed out, however, that the composition of these respective groupings may not be an ideal indicator of the propensity to innovate Nevertheless, the test does allow an ECC comparison. The results for employment are shown in Table 3(a). A high ratio relative to the EEC average value indicates a bias towards the advanced, a low ratio a bias towards the less advanced industries. For the Northern periphery which includes Northern Ireland the relative dependence has diminished. (Northern Region, Scotland and the Republic of Ireland achieved some reorientation possibility as a result of government policies.) In the case of Northern Ireland, taking SIC (80) Division 3/Division 4 employment totals, there is a consistent but proportionately greater dependence on the latter industries (Table 3(b)). When investment is considered which is a more reliable indicator of how quickly the relative industries are adopting new technology, there was a significant decline in the ratio between 1975 and 1980.

The disparities in regional manufacturing structures would tend to support the predictions of the filter-down hypothesis applied to the EEC 10. In a period of intense international competitiveness and technological change, industries which are most vulnerable to competition from non-EEC producers are located in the peripheral regions. Ceteris paribus, this process can only aggravate future prospects for Northern Ireland. On the basis of the above analysis, therefore, there is no apparent evidence of the expected dynamic effects being realised in the province. This is not to say that economic performance might have been any different in the event of non-EEC membership; at least, it has helped to identify what needs to be done.

Table 3: Regional Trends in Manufacturing Structure

(a) EC: NACE 3/4 ratios (employment)

	Mean	
	1973	1979
Central Regions (35)	1.131	1.264
Intermediate Regions (39)	1.040	1.192
Peripheral Regions (29)	0.599	0.567
of which Northern Regions[1] (6)	0.859	0.967
Total EEC Regions (103)	0.947	1.041

1. Northern Ireland, Scotland, Wales, Northern Region, Republic of Ireland, parts of Denmark.
Source: Centrality, Peripherality and EEC Regional Development (Keeble, Owens and Thompson, 1981).

(b) NI SIC (80) DIVISION 3/4 ratios[2]

	1970	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Employment	0.49[3]	0.50	0.52	0.61	0.52	0.52	0.50	0.49	0.52	0.57	0.54	0.53	0.51
Investment	0.41	0.38	0.43	0.59	0.44	0.42	0.34	0.28	0.22	n/a	n/a	n/a	n/a

2. SIC (80) DIVISION 3 - metal goods, mechanical, electrical, and instrument engineering, aerospace.
SIC (80) DIVISION 4 - textiles, clothing, footwear, food, drink, and tobacco, furniture, paper and printing, other.
3. Adjusted
Source: DFP (NI), DED (NI).

REGIONAL INCOME

In the absence of any observed benefits, the ERDF was designed to contribute to a reduction in economic disparities by transferring resources from the richer to the poorer areas within the EEC. As Table 4 shows, there has been no compensating improvement in regional income distribution. Indeed, the divergence of the province's standard of living from the EEC average has widened since 1973. The preferred indicator of gross value added at market prices per capita in purchasing power standards measures the generation of income and thus allows comparisons of relative growth trends in the respective regions. While recognising the limitations of simple partial correlation analysis, Northern Ireland's performance vis-a-vis the

Table 4 Gross Value Added at Market Prices per Head (in Purchasing Power Standards) (EUROPE 10=100), 1970-1980

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
EUR 10	100	100	100	100	100	100	100	100	100	100	100
W Germany	116	116	115	115	114	114	115	116	116	117	118
France	101	102	104	104	105	107	106	107	107	107	107
Italy	91	90	89	89	91	88	88	87	87	88	91
Netherlands	102*	102*	101*	101*	103*	102	102 /	106	105	104	103
Belguim	102	101	103	103	105	105	104	102	102	102	104
Luxembourg	140	129	131	142	152	123	123	116	118	120	118
Denmark	107	105	107	106	106	105	106	105	102	101	100
Greece	46	48	51	52	50	53	53	52	53	53	53
United Kingdom	100*	100*	98*	99*	96*	99	98	97	97	95	92
N Ireland	-	80*	76*	79*	69*	73	71	68	70	65	61
Republic of Ireland	58	58	59	58	60	62	59	60	61	60	60

Note 1 The difference between gross domestic product and gross value added at market prices covers taxes linked to imports and VAT on products Data for Denmark and Greece at factor cost.

