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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

REPORT OF OFFICIAL WORKING PARTY ON INDUSTRIAL AND
INVESTMENT INCENTIVES IN NORTHERN IRELAND

Note by the Secretaries

Attached for the information of the Committee is the report by Officials
mentioned in paragraph 1 of E(82) 62.

Signed ROBERT ARMSTRONG
P L GREGSON
M S BUCKLEY

Cabinet Office

1 September 1982

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WORKING PARTY

ON

INDUSTRIAL AND INVESTMENT INCENTIVES IN NORTHERN IRELAND

REPORT

AUGUST 1982

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WORKING PARTY ON INDUSTRIAL AND INVESTMENT INCENTIVES
IN NORTHERN IRELAND

REPORT

Addendum

Para 4.21 : Delete last sentence. Insert "It is not recommended although the CPRS feel that the idea may be worthy of further examination".

Corrigenda

Para 1.17 line 2: delete "encironmental" insert "environmental"
 Para 1.19 line 14: delete "female" insert "females"
 Para 1.23 line 11: delete "9,00" insert "9000"
 Para 1.25 line 5: delete "on" insert "as"
 line 12: delete "by" insert "to"
 Para 2.23 line 9: delete "regaining" insert "retaining"
 Para 2.33 line 2: delete "support" insert "suppose"
 Para 2.34 line 15: delete "will" insert "would"
 Para 2.35(a) line 2: delete "and" insert "an"
 Para 2.35(d) line 4: delete "coule" insert "could"
 Para 2.36 lines 5 and 7: delete "2.37" insert "2.35"
 Para 3.10 line 17: delete "comapnies" insert "companies"
 line 23: delete "suggests" insert "suggest"
 Para 3.13 line 8: delete "givorously" insert "vigorously"
 Para 4.13 line 3: delete "Briatin" insert "Britain"
 Para 4.21 line 6: delete "X" insert "IX"
 Para 4.33 line 3: delete "was" insert "is"
 Para 4.35 line 3: delete "their" insert "its"
 Para 5.8 line 1: insert "agree" after "which"
 Para 5.9 line 3: delete "grante" insert "grant"
 Para 5.14(d) line 1: delete "undertaking" insert "would undertake"
 line 3: delete comma after "case", insert colon
 Para 7.19 line 13: delete "feel" insert "feels"

Annex I

Para 1
 Para 4 line 5: delete "1" insert "4"
 Para 5 line 7: delete "2" insert "5"
 line 9: delete "3" insert "6"

WORKING PARTY ON INDUSTRIAL AND INVESTMENT
INCENTIVES IN NORTHERN IRELAND

REPORT

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INTRODUCTION

1. This Working Party was created as the result of a discussion by Ministers in E(NI) on 8 March. On that occasion Ministers were considering the future of Harland and Wolff; but reference was made to the wider problems of industrial assistance in Northern Ireland, and the Secretary of State for Northern Ireland was therefore asked: "to arrange for his officials, in consultation as necessary with those of other Departments, to consider the scope for changing the structure of the assistance given to investment in Northern Ireland through the tax system and grants". To meet this request a Working Party, under NIO chairmanship and with representatives of HM Treasury, the CPRS, the Department of Industry and the Northern Ireland Departments of Commerce, Finance and Personnel and Manpower Services was set up. We have also had advice and help from the Inland Revenue and the Department of Employment.
2. We were able to take as a starting point a report recently prepared by a group of NI officials - the Economic Steering Group (ESG); but we have been at pains to traverse ourselves much of the ground covered in the ESG Report to satisfy ourselves of the validity of the claim that Northern Ireland's economic state is not merely that of a province suffering more acutely than most of the country, from the current recession, but is one of serious, and chronic economic decline which if not arrested soon will attain - if it has not done so already - the proportions of a disaster. We have satisfied ourselves of the need for early and far-reaching action.
3. In approaching our task we realised we should need to be clear about the objective which investment and industrial incentives should be designed to serve, both generally and in the special circumstances of Northern Ireland. We were looking for changes which would be of continuing, and indeed seminal,

benefit to the province, not for short-term palliatives. We concluded that the Government should be seeking "the maximisation of secure and productive employment through the development of viable and competitive industry"; and we considered the medium-term strategy which would suit that aim. We then reviewed both the existing instruments of industrial support and all the new ideas we could think of, measuring each of them against the demands of the strategy. The result is below.

4. We imposed upon ourselves one further limitation: we did not try to compile a package of changes which would simply require more public expenditure. Throughout, our aim has been to consider - as far as available data allow - the cost-effectiveness of present and alternative ways of encouraging industrial development (or discouraging its decline) with a view to putting together a package more or less neutral as far as public expenditure is concerned. If we have not wholly succeeded in this in simple arithmetical terms, it has been more because of unquantifiable factors in the equation than because of any unwillingness to balance gains and losses. What we have sought to do is to produce a shift of emphasis, combined with a degree of presentational advantage, which will, we believe, be likely to put us no higher - to attract to Northern Ireland both the new investment from overseas (including Great Britain) and the expansion of existing industry which the province so sorely needs.

5. We have kept in mind the examination of Regional Economic Policy being undertaken by the review team of that name (RREF). Although that review is concentrated on Great Britain there is a clear need that any changes to be made in regional policy in Northern Ireland on the one hand, and in Great Britain on the other

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should keep in step with one another. RREP is not, however, expected to report until the end of the year, and as our report suggests, the problems of Northern Ireland are urgent and cannot wait; there are also respects in which they are unique. Our recommendations are therefore being submitted to Ministers well in advance of the completion of RREP's work but we think that when decisions are taken on the RREP report Ministers will wish to consider how they affect policy in Northern Ireland.

J A MARSHALL
Northern Ireland Office

August 1982

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THE NORTHERN IRELAND ECONOMY

1.1 This section of the report looks at the factors behind Northern Ireland's poor economic performance and examines the medium-term prospects, particularly the employment outlook. It suggests that the region's long-term industrial decline can be attributed to a number of weaknesses in the economic structure whose effects have been exacerbated by the political and security problems. It concludes that under present policies, no upturn in employment is likely following the present recession, that the deterioration in the regional economy will continue and that an unemployment rate in excess of 20% will become the norm for the 1980s.

ECONOMIC AND SOCIAL BACKGROUND

1.2 Northern Ireland has for some time been recognised as the most disadvantaged region of the United Kingdom. Indeed the range of economic, social and environmental problems makes it one of the most disadvantaged regions of the European Community alongside the Republic of Ireland and Southern Italy. The scope of the Province's economic problems may be gauged from a brief summary of the main indicators*:-

- (i) Unemployment. Northern Ireland has the highest unemployment rate of any region in the United Kingdom, currently 21.1% (July 1982), compared with 17.5% in the North of England, the highest in Great Britain, and the United Kingdom average of 13.4%. This represents over 120,000 people, a figure which now exceeds the numbers employed in manufacturing industry. In some areas the unemployment rate is in excess of 30% - Strabane (37.4) Dungannon (34.9) Cookstown (32.8). The region has had the highest unemployment rate in the United Kingdom since 1936 and for most of the post-war period this averaged 7%, consistently 5

* [It should be noted that the separate administrative arrangements for Northern Ireland enable more detailed information to be provided than is possible for other regions of the United Kingdom; however the range of information available inevitably falls short of that available for a national economy].

percentage points above the United Kingdom average (see Annex I). Since the 1974/75 recession the problem has worsened considerably and has reached a critical level with the present recession. The present unemployment level is the highest ever recorded - among males 1 in 4 is out of work, among females 1 in 7. The underlying, seasonally adjusted trend continues to move sharply upwards, and the rate of increase is significantly higher than at the end of 1981. In contrast all other regions of the United Kingdom indicate a slackening in the upward trend, apart from the North region.

- (ii) Incomes. While wage rates in Northern Ireland are broadly comparable with those in the rest of the United Kingdom, low-wage industries are more highly represented. As a result, average male earnings are lower in Northern Ireland than in the rest of the United Kingdom (92% of the Great Britain average in 1981). This, combined with the markedly higher unemployment rate, has resulted in average per capita income being lower also (79% of the United Kingdom average in 1980). The proportion of the working population claiming Family Income Supplement is now 6 times higher in Northern Ireland than in Great Britain. A higher proportion of the insured population receives sickness and invalidity benefit.
- (iii) Living Costs. Most items of family expenditure cost more in Northern Ireland. In particular, energy costs are higher and represent a higher proportion of household expenditure (9.5% in 1979-80 compared with the United Kingdom average of 5.6%); this reflects the higher cost of fuels other than oil in Northern Ireland and the different pattern of consumption caused by the unavailability of natural gas.
- (iv) Housing Conditions. Northern Ireland has some of the worst housing conditions in the United Kingdom. The proportion of houses statutorily unfit is 3 times the figure for England, at 14%. The proportion of dwellings lacking any of a range of basic amenities is also higher.

1.3

Individually few if any of these problems are unique to Northern Ireland. In particular, many inner-city areas in Great Britain are suffering from serious problems of urban decay, with high unemployment, decreasing job opportunities and bad housing conditions as common features. In the Assisted areas a number of Special Development Areas have unemployment rates approaching the Northern Ireland level - eg the Special Development Area in the North West region with over 18.6% in May 1982. In addition, within these there are also concentrations of highly localised unemployment, frequently the result of traditional industries running down, eg Consett (25.5%), Irvine (23.0%).

1.4

Northern Ireland however represents a combination of adverse economic, social and environmental conditions unique in the United Kingdom, their effects being intensified by the problems of political instability and violence - in the development of which they were, and remain, a factor. The range of problems and the weight of their combined effect on a population physically separated from the rest of the United Kingdom, suggest strongly that the region is now suffering social and economic disadvantage significantly different from that in evidence in any other region of the United Kingdom. Although the extent of the economic deterioration is only now becoming apparent, it is arguable that the basic ingredients of the present critical situation have existed throughout the post-war period; that the central element, large scale unemployment, was however **masked, partly, because** growth of the labour supply was limited by emigration and partly because the decline in older manufacturing and agricultural employment was countered by employment resulting from the industrial development programme and the growth of public sector services. These points are developed later.

ECONOMIC PROBLEM

1.5

The major economic problem remains the persistent large-scale imbalance between the demand for, and the supply of, labour. Part of the cause of this problem is the current worldwide recession. But there are additional underlying factors which have led the recession to bite more deeply in Northern Ireland and which deprive the region of any substantial prospect of recovery at the end of the recession. Some of these factors apply also to other regions of the United Kingdom, though not always to the same degree. Others such as the Province's political and security problems are unique to Northern Ireland.