Note 2 An asterisk signifies a Eurostat estimation. A slash signifies a break in the series.

Source Courtesy of the Statistical Office of the European Communities

Table 5 Gross Value Added at Market Prices Per Head (In Purchasing Power Standards (EUR 10 = 100), 1970-1980

Partial Correlation Matrix

		N	YH	EM	EA	SE	SW	WM	NW	W	S	NI	UK	R of I
Northern	(N)	1.0												
Yorkshire & Humberside	(YH)	0.705	1.0											
East Midlands	(EM)	-0.071	0.563	1.0										
East Anglia	(EA)	0.209	0.571	0.646	1.0									
South East	(SE)	-0.121	0.522	0.970	0.567	1.0								
South West	(SW)	0.628	0.881	0.376	0.436	0.340	1.0							
West Midlands	(WM)	0.195	0.761	0.894	0.629	0.873	0.695	1.0						
North West	(NW)	0.226	0.668	0.897	0.757	0.841	0.406	0.860	1.0					
Wales	(W)	0.549	0.558	0.271	0.200	0.367	0.405	0.357	0.321	1.0				
Scotland	(S)	0.720	0.900	0.545	0.651	0.541	0.744	0.693	0.686	0.783	1.0			
Northern Ireland	(NI)	-0.076	0.489	0.952	0.684	0.967	0.289	0.847	0.890	0.367	0.582	1.0		
United Kingdom	(UK)	0.244	0.753	0.892	0.704	0.911	0.513	0.873	0.894	0.600	0.817	0.921	1.0	
Republic of Ireland	(R of I)	0.512	0.210	-0.422	-0.460	-0.461	0.244	-0.244	-0.349	-0.013	0.000	-0.524	-0.293	1.0

Source: Same as Table 4

rest of the United Kingdom and the Republic of Ireland can be seen in Table 5. Both the United Kingdom and South East are declining relative to the EEC average and Northern Ireland is following this trend. The Development Regions not declining to the same extent as Northern Ireland are Northern especially, and to a much less degree South West, Wales and Scotland. North West has declined in similar fashion to Northern Ireland although not quite severely. Compared to Northern Ireland, the Republic of Ireland is a (slowly) growing region but still much below the EEC average. Part of the explanation for the Republic of Ireland's performance may be as a result of the relative internationally high percentage share of exports of high technology products in its total exports of manufactured goods, influenced by high technological investment from abroad 11

In conclusion, there are serious implications for the evaluation of national and EEC regional policies. If Northern Ireland is to maintain and increase output and growth within the EEC, even if there is not a proportionately greater number of new jobs, and converge to the comparative prosperity of the central regions, there must be a more radical shift in the focus of traditional regional policies.

COMMON AGRICULTURAL POLICY

The main benefit of CAP in Northern Ireland was perceived to be guaranteed higher prices for commodities such as dairy produce and fat cattle which had the comparative advantage of a predominantly grass-based natural resource endowment. Small farm size structure and climatic environment disadvantaged any significant cereal production and meant that intensive livestock industries were dependent on imported inputs at present higher EEC prices. (Cereal prices in Northern Ireland, as a deficit area, tend to be higher than in Great Britain.) Consequently, there has been increasing specialisation in grass-based livestock production with the beef and milk sectors in particular increasing their share of farm output from 41.5 per cent to just over 60 per cent in 1984 while intensive livestock production has declined proportionately (Table 6). Productivity in the agricultural sector has declined overall since 1973, but revenue and structural aids have meant increased efficiency in certain sectors, e.g. dairying.

Net farm incomes benefited generally up to 1979 (Table 7), although negative MCAs as a result of a lagged UK adjustment of '£ green' rate to market exchange rates moderated price increases. Since 1979 net farm incomes, both nominal and in real terms, have declined sharply despite a '£ green' devaluation in conjunction with sterling appreciation, providing positive MCAs giving higher output prices.

Currently, the agricultural industry in Norhtern Ireland is facing uncertainty. With growing EEC overproduction of dairy products and increasing budgetary costs of surplus disposal, Northern Ireland (producing only one per cent of total EEC milk output) has been affected with increasing severity by the subsequent mechanisms of restraint. Since 1981, a producers' co-responsibility levy has imposed a tax on total milk production and, from 1984, a supplementary co-responsibility or super-levy will impose a quota with a levy on production in excess of the basic quantity

At present, it is difficult to forecast what the impact of the recent price and CAP reform measures will be on the Northern Ireland economy but the calculations (and assumptions) in Table 8, together with Table 6, give an indication of the scale of the approximate financial loss to the agricultural sector.

Table 6: Value of Gross Agricultural Output (current prices)

	1973		1984 (Provisional)	
Livestock and livestock products:	£m	%	£m	%
grass based				
Fat cattle	56.6	23.56	278.5	36.12
Milk	43.1	17.94	187.9	24.37
Other	12.0	5.0	31.2	4.05
	111.7	46.50	497.6	64.54
Livestock and livestock products: cereal based				
Total	84.0	34.97	152.8	19.82
Total Gross Output (inc. stock changes, production grants, etc.)	240.2		771.1	

Source: DANI

Milk: For milk the quantity base is 1981 deliveries plus 2 per cent (inc. 1 per cent for 1984/85 only) with an additional 65,000 tonnes as a relief to Northern Ireland. To avoid the super-levy, therefore, producers who had been increasing milk production (up 4 per cent between 1983 and 1984 alone) are faced with the need to cut back by at least 7.5 per cent on their intended output for 1984/85. Northern Ireland does not have equity with the Republic of Ireland where there is the benefit of a higher preferential base (1983 deliveries) plus for 1984/85 an additional 4.6 per cent. Within this total quantity, on current production levels, the Republic of Ireland should escape the application of the super-levy. (A comparative feature of the respective positions is the similar arrangement for enhancement of quotas but not identical treatment in setting the bases).

In the short-term, the imposition of quotas will mean a cut-back in current levels of production. The options available are either to reduce herd numbers or lower yields by less concentrate feed usage and to maximise use of grassland. Rationalisation will involve quota management with the objective of minimising the impact on base levels by producing at least cost as near to the quota as possible. This should ensure the optimum use of resources and their release for the next most profitable alternative.

Table 7: Indices of Net Farm Income 1973/74 to 1982/83

Type of Farming Old Classification 200 smd's and over	1973/74	1974/75	1975/76	1976/77	1977/78	Type of Farming New Classification 4 - 39.9 ESU's (2)	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83
						AT CURRENT PRICES 1977/78 = 100						
Dairying	39	31	79	95	100	Specialist Dairying	100	128	52	70	131	198
Dairying with Pigs & Poultry	23	23	62	71	100	Mainly Dairying	100	112	23	21	62	71
Cattle and Sheep	30	21	87	117	100	LFA Beef Cattle and Sheep	100	149	34	29	106	94
Cattle, Sheep and Pigs	63	46	147	140	100	Non-LFA Beef Cattle and Sheep	100	155	-39	19	104	114
Mixed	61	45	132	152	100	Non-LFA Cropping, Cattle & Sheep(4)	100	157	30	60	279	335
						Mixed Livestock	100	116	9	16	38	45
Pigs and Poultry	40	31	69	77	100	Pigs and Poultry	100	109	55	68	142	131
						Cropping	100	208	77	5	40	46
All Types	41	34	91	110	100	All Types	100	132	35	41	102	129
						ADJUSTED TO REAL TERMS 1977/78 = 100 (3)						
Dairying	75	51	104	109	100	Specialist Dairying	100	118	42	48	81	113
Dairying with Pigs & Poultry	44	38	82	81	100	Mainly Dairying	100	104	19	14	38	40
Cattle and Sheep	57	34	115	134	100	LFA Beef Cattle and Sheep	100	138	27	20	65	54
Cattle, Sheep and Pigs	124	76	196	161	100	Non-LFA Beef Cattle and Sheep	100	143	-31	13	64	65
Mixed	118	74	175	186	100	Non-LFA Cropping, Cattle & Sheep(4)	100	145	24	47	172	192
						Mixed	100	107	7	11	23	26
Pigs and Poultry	76	50	92	88	100	Pigs and Poultry	100	100	44	47	87	75
						Cropping	100	192	62	3	24	26
All Types	80	55	120	127	100	All Types	100	122	28	28	63	74