1.6 The analysis below seeks to examine the factors which make Northern Ireland's unemployment problem worse than that of other regions in the United Kingdom. All the factors discussed below have to be seen against the impact on Northern Ireland of a slump in general economic activity which has been more severe than anything encountered since the 1930's. Three of the problems we have identified are, for present purposes, ineradicable:

- (a) the disadvantages of lack of natural resources and peripheral location;
- (b) the labour supply - the natural rate of population increase is considerably higher than elsewhere in the United Kingdom, and without the safety valve of migration unemployment rates would be even higher;
- (c) political and security problems; instability has made Northern Ireland unattractive to potential investors, and has inhibited the creation of new jobs.

To these must be added three further problems, of a character more obviously susceptible to policy action in the economic field;

- (d) weakness of indigenous industry - the characteristics of indigenous industry are such that its capacity to generate new growth is severely limited;
- (e) vulnerability of new industry - new industry located in the region is ultimately susceptible to the same general forces of attrition as the rest of industry, and the inflow of new projects is not sufficient to generate net new growth in employment;
- (f) over-dependence on public sector employment.

The combination and integration of these six factors have led to the present situation of increasing labour market imbalance in Northern Ireland.

1.7

Disadvantages of Geography. Northern Ireland lacks any significant mineral or energy resources. This means that almost all raw materials have to be imported. It has ruled out the development in the region of the production/manufacturing industries associated with such resources. Northern Ireland's own earlier industrial base owed much to industries using the ready availability of water and labour. Agriculture remains a major employer partly because the relevant natural resources are available and partly because of a lack of employment alternatives. The lack of energy resources has in combination with the physical separation from Great Britain forced the development of local utilities unable to benefit from economies of scale; the town gas industry now faces closure and even if it is saved by natural gas being supplied from the Republic of Ireland's Kinsale field it will be at a much higher cost to the consumer than gas supplied in Great Britain; the electricity service also has problems of viability due to its small scale of operation.

1.8

Northern Ireland's peripheral location, and relative isolation on the extreme western edge of Europe has been something of an inhibiting factor in the development of the local economy, and has distorted both the distribution of population and economic activity within the Province. Economic activity is concentrated in the east of the region, particularly around the Belfast area. The more distant western area has remained largely rural in character and suffers particularly high rates of unemployment (in excess of 30%). A similar dichotomy is evident in the Republic of Ireland. The sea barrier has inevitably entailed some disadvantage on transport costs (both for imported raw materials and for exported goods) by comparison with producers on the United Kingdom mainland: while transport costs account for only about 5% of total variable costs, this may reflect a degree of self-selection in the trading and structural pattern of industry which has developed in the region. More important to most industries are probably the broader implications of the physical separation - the higher energy costs, the limited means of access to the mainland, and the need for a higher level of stockholdings.

1.9

Northern Ireland's land frontier with the Republic has been a source of economic disadvantage. The Republic shares many of Northern Ireland's economic drawbacks, but has available to it the full range of policy instruments exercisable by a sovereign government. The weaker currency of the Republic, its use of national economic policies to secure what in Northern Ireland are perforce regional aims, the differential

effects of the Common Agriculture Policy all undermine Northern Ireland's competitive position.

1.10 Labour Supply. Northern Ireland has throughout the post-war years had a potentially very rapid labour supply growth (see Annex II). The region has one of the highest natural rates of population increase in the European Community, considerably higher than elsewhere in the United Kingdom. This reflects a birth rate in both sections of the Northern Ireland community about the Great Britain average. While the birth rate fell throughout Great Britain and Northern Ireland during the 1970s, the differential between Northern Ireland and Great Britain remained. As a result the rate of natural increase in the population in Northern Ireland between 1961 and 1980 was 19.4% compared with 6.8% in Great Britain. This potential growth in the labour supply has been substantial but the actual growth has been modified by a consistently high level of net outward migration and by activity rates slightly lower than levels in Great Britain.

1.11 Political and Security Problems. Given the background outlined above and the crucial role of industrial development in tackling the economic difficulties of Northern Ireland, the political and security problems represent a major handicap to the region. Although local industry appears not to have been severely hampered by the security situation the image of violence, instability and uncertainty associated with the present troubles acts as a major deterrent to potential investors. While this obstacle has been overcome in some instances, it is clearly a dimension unique to Northern Ireland which seriously limits the range of companies whose managements are willing to show interest by making initial visits to the region.

1.12 Weakness of Indigenous Industry. Overall there has been a net decline in indigenous employment in the post-war period, mainly as a result of job losses in agriculture and manufacturing industry* (see Annex II). The contraction in agriculture mirrors the shift out of that sector which has occurred in other western economies as a result of increasing mechanisation and rationalisation of farm units. The consequent job losses have had a significant impact in Northern Ireland.

* [Indigenous manufacturing industry is defined here as all industry established pre-1945 and more recently established industry of local origin].

partly because this sector has traditionally been a major source of employment, accounting for about 20% of the workforce in 1950 and for 10% even today (as compared to 3% in Great Britain) and partly because the non-agriculture sector has been unable to provide adequate alternative employment opportunities.

1.13 The indigenous manufacturing sector has been in steady decline for the last 30 years, with almost 100,000 jobs lost (56%) between 1950 and 1981. This has been due in large part to the industrial structure of the sector, with employment concentrated in industries such as textiles, clothing and shipbuilding which are in decline throughout Western Europe and facing Third World competition. In 1950 these three industries accounted for 121,000 jobs, 68% of indigenous manufacturing employment; despite the major job losses they remain an important source of employment now providing 31,000 jobs. Apart from this concentration on declining industries there are other factors which may have contributed to the lack of growth in indigenous manufacturing. Manufacturing productivity in Northern Ireland is below the United Kingdom average which itself falls short of international levels, the gap in performance seeming particularly pronounced in the indigenous sector in Northern Ireland. As is shown by Table 9 in Annex IV net output per worker in Northern Ireland's indigenous industry was measured in 1977 as 74.6% of United Kingdom levels, while output in new industry in Northern Ireland was measured at 87.3%. More up to date information is not available, but the gap observed in 1977 reflects the structure of indigenous industry (in which relatively labour-intensive activities are strongly represented) and falling morale in face of what is seen as continuing decline.

1.14 A further contributory factor may be the somewhat insular and unprogressive approach to management in many local firms; this may be indicative of the high proportion, still, of family businesses in the region and the low mobility of management between Great Britain and Northern Ireland. This approach is reflected in the heavy concentration on local markets by indigenous industry, the split of sales between Northern Ireland, Great Britain and abroad being 40:50:10 as compared to 5:75:20 for new industry. Poor productivity will have undermined industry's competitiveness, and thus output and jobs, where pay and other costs have failed to move down to compensate. This problem is evident across the United Kingdom and reflects the widespread acceptance in public and private sectors of the parity principle whereby national

wage levels apply in all regions. It is difficult to determine the extent to which this has affected competitiveness in Northern Ireland; however the unabated fall in employment in indigenous industry throughout the post-war period suggests some inability to compete effectively. However, many of the industries involved have exhibited a similar secular decline in the United Kingdom as a whole.

1.15 Although the trend and composition of Northern Ireland industry superficially mirror (though not in degree) those in Great Britain with manufacturing declining and service employment expanding, this obscures the almost total lack of growth in the private service sector. Employment in this sector in Northern Ireland has done no more than hold its ground since 1960, with producer services growing and consumer services declining. The fact that these private services are inevitably closely dependent on the local economy rather than export-orientated has constrained their growth. Also much of the new industry established in Northern Ireland uses specialist support services (banking, marketing, accounting) provided through the parent company in the United Kingdom or abroad and this has restricted the local growth potential.

1.16 Vulnerability of New Industry. During the post-war period the major instrument of Government policy, in countering the employment losses in the indigenous sector, particularly in manufacturing, has been the industrial development programme. This has produced significant benefits (34,000 jobs existing in June 1981) and many projects have had 15-20 year lifespans and more. The goal of self-generating growth has proved however elusive: much of the new industry in the region consists of production-orientated branch plants of larger undertakings based outside Northern Ireland and hence offers little prospect of long-term employment growth. They have proved increasingly vulnerable to closure in periods of retrenchment and have doubtless exhibited the general problems of pay and productivity outlined earlier. Subsequent expansions or new-product development by the parent company do not automatically follow on original projects but have to be fought for again in competition with other prospective locations worldwide. This competition has intensified in recent years, particularly from the Republic of Ireland.

1.17 Dependence on Public Sector Employment. It is natural that a region with the range and depth of social and environmental problems illustrated earlier should attract a high level of public expenditure. Compared with other United Kingdom regions Northern Ireland has the

highest public expenditure per capita. This high level of expenditure has benefited the region and has helped to provide Northern Ireland with services comparable to those available on the mainland (roads, hospitals, etc), has maintained social services and social security benefits at Great Britain levels; and has made possible significant expenditure on industrial development. The maintenance of employment is, however, more heavily dependent in Northern Ireland than in Great Britain on public sector employment; and the proportion of employment provided in Northern Ireland by the public sector is higher than in Great Britain. Public sector employment now constitutes some 42% of total employees in employment compared to 30% in the United Kingdom as a whole. In addition capital expenditure by public authorities has largely sustained the construction industry, in recent years accounting for two thirds of output. As a result the local economy is particularly sensitive to changes in Government policy on the level and distribution of resources.

DEVELOPMENT OF THE CURRENT SITUATION

1.18 Despite the underlying weaknesses outlined above, a precarious and in some ways fortuitous stability was maintained in the labour market during the 1960s and early in 1970s through the impact of new industry acquired in the 1960s and high levels of public expenditure combined with substantial outward migration. As the 1970s progressed however, the combination of civil unrest, the effects of the 1974/75 recession and restraints on public expenditure, set in train a process of economic deterioration which, without policy action, seems likely to continue. Paradoxically the civil unrest contributed initially, (as did the raising of the school leaving age in 1973), to unemployment falling to its lowest post-war level of 5.1% in May 1974. This was due to the increased level of emigration as the troubles developed and the growth in security-related employment. It is difficult to quantify with any degree of confidence the job losses resulting from the troubles, but the region's capacity to promote new industry through inward investment has clearly been severely reduced. Jobs promoted in new overseas industry fell from 14,300 in the 1965-69 period to 5,300 between 1970-74; although the figure rose to 8,200 between 1975-1980, only 350 jobs were secured in 1981 and none so far in 1982. The net effect of the civil unrest has therefore been to depress labour demand in the region.