NOTES: (1) Net Farm Income is calculated (i) excluding Breeding Livestock Appreciation and (ii) after depreciation based on historic cost under the old typology used up to 1977/78, but based on replacement cost under the new typology used from 1977/78.

(2) 4 - 15.9 ESU for LFA and Non-LFA Beef Cattle and Sheep farm types.

(3) Deflated using the Retail Price Index.

(4) Since 1981/82 index may be unreliable

Source DANI

As Table 7 shows, dairy farmers have maintained net farm incomes in real terms compared with other sectors in agriculture. However, the combined effects of increasing costs, declining milk prices and quotas on production, must result in a decrease in income. One current estimate has put the decline in dairy farm incomes, relative to 1983/84, at 41 per cent unless remedial measures are taken to reduce costs or expand other enterprises. 12. In the longer-term, therefore, the problem will be to maintain profitability under a quota regime when there is a lack of alternative enterprises to grass-based production (unlike continental farmers).

Table 8: 1984/85 EEC agricultural price and CAP reform measures

Milk	Net Loss (£m) 1	Beef	Net Loss (£m) 2
Super-levy (based on fore-cast 1984/85 production levels had there been no quota)	11.10	Clawback of maximum Variable Premium on exports outside UK (16.25p/kg)	9:17
Reduction in calf premium	2.40	Reduction of 20% in UK varibale premium limit	5.29
Increase in co-responsibilty levy	2.30	Loss of positive UK mca's (previously 7.3p/kg)	
Alternation in intervention prices	1.25	- On EC trade (ex UK), est. 46% of total exports	3.95
		-On third co. trade, est. 15% of total exports	0.53
			4.48
		Reduction in calf premium	2.00
			20.94
		less	
		Increase in intervention prices	1.00
TOTAL	17.05	TOTAL	19.94

1. allowing for savings in variable costs from cut-back in output.
2. assuming average carcase weight - 300 kg, total number of animals certified for variable premium - 470,000, exports outside UK - 40%

Source: Ulster Farmers' Union, Livestock Marketing Commission for NI.

Beef: the decisions of the 1984/85 price fixing and other CAP measures affect the beef sector in a number of ways. First, the loss of income to producers mainly as a result of the clawback on exports of beef and cattle on which the variable premium has been paid. In addition, because there is a higher proportion of Northern Ireland clean cattle disposals exported out of the United Kingdom compared with Great Britain (40 per cent : 10 per cent in 1983), the clawback could have the effect of weighing the variable premium in favour of GB producers by reducing its maximum value in Northern Ireland. This would be contrary to past practice, where the beef sector's remoteness from the markets had been recognised pre-1973 through headage payments and, until 1981, by a special NI calculation under the variable premium scheme.

Second, the abolition of MCAs and, to a lesser extent, clawback, could give a pricing disadvantage to Northern Ireland meat plants compared to the Republic of Ireland by allowing the latter to quote higher prices. (In the period 1975-79, following the devaluation of 'IR£ green', the MCA advantage to the Republic of Ireland resulted in cattle smuggled from north to south.

The introduction of a Meat Industry Employment Scheme (MIES) enabled the meat processing industry to retain cattle and pigs for killing in Northern Ireland. Reintroduction of MIES is one means of remedying the situation Alternatively, the disadvantage could be eliminated, to a large extent, if variable premium ceased to be paid on UK meat imports from the Republic of Ireland, illogical in the circumstances of clawback.

Third, there will be a weakening of the beef market with downward pressure on prices and producers' returns due to increasing supplies; the clawback discouraging exports, the removal of MCAs encouraging cheaper imports and extra culling of cows due to the milk measures. Market support could be provided through more effective intervention facilities.

In its totality, the present measures must reduce farm incomes at a time when high unemployment and a decline in economic growth have limited the opportunities for alternative employment. Within the framework set by the CAP as it has related to Northern Ireland over recent years there would appear to have been an inconsistency: the contradiction between a structural policy pursiung increased productivity, a pricing policy designed to reduce the resulting increased production and a social policy aimed at providing "equivalent" farm incomes. While accepting the economic rationale of matching production and consumption, the present emphasis on the instrument of budgetary control as the mechanism for controlling surpluses will have a regressive effect on agricultural incomes and hence a multiplier effect throughout the whole regime economy.

FINANCIAL TRANSFERS

In principle, the effects of EEC membership (other than the qualitative effects) will be indicated in the balance of payments flows into and out of Northern Ireland. These flows can be divided into financial flows and trade (goods and services) flows. The financial flows will be private capital inflows and outflows such as gains/losses of potential outside investment (assumed to be unaffected due to EEC membership) and public (EEC) flows. As far as trade flows are concerned, the traditional distinction is between trade creation and trade diversion. Apart from agriculture, the trade effects can be ignored. (Section 2 above relates: in practice, major diversionary factors such as changes in relative exchange and inflation rates make it very difficult to isolate specific EEC membership effects.) The impact of CAP on the balance of payments will be discussed later.

A summary of the financial flows is shown in Table 9. The outflows are Northern Ireland's attributed share of the United Kingdom's contribution to the EEC budget amounting too £412.7 million since 1973. However, the attributed share is purely an accounting device and there is no economic cost in the sense that it relates to the resources available to the province. It is not an expenditure item within the Northern Ireland public expenditure programme and, therefore, the identifiable budgetary transfers of £406.1 million under the ERDF, the European Social Fund, the Urban Renewal Regulation and the guidance section of FEOGA. The latter is only part of the direct gains from CAP as there are also the intervention transfers under the agricultural guarantee system. Although not identified separately for Northern Ireland, the amounts attributed to the region have been estimated on the basis of the ratio of Northern Ireland's farm output to the United Kingdom total. When the combined budgetary receipts are set against the attributed payments to the EEC's budget, there is an aggregate net transfers surplus of £391.4 million between 1973 and 1985.[14]

Two aspects may be noted about the EEC receipts. First, in comparison with total public expenditure annually (for 1984/85 planned to be in excess of £4 billion), the amounts involved are quite small.[15] Second, the receipts are not always supplementary to public spending. EEC funds to Northern Ireland are second stage transfers. They are delegated to the United Kingdom and are in turn intra-regional transfers. The government holds that additional regional expenditure results from EEC funds provided through higher general UK budgetary transfers. Critics claim that, with certain exceptions, this is not usually so. However, the complex technical and political issues involved in assessing "additionality" have been discussed elsewhere and need not be considered further here.[16]