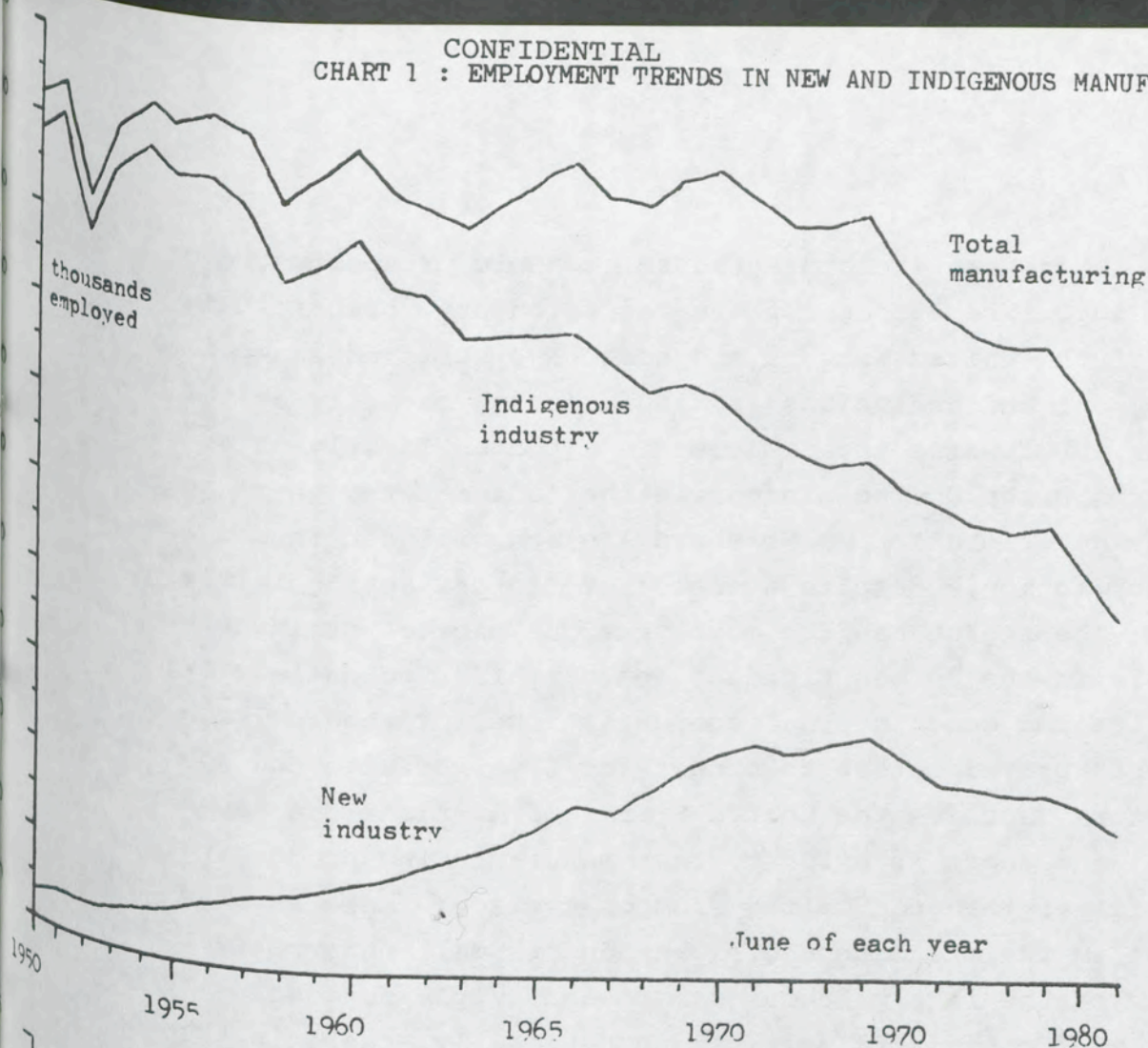
1.19 The onset of the recession in 1974-75 further diminished the demand for labour. The continuing steady decline of the indigenous industrial base was reinforced for the first time by a reversal of the previous upward trend in new industry employment, due to the reduced inflow of new investment and to the contraction and closure of many established projects. The net result was that local manufacturing employment fell by 10,000 (5.6%) between 1970 and 1974 and by a further 27,000 (16.4%) between 1974 and 1979. Charts 1 and 2 overleaf demonstrate these trends. The restraints on public expenditure in the late 1970's served to depress employment in the construction industry which had been heavily dependent on projects deriving from public funds. The sole source of buoyancy from the mid-1970s was the growth in public sector jobs though the majority were for female and mainly part-time. At the same time, growth of these part-time, female jobs seems to have encouraged higher female activity rates, fuelling the rise in the labour supply.

1.20 The combined effect of the underlying weaknesses, the civil unrest and the 1974-75 recession was to disrupt the precarious stability in the labour market which had been maintained throughout the post-war period. The result was that the Northern Ireland economy, for the first time, did not follow the recovery in the national economy from the 1974-75 recession; while unemployment fell in Great Britain between 1977 and 1978 it continued to rise in Northern Ireland.

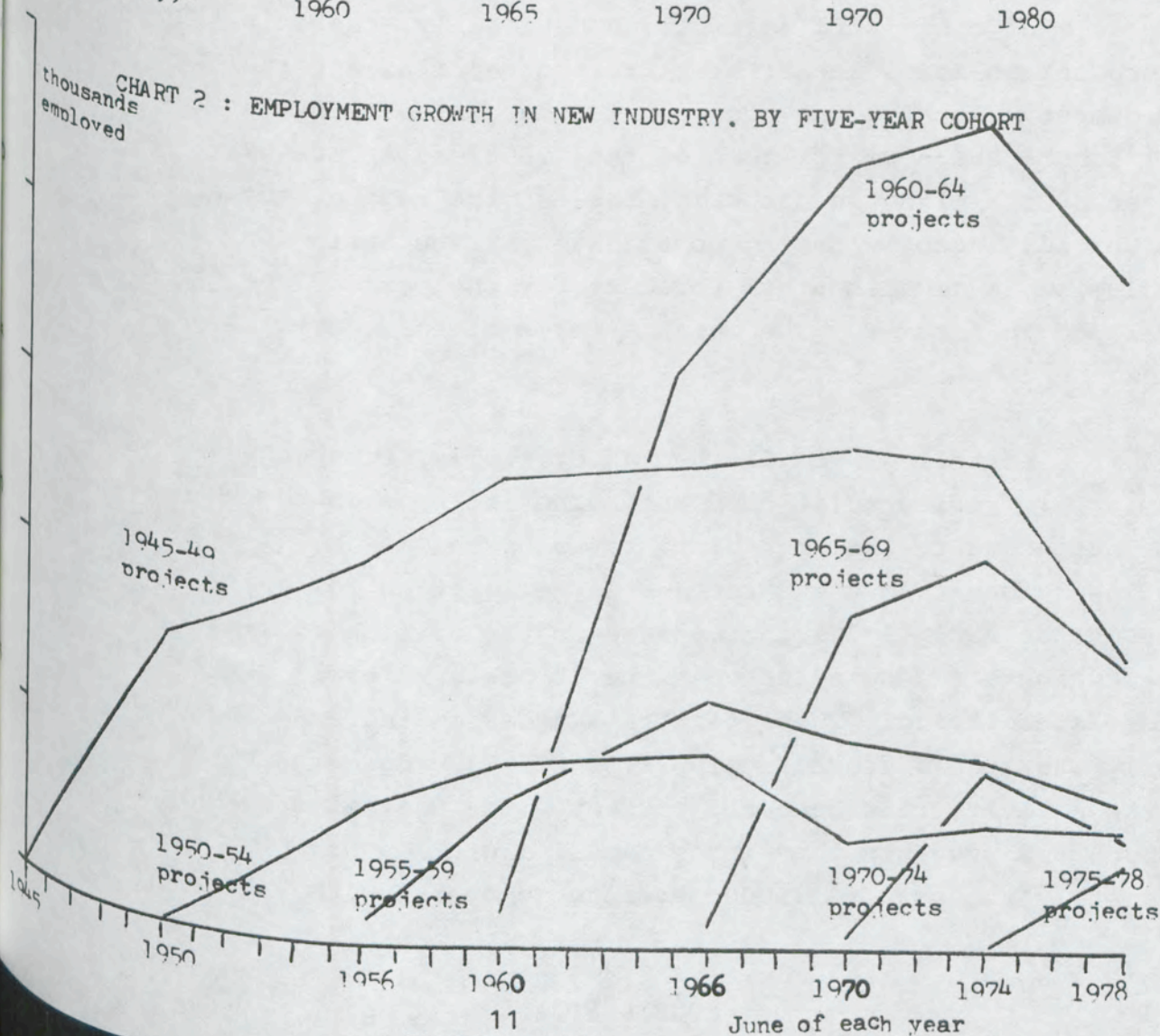
PRESENT POSITION

1.21 The present recession has had a severe impact on Northern Ireland. In manufacturing industry almost 28,000 jobs (20%) were lost between June 1979 and June 1981: losses still continue at over 1,000 per month. A critical aspect here has been the number of factory closures (over 100 since June 1979), for these reduce the economic base on which any eventual recovery in employment must be built. More than half of the closures have been Government-assisted projects with particularly heavy job losses in the man-made fibre industry. Further decline in manufacturing has been exacerbated by the parallel collapse of activity in the construction industry: the reduced level of capital expenditure particularly in the public sector, had led to the loss of 11,000 jobs (29%) between 1979 and 1981. Total unemployment in the region has almost doubled since June 1979, the present figure (July 1982) of 120,900 (21.1%) comparing with the United Kingdom rate of 13.4%.