The operation of CAP gives rise to economic benefits and costs other than the budgetary effects above. These arise in a number of ways. There are the distributional effects within Northern Ireland. For example, the benefits to agriculture as a result of higher EEC support prices to be set against the negative income effect beause internal prices are normally higher than world market price levels. To the extent that this involves the economy paying more for imports than would otherwise be the case, there is a trade and a resource misallocation cost. Obviously, assessment of the size of such costs will depend on the assumptions made concerning whether or to what extent Northern Ireland consumers would pay less for food in the absence of the CAP price support mechanism, i.e. alternative arrangements to the existing policy.[9]

It is not possible within the scope of this paper to attempt a comprehensive quantitative evaluation of the cost of CAP in Northern Ireland. However, Table 10 shows typical estimates of the balance of payments costs and benefits for the years

Table 9: N I Attributed Contributions to and Receipts from EC Budget (£m)

	UK Gross Contribution	(1) NI Attributed Share	NI as % of UK	Identifiable Receipts[1] (2) ERDF	(3) ESF	(4) FEOGA Guidance	(5) Urban Renewal Regulation	(6) Total (2+3+4+5)	As % of Public Expenditure (NI)[3]	(7) FEOGA Guarantee (Estimate)	(8) Total (6+7)	Net Gain (8-1)
1973/74	200	1.0	-	-	-	-		-	-	5.1	5.1	4.1
1974/75	197	5.6	(2.8)	-	3.4	0.3		3.7	(0.2)	11.9	15.6	10.0
1975/76	370	7.9	(2.1)	2.8	0.0	0.2		3.0	(0.1)	18.7	21.7	13.8
1976/77	544	12.7	(2.3)	7.2	6.4	0.3		13.9	(0.6)	10.3	24.2	11.5
1977/78	941	16.0	(1.7)	6.3	7.5	1.3		15.1	(0.8)	15.8	30.9	14.9
1978/79	1323	23.9	(1.8)	4.0	15.0	2.5		21.5	(1.0)	20.6	42.1	18.2
1979/80	1665	28.1	(1.7)	16.0	15.0	3.2		34.2	(1.4)	22.1	56.3	28.2
1980/81	1900	28.2	(1.5)	21.0	23.0	3.3		47.3	(1.6)	37.0	84.3	56.1
1981/82	2330	50.3	(2.2)	16.4	25.0	4.7		46.1	(1.4)	37.1	83.2	32.9
1982/83	2820	65.2	(2.3)	18.0	35.2	6.8		60.0	(1.7)	63.4	123.4	58.2
1983/84	3097	83.3	(2.7)	13.5	38.0	11.3	14.9	77.7	(2.1)	77.3	155.0	71.7
1984/85	3353	90.5	(2.7)	16.5	38.0	14.9	14.2	83.6	(2.1)[2]	78.7	162.3	71.8
Total	18740	412.7	(2.2)	121.7	206.5	48.8	29.1	406.1		398.0	804.1	391.4

[1] To February 1985 [2] As % planned expenditure [3] 1974/75 - 76/77, real prices; 1977/78 - 84/85, current prices.

Source. Cmnd C703, Cmnd 7436, Cmnd 7439; Cmnd 9143, Cmnd 9428; Northern Ireland Assembly Report on Additionality (NIA 46); J V Simpson (ed) (1984), DFP (NI).

1978 and 1979 [17] The two elements making up the totals are associated with the two special features of CAP viz its common financing (net budgetary transfers to FEOGA) and EEC preference (food trade transfers). Hypothetically, assuming the financial cost of CAP is shared by Northern Ireland on the basis of its attributed share to the EEC budget and adding on that proportion of attributed share not financing FEOGA (to avoid double counting), total outflows for 1978 and 1979 could be indicated as circa £20.44 million and £25.78 million respectively (Table 11). When these costs (excluding FEOGA transfers as before), the overall balance of payments would indicate a marginal net cost of EEC membership of £1.44 million in 1978 and a net EEC benefit of £5.22 million in 1980. Of course, it can not be claimed that such effects have actually been the out-turns. Nevertheless, on the basis of this preliminary analysis it may be assumed that net financial transfers to Northern Ireland as a result of EEC membership have not been of major importance.

Table 10: Estimated Balance of Payments Costs and Benefits arising from CAP

	1978			1979		
	Transfers through FEOGA budget	Est. trade transfers	Est. total cost of CAP	Transfers through FEOGA budget	Est. trade transfers	Est. total cost of CAP
United Kingdom	673	110	783	882	225	1,110
Rep. of Ireland	-343	-184	-527	-339	-275	-610
W Germany	122	434	556	465	125	590
France	-41	-575	-616	-255	-600	-850

Source: MAFF, 1981

Table 11:

	1978 (£m)	1979 (£m)
CAP	(1.8% x 783) - 14.09	(1.7% x 1,110) - 18.87
Attributed share (ex FEOGA)	(26.6% x 23.9) - 6.35	(24.6% x 28 1) - 6.91
less ERDF & ESF	19	31
NET BENEFIT (-)/ COST(+)	+1 44	5.22

Source: Same as Tables 9 and 10.

CONCLUSION

To be supported on economic grounds, there must be evidence of significant net economic benefits attributable to Northern Ireland's membership of the EEC. Although the benefits which the EEC offered - economic growth stimulated by a larger integrated market and free trade, economic co-ordination and a comprehensive regional and social policy - were always perceived to be of a longer term nature, it may be concluded that there is little if any discernible evidence of a reinvigoration of industrial performance. Northern Ireland's industry was in decline pre-1973 and the trend has not been reversed. Since 1973, manufacturing output has declined on average by 3.9 per cent per annum and agricultural output by 2.2 per cent per annum while unemployment has increased and the disparity between the E.E.C. and Northern Ireland standards of living has worsened. The present structure of CAP is seen as a budgetary liability nationally and requiring radical reform.

Twelve years of EEC membership should not be judged solely on the basis of economic recession internationally. At accession it was acknowledged that full development would take many years. Since then, unanticipated circumstances have altered the time horizon and maturity of a number of policies has been delayed. It may be argued that Northern Ireland joined a less than perfect market Therefore, too much may have been expected from EEC membership which can only complement national responsibility for a regional econmic system in which there is an increasing dependence on higher levels of public funding. Nevertheless, by the criteria of its own objectives, Northern Ireland is an important test case of the EEC's ability to assist in the equalisation of employment opportunities and the redistribution of resources to its least advantaged areas. This has not been demonstrated to date. Perhaps the impact of EEC membership must be evaluated ultimately in the context of non-economic considerations.

FOOTNOTES

1. See P. Robson, (1980), The Economics of International Integration, George Allen and Unwin, for a general theoretical survey.
2. Northern Ireland and the European Communities, (1971), Cmd 563, HMSO Belfast, November.
3. See, for example, T. Buck and J. Harper, (1978), Regional income Inequality in the EEC, tijdschrift voor Economie en Management, Vol., 23, No. 3
4. Trade statistics do not provide a full record of the final destination of all Northern Ireland exports which may be inputs to GB industries but in turn exported to other EEC countries.
5. See, for example, Plant Location International, (1978)
6. R Harris, (1984) "Regional Policy in Northern Ireland" in J V. Simpson (ed) European Community Policy in Northern Ireland, Queen's University, Belfast.
7. NIEC, Belfast (1981), Research, Development and Innovation in Northern Ireland, Report No. 25, Northern Ireland Economic Development Office, September.