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 CHART 1 : EMPLOYMENT TRENDS IN NEW AND INDIGENOUS MANUFACTURING



thousands employed
 CHART 2 : EMPLOYMENT GROWTH IN NEW INDUSTRY. BY FIVE-YEAR COHORT



PROSPECTS

1.22 Northern Ireland's future economic prospects are equally forebidding. The effects of the recession have been felt in every region of the United Kingdom and some have suffered sharp rises in unemployment and reductions in manufacturing capacity eg the West Midlands. But while the position is expected largely to stabilise elsewhere in the United Kingdom in the medium-term, there is evidence that the deterioration in Northern Ireland will continue unless there is policy action - despite a number of factors acting in the region's favour. The region has the most generous package of investment incentives available in the United Kingdom, and can offer potential investors modern facilities and good internal communications. Northern Ireland's strike record has proved better than that for Great Britain and some international competitors (such as the United States of America, the Republic of Ireland) and there is evidence that manufacturing productivity is now rising faster than the United Kingdom average; there is also continuing interest in the creation and expansion of small enterprises. Nonetheless analysis of the likely labour demand and supply suggests that even on the basis of optimistic assumptions nationally, there is little prospect of present policies in Northern Ireland securing any real recovery in employment. Rather, the prospect is that an unemployment rate above 20% will become the norm for much of the 1980s, as a rate of 7% was in the 50s and 60s - with the disparity between the region and the rest of the United Kingdom widening considerably. The basis for this gloomy conclusion is a medium-term forecast for the period June 1981-1986, developed in Annex V. The main features of this forecast are set out below.

1.23 Further growth in the labour supply is expected in the medium term. This reflects (i) the continuing increase in the working age population due to the high birth rates of the 1960s, (ii) a return to the lower long-term trend rate of net emigration following the sharp rise in the early 1970s in response to the civil unrest, (iii) activity rates which are assumed to continue at present levels or fall slightly before stabilising. These factors suggest an increase in the labour supply over the 5 years ranging from 13,000 down to 8,000 depending on the activity rate scenario chosen. (The preliminary report of the 1981 census suggests that inter-censal migration was higher than previously supposed - 13,000 per annum compared with 9,00 per annum.

However, the difference is most likely due to a high level of out migration at the height of the civil unrest in the early 1970s, and there is as yet no reason to question current migration assumptions).

1.24 On the demand side, there is little prospect of growth without a change in present policies. The indigenous base is weak and the possible sources of expansion have been much reduced by the high level of factory closures: a continuing decline in manufacturing employment post-recession is forecast even after allowing for some increase in new job promotions. Agricultural policy assumes a continued reduction in employment as in the 1970s, as rationalisation proceeds. Restraints on public expenditure are likely to keep construction employment at its present low level while contracting public sector employment. As in the past the private services sector is unlikely to show rapid growth. This combination of factors is expected to produce a net loss of some 20,000 jobs by 1986.

1.25 While it is not possible to make firm projections, the indications are that unemployment in Northern Ireland will rise to a rate of around 23% by 1986 with this becoming the norm for subsequent years in the absence of any changes designed to counter the underlying weaknesses. At the same time unemployment in the United Kingdom on a whole is not expected to have risen significantly from present levels. The same view has been taken in recent independent assessments of the region's prospects¹⁻². The only published assessment of United Kingdom increased medium-term employment prospects³ suggests in particular an and the worst regions of Great Britain of some 10 percentage points compared by 3-4 points at present.

1.26 To bring the Northern Ireland unemployment rate in 1986 into line with the 1986 rate for the worst Great Britain region (the North West, on the basis of the Warwick projections³), would require a reduction

1. W Black, "The Effects of the Recession on the Economy of Northern Ireland"; Irish Banking Review (December 1981).

2. Coopers and Lybrand, "The Current Economic Situation and Prospects"; (January 1982).

3. Warwick University, "Review of the Economy and Employment"; Institute for Employment Research; (May 1982): an extract of the relevant projections is in Annex VII to this Report.

of around 44,000 in the projected labour surplus. That is, employment in Northern Ireland would have to rise by about 24,000 over the 5 years to 1986 instead of falling as projected by 20,000. This assumes no increase in activity rates above present levels and no diminution of the assumed level of net outward migration. However, since activity rates and migration are determined to some extent by the availability of employment, it is possible that some increase in activity rates would occur and that net outward migration would be lower. In such circumstances, the net additional employment required to achieve any given unemployment rate would be greater still.

1.27 A measure of the increasing disparity in economic conditions between Northern Ireland and the rest of the United Kingdom is the fact that the number of jobs needed to put unemployment on a par with the worst region in Great Britain, (assuming no effects on activity rate or migration) has more than doubled between 1971 and 1981 (in 1981 the number was 8,200, 1974-5,700, 1979-15,800, and in 1981 it had risen to 18,400). Furthermore, while Northern Ireland has consistently been the worst placed United Kingdom region, the worst region in Great Britain has varied over time.

SUMMARY

- 1.28 (i) Northern Ireland is suffering from economic and social disadvantages of a degree not experienced by any other region of the United Kingdom.
- (ii) The underlying causes of this are weaknesses in the Northern Ireland economy (declining indigenous industry; locational factors; uncompetitiveness; high labour supply growth) whose adverse effects were obscured in earlier years.
- (iii) Due to these weaknesses further deterioration in the labour market imbalance is expected in the medium-term implying an unemployment rate well over 20% for most of the 1980s.
- (iv) Unless policy action is taken this will lead to an increasing disparity in economic conditions, between Northern Ireland and the regions of Great Britain. Analysis of likely labour demand and supply suggests that there is no real prospect of present policies securing any real recovery in Northern Ireland.

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1.29 We are conscious that this paints a bleak, unpromising picture; but we are satisfied that it is an accurate one. As the analysis in this section of the report shows, we have not been content to accept the generally accepted belief that Northern Ireland suffers under a disadvantage compared with the remainder of the United Kingdom; instead we have conducted as thorough an analysis as was possible in the time available to us, and with the sources of information available for this part of the United Kingdom economy, and we are convinced that the conclusions set out in the preceding paragraph are an accurate reflection of the Province's current economic position and prospects.

APPROACH TO A MEDIUM-TERM STRATEGY

2.1 This section discusses the broad lines of the strategy required over the next 5-10 years if the economic decline in Northern Ireland is to be arrested, and reversed. It examines ways of restoring the economic base so as to provide increased employment opportunities. It suggests that no single step taken alone offers hope of sufficient success. A wide range of measures is needed if any appreciable progress is to be made. Within this range, the attraction of new inward investment will be a particularly important element in creating both directly and indirectly any significant level of new job opportunities. If successful new investment cannot be attracted to Northern Ireland the Province's prospects are bleak indeed. In this regard we recognise the inherent difficulty of attracting new inward investment when because of the global recession capital mobility has dropped substantially both internationally and domestically.

2.2 In accordance with our remit, we have taken it that part of the strategic approach should be to make more effective use of existing resources, rather than to seek solutions directly based on increasing public expenditure (e.g. simply doing more of the same).

OBJECTIVES

2.3 Given the factors behind the deterioration in the economy, identified above, we believe that the objective of any medium term strategy should be the maximisation of secure and productive employment through the development of viable and competitive industry. The paramount need is to encourage private sector growth, to build up a healthy, diversified, economic structure offering the prospects of long-term growth. The current recession has had a drastic effect on the region and could reduce economic activity to a level from which long-term recovery would not be possible. What is particularly worrying is the lack of evidence of widespread growth potential in the firms that have so far survived the recession.

2.4 The economic objective is inextricably intermingled with social, political and environmental factors which must be taken into account. The first chapter demonstrated the disparities between Northern Ireland and the rest of the United Kingdom across a range of social and economic indicators.

Any significant widening of this gap would have stark social and political implications. If the economic objective set out in paragraph 2.3 can be achieved it will alleviate many of the most acute social and political problems. To the extent that the objective is not achieved, the social and political problems can be expected to grow. In such circumstances, further policy changes, including changes to economic policy in Northern Ireland might be required in order to meet the social and political problems stemming from the economic plight of the Province; but we have not examined this contingency any further in this report. The strategies and measures we have considered are designed primarily to meet the economic objective in paragraph 2.3, though we are conscious of the social and political advantages that will accompany success in achieving that objective.

DOMINANCE OF PUBLIC SECTOR EMPLOYMENT

2.5 A heavy reliance on public expenditure makes the regional economy unduly vulnerable to changes in Government financial and monetary policy. A strategy designed to create employment solely or mainly through the direct use of public expenditure would therefore have disadvantages; in particular it would do little to correct the fundamental weaknesses of the local economy. The primary aim must be to stimulate and promote long-term growth of private sector employment and thereby to provide increased secure employment opportunities. We do not therefore advocate as the preferred option a strategy based on direct creation of employment through increased public expenditure.

FUTURE EMPLOYMENT GROWTH

2.6 In considering measures to stimulate employment, there are in theory a number of options, some overlapping, to be considered - the balance of advantage between new inward investment and the expansion of existing industry, the advantages of growth in small firms as against larger projects, the degree of emphasis to be placed on service industries rather than manufacturing, the desirability of capital-intensive projects (including some high-technology) rather than more labour-intensive projects. The reality is that in the past decade in Northern Ireland opportunities to expand employment have been so few that there has been no scope to choose between alternative approaches. Sadly, this is likely to remain the case.

there will be little opportunity to pick and choose between different options.

2.7 While an emphasis on new inward investment must remain, every possible step should also be taken to maximise whatever potential there is for jobs to be created from within Northern Ireland, either from existing industry or new projects, especially small firms.

The prospects for employment growth and stimulation are considered below under four heads:

- (i) existing industry; *
- (ii) small firms;
- (iii) private services sector;
- (iv) new inward investment.

EXISTING INDUSTRY

2.8 Long-established industry is still largely dominated by textiles, clothing and shipbuilding. These sectors are all in serious decline but in total still account for 35% of all manufacturing jobs in the region. There are undoubtedly some prospects for growth in some sectors of long-established industry in Northern Ireland (e.g. clothing) and these should be energetically pursued; but the overall trend in these industries is one of decline and it would be unrealistic to look for any significant net employment growth in the long established industry group. Indeed, on economic grounds there is a strong case for encouraging (or at least not resisting) the shift of resources out of the declining sectors with no longterm future.

2.9 Postwar industrial developments (most of which came from outside Northern Ireland) have served Northern Ireland well. Evidence suggests that on average, projects display an initially rapid build up period, followed by a slower expansion, stability and then decline (in accordance with familiar project life cycle patterns). The small inflow of new projects over the last decade, therefore, means that little further expansion is likely from this sector in the

 * Existing industry includes indigenous industry as defined in paragraph 1.12 and industry of external origin now located in the region.

short and medium term.

2.10 While it is clearly both necessary and desirable to promote whatever growth is possible in existing industry, the prospects are not good but they must be pursued with all vigour. Efforts aimed at maintaining the competitive edge of existing industry are of great importance and are outlined below in paragraphs 2.25 and 2.29. In particular, firms which have come to Northern Ireland, and are now facing reinvestment decisions, may need to be offered fresh inducement to maintain their presence and employment level in the region.

SMALL FIRMS

2.11. It is a central feature of national policy that assistance should be aimed at stimulating small firm development and expansion. Such jobs are relatively cheap (in terms of cost-per-job provided), and they represent an essential ingredient in a future healthy local economy. A fixed element of the medium-term strategy must be to maximise the growth in the small firm sector (remembering that, in the nature of a changing economy, firms are constantly dying as well as being born). Here again the remarks in paragraph 2.29 on competitiveness are relevant. A high priority must be to further explore measures to encourage potential entrepreneurs and the formulation and growth of small businesses.

2.12 There is already a wide range of assistance available to this sector in Northern Ireland though the Local Enterprise Development Unit (LEDU) - the most generous in the United Kingdom. Despite this the annual job promotion figure has only risen above 1600 twice in the past decade. With Government encouragement LEDU have now planned a strategy for 1982-83 aimed at substantially improving on this performance. There are, however, limits to what can be expected.

2.13 A major limitation lies in the lack of other industrial growth. Small firms feed off the economy as a whole and the present depressed state of the local economy and the limited local markets serve to depress the potential for growth in this sector. There is evidence too, that small firms frequently develop as spin-offs from

specific, larger, projects. The recent performance of the Republic of Ireland in promoting some 11,400 small firm jobs per annum, many of them clearly deriving from new inward investment, suggests that any significant small firm expansion may be dependent on larger industry growth.

PRIVATE SERVICES SECTOR

2.14 This sector has been a less active contributor to economic activity in Northern Ireland than elsewhere in the United Kingdom. Employment in private services has done no more than hold its ground over the past 20 years. This stability is the net result of a growth of employment in producer services (particularly banking and computing) and a parallel decline in consumer services (mainly retail distribution). This probably reflects both the minimal scope for development in the very limited local market and the paucity of mobile service investment on offer. Even so the growth of service industry need not be limited by the size of the local (i.e. Northern Ireland) market since many services today are concentrated at one point but operate nationally or internationally. There could therefore be scope for growth, and it should be developed.

2.15 Northern Ireland has a number of selling points which may be attractive for this purpose, e.g. high educational standards and graduate availability. The tendency for such projects to be fairly labour-intensive makes them especially attractive. Against that, the contribution which services projects might make to the employment position may be limited. Again the experience of the Republic of Ireland, which has a specific services industry incentives package, is illustrative - only some 5% of job promotions have derived from that sector. It is a sad fact that the image and circumstances of Northern Ireland are unlikely to appear attractive to the key personnel who would need to be brought in with any mobile services project from outside and service projects do tend to rely heavily on such personnel. We therefore consider (paragraph 4.20) whether special inducements should be offered to key workers to come to Northern Ireland.

2.16 These difficulties in attracting private services projects also apply to the public sector services which are not generated locally. Northern Ireland should be considered on its merits by

United Kingdom public sector organisations as a location both for services under their control (such as headquarter buildings, and computer facilities) and for services which they buy in from the market. It is a disadvantage, in this context, that the writ of most of the nationalised industries does not run to Northern Ireland thus excluding the region as a possible location.

NEW INWARD INVESTMENT

2.17 Up to about 1970 industrial development policy in Northern Ireland proved generally successful in attracting a flow of useful, sound projects to the province. Since then, the difficulties, economic and other, of the past decade have led to fewer projects coming forward. While the projects which have been launched have tended to have a high capital element, this has not been a matter of deliberate choice but has been indicative of the nature of the mobile investment projects available. If a wider range of mobile projects had been available during the 1970s, and if Northern Ireland had thus been able to choose only the most attractive, the emphasis would have been on predominantly labour-intensive projects where they satisfied the necessary criteria. But this choice has not been available. Indeed much of the mobile industry is now capital intensive and while a number of capital-intensive projects have been introduced into Northern Ireland, there is a greater likelihood that such projects will require assistance that would exceed cost-per-job limits: adhering to such limits would mean that some projects that might have come to Northern Ireland will have to be turned away despite the fact that they might be otherwise desirable (e.g. because, as is often the case, they would introduce high technology processes to the province) - and the increasing proportion of mobile industry that is capital-intensive could increase the proportion of cases in this category.

2.18 The Survival Rate of Inward Investment. Evidence for the period 1945 to 1981 indicates that the survival rate for new inward investment projects is of the order of 66% after 10 years and 41% after 20 years. This experience seems to mirror that of the other Standard Regions generally considered most like it. Even of those firms that have closed many have of course provided valuable employment for 15 or 20 years (see Annex VI). Over 34000 existing

jobs in the region derive directly from Government assisted industry coming from overseas with an unquantifiable number of additional jobs created in supporting industries or services.

2.19 Given the limited number of jobs generated by small firms and private services and the decline of long-established industry it is clear that the attraction of new overseas investment which has been of great value in creating employment in Northern Ireland should be an essential element of the medium term strategy, primarily for the new jobs directly provided but also for the stimulation it would give to the other sectors of the local economy, particularly small firms, and for the improvement of the overall management capability in the Province. Within this the securing of reinvestment decisions by firms already present in Northern Ireland will be vital.

2.20 Competition for New Inward Investment. In seeking new overseas investment Northern Ireland will face increasingly keen competition. The rising levels of unemployment in the Western world have prompted a greater concentration on such projects in the developed nations; at the same time the markedly lower labour and other costs of the Third World make these countries increasingly attractive as investment locations. Firms wishing to get a foothold in the European Community might find Northern Ireland an attractive location but against this there must be set the bad security image. At a time when the number of mobile investment projects is relatively low, the difficulties in securing new overseas projects for Northern Ireland will continue to be severe.

2.21 The prospects for attracting new inward investment particularly from the Province's traditional major sources of such projects - Great Britain and the United States - still remain bleak. In the period 1978-1980 an average of 4 new US investments were located in the Province each year, and an average of 25 representatives of US companies paid first time visits. In 1981 2 new US investments were located in the Province, and only 13 representatives of US companies paid first time visits. So far this year no new US investments have been located in the Province, and a mere 3 US company representatives have paid first time visits. (In contrast the Republic of Ireland's Industrial Development Authority (IDA)

expect this year to secure 50 new US investments holding out the prospect of 13,500 jobs). The decision of Hyster to build their new factory in the Republic after nearly agreeing to site it in Northern Ireland illustrates the likely continuing difficulty of attracting new US investment to the Province in the face of stiff competition from the Republic of Ireland. The attraction of industry from Great Britain has fared even worse; between 1975 and 1980 the Department of Commerce promoted 673 new jobs from Great Britain companies investing in Northern Ireland for the first time compared with 6,862 jobs promoted by the IDA from the United Kingdom during the same period. (The Department of Commerce will shortly be merged with the Department of Manpower Services to form a new Department of Economic Development. Most of its industrial development functions will be taken over by a new Industrial Development Board).

2.22 Against the background of these difficulties, it would be unrealistic to base the industrial development programme on attracting only or mainly one particular type of project (eg labour-intensive). Within the expenditure and other constraints attached to such a programme, any and every project will be worthy of consideration. But if a sufficient stream of projects is to be attracted - and without them the region faces a grim future - novel inducements are needed. The attraction of new investment from Great Britain which has all but ceased over the past decade should merit particular attention.

2.23 At the same time it will be necessary to deploy Northern Ireland's limited industrial promotion resources to the best prospective advantage to this end the present close links with the United Kingdom promotion agencies should be maintained. Overseas promotion activities should be channelled towards sectors likely to have long-term prospects in Northern Ireland. The Department of Commerce has already identified a number of sectors as worthy of special emphasis - robotics, medical equipment, food processing, services and office equipment. These should be pursued while regaining sufficient flexibility to respond to any other viable project which arises.

EXISTING INDUSTRY

2.24 While the attraction of new overseas investment is essential to improved employment prospects in Northern Ireland, there is, in present circumstances, an equal need to secure the core of existing

employment against avoidable erosion. The high number of closures in the region has already reduced the possible expansion points for the future; a significant level of closures in the future could leave the local economy permanently crippled. The Department of Commerce already has a policy of providing limited selective assistance to maintain employment in private industry in Northern Ireland - in 1980/81 a total of £6.6m was offered to preserve some 4,655 jobs.

2.25 This policy is aimed primarily at assisting viable companies with projects designed to modernise machinery and equipment, develop and introduce new products or processes, and increase efficiency. This is an important aspect of maintaining and improving the competitive position of existing industry (see paragraph 2.10 above) and should be continued.

2.26 Companies also seek assistance when they have run into financial difficulties and are in danger of closing. Unless it can be established that the operations can be made viable, there is no economic merit in supporting such companies. However, in the circumstances of Northern Ireland, there may be a social need to ameliorate some of the most damaging effects of the economic decline. In general the aim is to tide basically sound companies over difficult patches, but in certain exceptional circumstances the industrial development institutions exercise their ability to provide selective assistance on social grounds when support cannot be justified on commercial grounds. The institutions also have powers in exceptional cases to provide assistance in order to "buy time" for a limited period (not normally exceeding 3 months) if a company is in danger of collapse before a financial appraisal of the case can be completed.

2.27 The long term implications of supporting uncompetitive enterprises should be recognised as well as the need to preserve an appropriate balance between the resources devoted to this form of support and those used to support the development of competitive industry. Subject to an awareness of these dangers, and to careful scrutiny of each case, it seems appropriate that the industrial development institutions should continue to provide temporary support in appropriate cases, and thus to prevent avoidable losses of employment in viable enterprises.

2.28 Since it is Government-owned, the shipyard of Harland and Wolff is not supported under this policy, but the circumstances surrounding the yard's support, costing £42.7 million in 1982/83, provide a striking example of the continuing difficulties which the Government can face if an enterprise it supports becomes unviable.