8. Handbook of International Economic Statistics.
9. D. Keeble, P.L. Owens and C Thompson, (1981), Centrality, Peripherality and EEC Regional Development, Commission of EEC and Uk Department of Industry, September 1981.
10. Keeble, Owens, Thompson (1981), op cit
11. Commission of the EEC, (1983), European Economy, No. 16, July.
12. F.J. Gordon, A G.S Crawford, (1984), "Milk Production, Agricultural Research Institute of Northern Ireland", Occasional Paper No. 11, May.
13. Government response to Northern Ireland Assembly Report, Additionality of Receipts from European Funds, NIA 46.
14. Receipts under the UK Supplementary Measures (SMUK) have no direct impact on financing locally. In total about £60 million has been committed for a three year period under the Urban Renewal Regulation.
15. Cmnd 9143, The government's expenditure plans, 1984/85 to 1986/87.
16. NIA 46 op cit, October 1983
17. The method used in the calculations is described in J. Rollo and K. Warwick, The CAP and Resource Flows among EEC Member States, Government Economic Service Working Paper No. 27, MAFF November 1979.

DISCUSSION

Sean Cromien: I would like to congratulate the three speakers on their excellent papers.

I think it is fair to say that Ireland's membership of the European Community has not fully lived up to its early promise. There have been both tangible and intangible benefits but there have also been costs and disappointments. Irish agriculture has made considerable gains, especially in the years between 1973 and 1978. The industrial sector, however, has had a mixed record. The "cold shower effect" mentioned by Michael McGurnaghan has been devastating rather than bracing in many areas of indigenous industry. On the other hand, the economy has benefited from an inflow of foreign firms which would not otherwise have taken place. External trade has been remarkably diversified Irish exports to the UK were only 37 per cent of the total in 1983, compared with 61 per cent in 1973, a welcome development since it is best for an exporting economy not to have all its eggs in the one basket. For the first time, Ireland has had the opportunity to become involved in the policy-making process in the international economic field, an important consideration for a country as dependent as Ireland is on external trade. Many Irish people, too, have, I think, benefited individually from the closer contact with European culture which membership has brought. It has given us an opportunity to see things from less of an insular perspective than in the past.

On the broader aspects of European union, however, there have been disappointments. Brendan McNamara quotes the objective in the preamble to the Treaty of Rome of ensuring the harmonious development of the economies of the Member States "by reducing the differences existing between the various regions and the backwardness of the less favoured regions". Progress towards this objective has been very slow. There is a danger that in a region as large as the Community the common market will at the end of the day have most benefited those countries and industrial areas at its core, while those at the periphery will not have done anything like as well. The only way to remedy this imbalance is through a vigorous regional policy. This has been missing in the Community. The resources available from the Regional Fund still represent less than 0.1 per cent of Community GNP. With the enlargement of the Community to include Spain and Portugal, there is need for a substantial increase in the resources of this Fund Alan Matthews makes some sobering points about the prospects of this happening.

Decision-making at Community level is difficult. This is understandable because of the need to reconcile national interests. There is, however, a general feeling that too much use is being made of the unanimity rule and also that too many items, often technical in nature, are referred upwards to the European Council. Sufficient recognition is not given either to the interaction of national economic policies. There is need for more conscious co-operation and perhaps for new mechanisms to make it effective.

Alan Matthews in the conclusion to his paper refers to an ambiguity in Irish attitudes in that there is support for substantial Community transfers to this country but attitudes to other aspects of integration are much more conditional. I do not go fully along with him in this. I think that Ireland has been communautaire in its approach to the EEC. We have, for instance, joined the EMS while the UK has remained out of it. We have been in favour of closer economic and monetary union provided that this is accompanied by a vigorous social, regional and industrial policy.

In relation to Brendan McNamara's points regarding loans from the EIB, I think we can say that these loans have been helpful to Ireland but the rates at which they have been made available are not much different from what we would have obtained otherwise by direct borrowing. What was particularly attractive to us was the interest subsidy in 1979-1983. In respect of EMS participation, obviously if there is to be constraint on foreign borrowing a loan from the EIB at virtually commercial rotery interest cannot be looked on as a supplement to foreign borrowing It can only be looked on as a substitute for it In any case, there have been significant reasons for the slow growth of the PCP in recent years As the paper rightly recognises, the recession has led to a reduction of demand for industrial aid and there has been a tapering-off in electricity and telecommunications programmes