COMPETITIVENESS

2.29 The obstacles facing Northern Ireland firms in attempting to carve out markets outside the region for their goods and services and in particular the image of uncertainty and instability relating to the political and security problems, highlight the need to develop the competitive edge of local industry. The development of a viable and secure industrial base in the long-term will be dependent on local industry keeping abreast of production technology and expanding into new markets outside Northern Ireland. The provision of financial assistance for projects designed to improve competitiveness has been referred to in paragraph 2.25. In addition, as indicated in Annex VII, Department of Industry schemes for the development and introduction of new technologies are available to firms in Northern Ireland, but there may be scope for increasing awareness of these schemes throughout Northern Irish industry.

2.30 The existing industrial development institutions also provide a wide range of services designed to improve the competitiveness of local industry including financial advice, marketing and trade support. These will need to be continued and refined with the emphasis being on helping industry to help itself. In particular the value of advice and guidance to the locally based firm, as opposed to the simple provision of financial aids, should not be underestimated. Areas worthy of further examination include up-grading the skills of the labour force, greater flexibility of work practice, improved marketing and the recruitment of the best possible management wherever it can be found, at home or abroad. A general improvement and strengthening of management is a key area to which the Northern Ireland Department of Manpower Services is already giving attention.

LABOUR COSTS

2.31 The critical situation in Northern Ireland and the gloomy prospects suggests that there may be a need to provide a stimulus for

the local economy, as a whole, to halt the current decline and provide the environment for long-term private sector growth independent of government. One approach which may provide a basis for this could be to encourage a greater emphasis on labour-intensive methods where cost-effective. The present accent on capital-intensive investment incentives has come about from the direction of regional policy throughout the United Kingdom during the last 2 decades; this capital-intensive thrust (often aimed at, and often succeeding in creating solid employment as the consequence of capital investment) is maintained through the existing capital biased-incentives reinforced by the fiscal system which 'allow' capital expenditure to be offset against tax while imposing what amount to levies on the employment of labour. An element of the medium term strategy for Northern Ireland might be to shift the balance within present policies to alter attitudes and in the long-term effect an increased demand for labour, particularly within existing industry. Mechanisms for achieving this are discussed in paragraph 4.3 et seq.

2.32 A second approach to reducing labour costs would be to act on labour costs more directly. Neither in the public nor the private sector are wage levels set at the market-clearing rate. Yet there is no good economic reason why a worker in an area of unemployment such as Belfast should be paid at the same level as a worker in London. Average earnings in Northern Ireland have been and continue to be the lowest of all the United Kingdom regions but over the last 20 years have converged towards the United Kingdom average. This does not reflect a conscious policy by Government but it can be attributed to a number of factors including the influence of national wage bargaining, the spread of branch plants and the payment of parallel rates in the public service.

2.33 While it is difficult to presage the effects of measures on this front particularly on employment it is reasonable to support that if labour costs were lower in Northern Ireland than in Great Britain and in competing foreign countries certain beneficial results could flow. These would include;

- (a) Northern Ireland goods would be cheaper and hence more competitive;
- (b) greater scope for profits leading to a potentially healthier industrial sector and to encouragement of new investment;
- (c) internationally mobile investment projects which might otherwise go elsewhere would have an added incentive to come to Northern Ireland;
- (d) the shift towards capital intensive methods might slow down with improved employment prospects resulting.

2.34 It would be possible to seek to adopt some kind of incomes policy for Northern Ireland in isolation. A policy designed to produce actual reductions in the existing wage levels would run into obvious difficulties; but there would also be severe difficulties in the slightly less ambitious policy of reducing real wages by ensuring that the annual wage settlements are reached at a lower level for industry in Northern Ireland than they are for the equivalent industries in Gt. Britain. Leaving aside the difficulties experienced in the past at national level in pursuing such a policy and the obvious contradiction with the Government's stated preference for permitting market forces to operate, there are three other significant points. First, there would be strong trade union and popular opposition to an attempt to reverse the trend of recent years. Second, any reduction in actual earnings in Northern Ireland, already significantly below the Great Britain average, will accentuate the poverty trap, with consequences for social security policy. Third, the Government would **face** the argument that the policy was intended to, and would lead to, a reduction in living standards in Northern Ireland - a discrimination against an already disadvantaged Province that could have strong political repercussions. Finally, the long term economic effects would be debatable not least because the policy might not be seen by industry as a permanent one.

2.35 A more limited and less overt kind of initiative would still be possible. This would be confined largely to the Government's area of responsibility as employer, owner or paymaster; but its impact would be felt in the private sector too. The message to be conveyed to the unions here is that there is a direct trade-off

between levels of pay and levels of employment, especially in a cash-limited world. This is a message increasingly recognised on the shop floor over the past three years. A possible approach, in line with Government philosophy, could be gradualist, encompassing, for example the following;

- (a) assistance to ailing private sector firms might be given only on the condition that the firm adopts and appropriate policy of pay restraint - a condition which, to be credible, would require a comparable undertaking on behalf of the workforce;
- (b) assistance policy might favour firms not suffering from unacceptable restrictive practices which serve to raise labour costs;
- (c) in the case of firms in public ownership - Harland and Wolff, Shorts - where the Government is again, to varying degrees, the paymaster it might be possible to break the pay link with analogous workers in Great Britain; but again such a move would need to be effected with management and unions in harness to be credible;
- (d) more ambitiously it might be possible to break the pay link with Great Britain for some groups of public sector workers, where manning levels and the provision of services could be assured due to the labour surplus. Such a move could give scope where desirable for greater employment within a given cash limit and might also have some beneficial knock-on in the private sector.

2.36 Even with a "gradualist approach" to containing wages there would be difficulties with the unions directly involved and possibly also on the political front, if it were felt that Northern Ireland had been singled out for harsh treatment. We therefore regard it as desirable that measures like those in 2.37 (a) - (c) are also applied generally in the UK. The question of regional-differentiation of public sector pay in Northern Ireland (2.37 (d) above) - will also require careful review in the light of the recommendation by the Megaw Report. We do, however, recommend that the Department of Commerce should seek where possible (we recognise the limitations) to follow up (a) - (c) above. This would also have the advantage of protecting the value of the reduction in the National Insurance

Surcharge we recommend in a later section.

CONCLUSION

2.37 There is no single strategic approach which will offer an adequate solution to Northern Ireland's economic ills, particularly the problems of unemployment. An important **aim of Government policy** should be to attract new inward investment; in the face of admittedly formidable difficulties it is vital also to strive for the maximum growth in small firms, the private services sector and existing industry - even though in some cases the stabilisation of the present position may be the most that can be achieved from this source. The strategy for the medium term should aim to;

- (i) strengthen the position of existing industry and maximise the limited potential for employment growth;
- (ii) intensify efforts to develop the small-firms sector;
- (iii) investigate the scope for inducing growth in the private services sector including operations not limited to a Northern Ireland market;
- (iv) attract new inward investment (without undue concentration on certain types of projects);
- (v) maintain, on a selective basis, existing employment in firms which have long-term prospects;
- (vi) review all the main factors influencing the competitiveness of firms both large and small, particularly labour productivity and the management input;
- (vii) shift the focus of industrial assistance away from capital and towards labour;
- (viii) as a complement to (vii) seek to ease labour costs, and maintain downward pressure on wage rates, where practical

EXISTING INCENTIVES

3.1 As a prelude to considering what new measures might be taken this section discusses the range of investment incentives currently available and details their cost. It attempts also to assess their impact on the local economy, collectively and individually although the scope for the latter is restricted. It draws on the job promotion performance and the incentives available in the Republic of Ireland in highlighting the limited effectiveness in recent years of the inward investment effort.

PRESENT INCENTIVES

3.2 There are some 40 schemes, or organisations, available to assist industry in Northern Ireland, both existing and newly established. These are listed in Annex VII. The leading measures involve a total expenditure of some £160M, detailed in Annex VIII. The two most important, in terms of the expenditure involved and their contribution to industrial development are the Standard Capital Grants Scheme and Selective Financial Assistance (SFA). The other leading elements of the current package are:-

- Factory Building
- Training Grants
- Industrial Derating

The following paragraphs describe these five schemes briefly.

3.3 Standard Capital Grants are available at the rate of 30% towards expenditure on buildings, plant and machinery for manufacturing industries, and theoretically are payable both to incoming and indigenous firms (although incoming firms are likely to take advantage of the more generous Selective Financial Assistance Scheme which is available as an alternative to Standard Capital Grants). Assistance is provided on replacement as well as new equipment. About £40M is currently spent annually on them. The scheme is analogous to the Regional Development Grants Scheme in Great Britain in that it is limited to the manufacturing sector; no contact is necessary between the company and the

Department prior to the submission of a claim for grant, and the claim processing operation is simple. As in Great Britain all payments on approved claims are at present deferred for four months. There is no question of discretion (except in the strictly technical sense), or withholding of assistance if the project would have gone ahead anyway. For recipients with tax liabilities the value of Standard Capital Grants is increased because they are not deducted from a recipient's capital expenditure when his capital allowances are calculated.

3.4 Selective Financial Assistance is available under the industrial development legislation for investment which creates, maintains or safeguards employment in Northern Ireland. Unlike Standard Capital Grants the amount of assistance and the terms are not automatic and assistance is employment-related. The powers are wide and flexible and the package is put together to match the individual needs of each project. Assistance can take the form of grants, loans, share capital or loan guarantees, the central elements being Selective Capital Grants and Employment Grants. A thorough appraisal is made of the technical, commercial and financial aspects of the project, and if the project is viable a judgment is made as to how much might be offered in all the circumstances of the project, and on what terms. The precise amount of assistance is governed by the "additionality" criterion ie it is the minimum amount necessary to ensure that the project goes ahead as originally planned. Account is also taken of the contribution the project will make to the regional and national economy and whether it will lead to more productive and more secure jobs (the "efficiency criterion"). The particular criteria which apply where Selective Financial Assistance is employed to maintain employment have already been outlined in paragraphs 2.24 - 2.27. There are also administrative cost per job rules, which govern the amount of Selective Financial Assistance which may be offered. Assistance is geared so that the most generous terms are available in the areas of highest unemployment. The total cost of Selective Financial Assistance, including maintenance cases was some £70M in 1978/80, £84M in 1980/81 and £68.47 in 1981/82.

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3.5 The Department of Commerce is responsible for Government factory building in Northern Ireland, which falls into two categories. First there is the building of advance factories built speculatively in areas of high unemployment or in those locations accorded other regional priorities. Once built advance factories are a useful tool in steering new investment to a particular location. Secondly, there is the building of factory extensions and purpose-built factories. Activity here is dictated by demand and varies according to the cycle of economic activity. For advance factories rent grants of up to 5 years may be available. Public expenditure on factory building and industrial sites was some £15M in 1979/80 and 1980/81, but dropped in 1981/82 to some £11M.

3.6 Training Grants A number of training grants are available to employers in Northern Ireland from the Department of Manpower Services (DMS). The chief one of the Training on Employers' Premises Scheme (TOEP) where grants are payable to companies expanding in the manufacturing and construction industries. Assistance towards training costs are paid by DMS up to a maximum of 52 weeks for each additional employee. There are 3 rates of grant - persons unemployed aged over 50 (£40 per week), all others over 18 (£30 per week), under 18s (£20 per week). These grants can be supplemented by the European Social Fund. Under TOEP full-time instructors qualify for grant for a proportion of salary costs. In addition to the basic grants assistance is provided towards travelling and accommodation costs for training outside Northern Ireland. Under the Apprentices Training Grants Scheme employers recruiting apprentices from Government Training Centres can receive grants of £1,040 per year, or more where the apprentice complement is being increased. Under the Key Worker's Scheme, assistance is provided to workers transferred or recruited to fill a key post in Northern Ireland. This normally lasts for 2 years and covers a wide range of benefits (travel costs, legal fees, removal costs, rehousing grant).

3.7 There is also assistance available to the management sector, (detailed in AnnexX). Under the former Management Structure Grant Scheme grants of 25% of salary of additional managers were payable, for up to 3 years, to companies in the manufacturing, construction and/or hotel sectors to enable them to develop appropriate management structures. This scheme closed for new applications on 1 January 1981 to release resources for a new Management Development Programme. Companies qualifying for the TOEP scheme may also receive assistance towards the cost of sending managers/supervisors on approved training courses. Under the Management Development Programme proposed for introduction later this year assistance for examining the management needs of a company and implementing a planned programme of training will be more widely available in the manufacturing and selected service sectors.

3.8 Industrial derating at 75% was introduced in the United Kingdom in the 1920s to combat the severe unemployment at that time. It was reduced in England and Wales to 50% between 1959 and 1963, and was abolished there in 1963 because there was virtually full employment. It remained, however in Northern Ireland at 75%, and in Scotland at 50% because of the relatively unfavourable economic conditions there. The industrial heritaments which qualify are mines, quarries and factories. The cost of industrial derating in Northern Ireland in 1980/81 was approximately £19M equivalent to 11% of the total possible rates yield. There is no derating of commercial property either in Northern Ireland or in Great Britain (except in the Enterprise Zones).

3.9 Despite considerable effort in trying to measure the effect of incentives, it has proved difficult (in Great Britain and in Northern Ireland) to reach precise conclusions. Different incentives have different objectives: not all are employment related. There are therefore problems in disentangling the effects of various schemes and finding a common yardstick to measure them with. It is also difficult to assess what would have happened in the absence of assistance, and so to arrive at the net effect of schemes.

3.10 There is therefore little available in the way of quantified conclusions about the relative effectiveness of individual incentives. But there is anecdotal and circumstantial evidence on the effect of existing measures. In the case of Selective Financial Assistance (which does of course represent a package of measures that varies in its detailed content from case to case), the figures of jobs promoted provide some guide to effectiveness. Table 1 overleaf sets out the job promotion figures of the Department of Commerce between 1971 and 1981 and Table 2 shows the results obtained by LEDU in the small firms sector. These show a fluctuating level of performance overall with an underlying downward trend. Within these totals the bulk of the new jobs have tended to derive increasingly from expansion of existing industry as the flow of new inward investment has effectively ceased and new indigenous investment contributes a decreasing proportion. As has been shown in Annex VI, a large proportion of the companies attracted to NI (column 2 in Table 1) have remained in business, and have provided employment for many years. This incomplete information suggests that the Selective Financial Assistance package has been reasonably effective in the past, but the increasing inability to attract new inward investment in recent years, and the decrease in locally created employment, also suggests strongly that the package is no longer sufficiently effective.

3.11 There is some evidence that the major ingredients of the package, the Selective Capital Grant and the Employment Grant have been the main attractions for new industry. The relative appeal of these grants varies according to the circumstances of the project, and it is reasonable to suppose that the relative attractiveness of each has depended to an extent on whether the company was capital or labour intensive. The fact that negotiated agreements have historically involved more expenditure on capital than on employment grants may also imply some preference for the former. (Although administrative practice has also tended to bias the offer towards capital grants, which are regarded as semi-fixed at the appropriate ceiling, with employment grants being the main variable negotiated in the package). Since the dominant

Table 1: Job promotions by Department of Commerce 1971-81

	Companies new to Northern Ireland	New Companies within Northern Ireland	Expanding Companies	Total
1971	1194	426	5645	7265
1972	275	507	7409	8191
1973	1116	189	5740	7045
1974	765	344	4239	5248
1975	315	95	3062	3472
1976	2123	749	1732	2904
1977	-	1077	3570	4647
1978	3698	368	2347	6413
1979	1865	357	3250	5472
1980	1880	430	3235	5545
1981	348	22	2168	2538

Table 2: Jobs promoted by LEDU 1971-81

1971/72	660
1972/73	1166
1973/74	1614
1974/75	1130
1975/76	789
1976/77	943
1977/78	1212
1978/79	1285
1979/80	1317
1980/81	1055
1981/82	1613

Table 3: Relative Job Promotion Performance 1975-81

Year	Great Britain*		Northern Ireland		Irish Republic	
	New Overseas	Small New Indigenous and Expansions	New Overseas	Small New Indigenous and Expansions	New Overseas	Small New Indigenous and Expansions
1975	3,300	44,100	335	3,918	7,896	7,630
1976	2,500	45,900	423	3,245	7,905	9,980
1977	4,800	39,400	-	5,773	11,705	12,323
1978	8,700	47,700	3,698	3,936	13,590	16,631
1979	6,600	52,500	1,865	4,737	14,315	20,155
1980	10,300	40,400	1,880	5,315	16,011	19,277
1981	11,400	22,400	348	3,324	16,800	19,470
Total	47,600	292,400	8,549	30,248	88,222	105,494
Grand Total	340,000		38,797		193,716	

requirement is to create employment (under the right conditions) there may be a case now for altering the balance between Selective Capital Grant and the Employment Grant more in favour of the latter. This possibility is developed in Section 4.

3.12 The major incentive outside the Selective Financial Assistance package is Standard Capital Grant. There is a growing concern that there is some deadweight in this automatic Grant and that it does not necessarily contribute in a strong way to an employment creation objective. At the same time there are strong indications that industry values the simple automaticity of the Grant and the assuredness that they can build its availability into future cash flow projections. The two points are not incompatible, and taken together suggest that while industry might regret the change, there is reason for cutting back on this Grant. Indeed, a reduction might be desirable in principle if we are to seek to give greater stimulus to employment creating projects.

COMPARISONS WITH REPUBLIC OF IRELAND

3.13 The central feature of the investment incentives available in the Republic of Ireland is the 10% rate of Corporation Tax (nominal rate 45%). This is available to all manufacturing companies, existing and new investment, and is guaranteed to run until the year 2000. This incentive was introduced in 1981 succeeding the Export Profits Tax Relief (EPTR) where profits derived from exports were fully exempt from Corporation Tax. This latter measure which was givorously marketed by the Industrial Development Authority (IDA) from 1969, as the present tax concession is at present, was dropped following pressure from the European Commission; some companies already benefitting from the EPTR will, however, continue to do so for some years. In addition to the fiscal incentives the Republic's package consists of a range of aids many of which mirror those available in Northern Ireland. These are detailed in Annex XI. Following a review of industrial policy commissioned by the Irish Government in 1980 which involved a report by a US consultancy group, Telesis,

there may be some changes in the IDA's approach, but from the limited evidence available it seems unlikely that these will alter the components of the aids package more than marginally.

3.14 It is particularly difficult to make comparisons between the package of incentives available in Northern Ireland and the Irish Republic, because the value of the tax incentive will vary from project to project, according to the profitability of the company in question. It is instructive, however, to note that the Irish Republic, against a background of work economic recession and intensification of competition from other countries, has nevertheless managed to improve its overall job promotion performance each year since 1970. The number of jobs promoted by the Republic increased from an annual average of 5000 in the late 60s to 35,000 by 1981. Northern Ireland's performance in recent years has deteriorated markedly. This is demonstrated by the figures in Table 3. Between 1975 and 1981 the Industrial Development Authority promoted some 193,700 jobs against 38,800 in Northern Ireland. The Republic's share of total job promotion in the British Isles area in this period was 33.8%. The success of the Republic is more pronounced in relation to new inward investment. Between 1975 and 1981 approvals totalled 88,222 against Northern Ireland's figure of 8,549 and a UK total of 56,149. Much of this success derives from US investment which accounted for two thirds of the jobs coming from overseas projects. The IDA has improved its performance in new inward investment continually and its figure for 1981 is the best ever.

3.15 Against this background, while it is difficult to find a satisfactory theoretical balance of one package against another, the most crucial measure of the difference between packages must lie in the results. The Northern Ireland package, generous though it may be, does not produce the results which are produced by the package available in the Republic of Ireland - even though the Republic's package often gives no greater volume of financial assistance than would be available in Northern Ireland to the same firm.

CONCLUSION

3.16 The existing range of incentives has served Northern Ireland well in the past but as in Great Britain there is insufficient evidence to determine which have proved the most effective. There is clear evidence that the composition of the existing package is no longer sufficient to attract inward investment to Northern Ireland, on the scale necessary to have a real effect in the local economy. Equally to the extent that the Republic of Ireland's package of incentives has been a significant factor in its continuing success in the same field, this provides a pointer to the direction in which moves to alter the shape of the Northern Ireland incentives might be considered.

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NEW INCENTIVES - THE OPTIONS

4.1

In this section we outline a range of policy instruments which might be considered in pursuit of the chosen strategy beyond the present measures and initiatives already planned by the Department of Commerce. Some of these could be implemented within the present arrangements or by extending them. Others involving a significant shift of approach would have real resource implications and in view of our nil-cost remit, would necessitate corresponding curtailment in the existing planned expenditure. The feasibility and effectiveness of each are assessed: the key judgment is the likely impact on the local economy particularly on employment stability and growth. The measures are presented under three headings:

- (a) those which might strengthen Northern Ireland industry as a whole and improve competitiveness through reducing costs;
- (b) those aimed at particular sectors;
- (c) those designed to encourage new investment.

None of the possible new measures we have examined offers a guaranteed way forward but several are rejected on grounds of limited effectiveness and/or excessive cost - an energy subsidy (paras 4.11 - 4.12), a transport subsidy (paras 4.13 - 4.15), grants to managers (para 4.19), increased Selective Capital Grants (para 4.31), 'soft' loans (para 4.33), a joint venture fund (para 4.34).

MEASURES TO STRENGTHEN INDUSTRY AS A WHOLE

4.2

The need for NI industry as a whole to be more resilient and to compete in the market place, has already been highlighted. Existing industry must be helped to increase its capacity to cope with the pressures on the local economy while inward investment must have an environment which is stable and healthy and encourages long-term growth. One way of achieving this may be to reduce the costs facing NI industry. The cost of labour is of course the most

important of these; but as we indicated earlier there are other costs falling on the region directly or indirectly which are higher than they otherwise would be as a result of geographical factors. We consider below the possibility of subsidies to compensate for these costs.

4.1 Labour The cost of labour is, of course, a major ingredient in industry's costs. Labour is also the factor we wish to encourage industry to use (subject always to the need to use it productively). The emphasis of the existing range of incentives and taxes in Northern Ireland is, as in Great Britain, encouraging the shift towards capital. This reflects the thinking on regional policy in the past and it is clear that it has proved beneficial by and large. As intended, grants related to capital have often had the effect of promoting stable employment, by promoting necessary modernisation and fostering greater competitiveness. Given the deterioration in the economic situation in Northern Ireland and the unemployment level, present and forecast, it may be time, however, to look at the relevance of this bias towards capital and its cost-effectiveness. In particular in the light of our basic objective of promoting viable industry and employment growth the value of measures which may lead to excessive labour-saving investment is open to question. While we have already recognised the relevance of the Review of Regional Economic Policy and the need for Northern Ireland to take account of any shift of policy which may flow from that we feel that there is a strong case in the present circumstances in Northern Ireland for realigning the thrust of policy instruments through reducing the existing tendency to favour capital investment. The existing levies on labour have the effect of a tax on labour. The following paragraphs consider how this burden could be reduced.

4.4 The effects of such a reduction are two-fold. First, as indicated above, it would encourage the employers eligible to receive it to look again at the case for more labour-intensive methods. Thus in time it would act to stem the present shift from labour to capital - leading to higher employment levels than would otherwise have been the case. It would also make Northern Ireland

goods more competitive in international markets assuming the lower labour costs transferred into lower price levels; and it would stimulate both a continued interest in more labour-intensive methods and an overall revival of local industry. Even if some part of the reduction were translated into higher profits rather than lower prices this would also be an advantage if these profits were reinvested in Northern Ireland. In short it would have all the advantages normally expected of a measure which relieves industry of a burden.

4.5 As well as these main effects a reduction in labour costs would produce some of the valued effects of a lower wages policy without attracting the political and institutional difficulties which the latter would involve.

4.6 The reduction could take a number of forms. An across-the-board reduction, available to the whole of the private and public sectors, would encourage a general shift back towards labour-intensive methods in Northern Ireland industry as a whole. At the same time it would constitute a firm signal of the Government's concern at the parlous state of the region's economy and the need for a radical shift of emphasis. On the other hand the reduction could be more specifically targetted. It could apply to the private sector only, to certain areas of the industrial structure or even to individual firms. A further refinement could be to link it to "additional" employment created, although in this case difficulties in definition and eligibility could lead to complex administration. The problem of deadweight* would be greater with an across-the-board reduction, and would be minimised the more selective the measure becomes, particularly if it were linked to additional employment only. Leakage of the reduction into wage levels is another potential problem - again this tends to be greater where there is an automatic entitlement to the reduction in the eyes of employers and employees.

* [Deadweight occurs when incentive measures simply subsidise expenditure which would have occurred in any event without producing any additional benefits to the nation in terms of either employment or improvements to the capital stock]

4.7 To achieve any significant impact on management attitudes and pricing levels any labour tax reduction would need to run for a realistic period (at least 5 years). To promote the general move away from a capital bias in local industry we believe that it would have to operate on a long-term basis as have the main components of the present incentives package. This point would become even stronger if the cost of the labour reduction were to be met even in part by cutting other automatic assistance to which industry is at present entitled.

4.8 While a labour tax reduction would be of some marginal benefit in attracting inward investment, its major impact would be directed at improving the competitiveness of existing industry. In view of our earlier emphasis on service industry, we think the reduction should apply there, too. We thus propose a reduction of labour taxes affecting the whole private sector.

4.9 We are of the opinion that a reduction in the National Insurance Surcharge (NIS) offers the best way of achieving the reduced labour tax that we recommend. Such an approach would have the crucial advantage that it would avoid creating a politically controversial new subsidy to industry. It would act directly to reduce a distortion of the labour market in Northern Ireland. While the precise scale of the reduction in NIS would need to be considered in the light of, inter alia, the corresponding reduction in existing expenditure proposals, a reduction of at least 1% would be needed to have any significant effect on industry. A reduction of 1% in the private sector would cost some £12.5M per annum at present.

4.10 We recommend that, as one of a series of interlocking measures, the National Insurance Surcharge paid by the private sector in Northern Ireland should be reduced by at least one percentage point below the current level in Great Britain. (If the National Insurance Surcharge were abolished, or if its rates or administration were significantly changed, then the impact on Northern Ireland's incentives to industry would need to be reviewed).

4.11 Energy Subsidy Last year, following a review of the electricity supply arrangements in Northern Ireland, Ministers decided that in future electricity tariffs in the Province should be pegged to the highest levels in England and Wales. We have considered whether there would be value in seeking now to give further assistance to Northern Ireland industry, through further subsidisation of the energy tariffs. The crucial question is whether further subsidy would improve employment.

4.12 The existing subsidy to electricity tariffs will cost some £58M in 1982/83. If NI tariffs were to be related to the average tariffs in England and Wales, rather than to the highest, the additional cost might be a further £15-20M. These figures relate to a reduction of all NI tariffs (commercial and domestic as well as industrial users); no separate calculations have been, or could easily be, made in relation to industrial tariffs alone. It does not however appear that incurring additional expenditure to reduce industrial electricity costs would produce commensurate benefits in terms of employment creation.

4.13 Transport Subsidy In our analysis of the economic outlook we pointed to the disadvantage caused to Northern Ireland industry by the physical separation from Great Britain although it is not clear how much the disadvantage costs Northern Ireland industry, or how much it deters potential investors. The probability is that the main benefit of any transport subsidy (it is difficult to think of any other subsidy which could be related to the problems of physical separation) would be psychological - or indeed some of the problems of physical separation may be psychological. The question of a transport subsidy has been raised by Northern Ireland industry on a number of occasions most prominently in the report prepared for the Regional Policy Committee of the European Parliament in 1980, and most recently in the evidence of the Northern Ireland Chamber of Commerce to the Select Committee on Industry and Trade.

4.14 One possibility which has an analogy in a proposal floated for the Western Isles of Scotland is the development of a subsidy based on a 'road equivalent tariff'. This would operate on the principle that ship users are charged only a sum which reflects their running costs for a road journey of equivalent length to the sea crossing. Such a scheme has simple attractions, but it is difficult to visualise how the subsidy would be paid, how leakage would be prevented, and how it could be administered economically. Other possibilities include subsidising the running costs of transport operators and/or their capital costs, through the provision of capital grants, loan or interest relief grants. The difficulty with these types of subsidy is to ensure that the benefit accrues to the transport user, not to the operators, in the form of increased profits.

4.15 In view of the uncertainty relating to the precise disadvantage posed by the higher transport costs it is difficult to identify the benefits to be gained from the introduction of some form of subsidy. Whatever the benefits they would accrue to existing industry. In terms of inward investment the chief advantage would be its appeal in terms of countering a perceived disadvantage of the region as a prospective location, but we doubt whether any transport subsidy would prove a more effective use of resources than any of the existing incentives.

4.16 Employers Liability Insurance (ELI) An added labour cost in Northern Ireland is the higher cost of obtaining ELI cover. In 1978 this added 3.2 pence per hour to labour costs in manufacturing industry compared with 1.0 pence in the UK as a whole. Thus, NI manufacturing industry was bearing at that time a total oncost of £4-5M per annum as a direct result of the higher cost of ELI premiums. This differential is attributed to the generosity of the jury system since personal injury cases in Northern Ireland (unlike GB) are tried by jury. There are some individually striking examples of the burden which ELI represents to NI companies. Harland and Wolff has made a provision of £20M in respect of ELI cases known to be pending; while Michelin, with 25% of its UK employees based in NI, incurs 75% of its total UK premium for ELI in respect of its Northern Ireland plants.

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The Northern Ireland Office is pursuing separately the possibility of abolition of jury trials in such cases with the Lord Chancellor's Office and the legal profession in Northern Ireland. If progress is made it would represent a significant lightening of the burden on NI industry at no cost to Government.

COMPETITIVENESS AND MANAGEMENT

4.17 All the preceding measures relate to the general question of competitiveness. But we think it important to stress the additional role which the industrial development authorities (IDB and LEDU) can play in stimulating managers and management at all levels to search for extra competitiveness. The two institutions should be encouraged to continue to look wider than just the promotion of new projects, vital though that is. We see IDB and LEDU having an important role in advising industry on improved marketing techniques, the identification and introduction of new products, and the adoption of higher technology.

4.18 There is also scope, particularly in the relatively insulated and relatively small economy of Northern Ireland, for giving a more direct stimulus to management. The Northern Ireland Department of Manpower Services has recently published proposals for new management training arrangements, including a new training institute; this would be funded by industry (including perhaps the public sector as a user of the facilities), with initial pump-priming assistance from Government. These are detailed in Annex X. We support this initiative and urge that the effectiveness of the training arrangements should be monitored.

4.19 We have also considered whether it would be cost-effective to grant aid individual managers, or their employers, to enable companies in Northern Ireland to purchase higher skills than they might otherwise be able to afford. We do not think grants paid to managers are acceptable - there is no means of ensuring value for money - but there is a case for grant-assisting companies to improve the quality of their management.

4.20 Another possibility would be to give managers, and other key workers in Northern Ireland, a tax advantage over those employed elsewhere in the UK. There are superficial attractions in this, not least because of the existing tax reliefs which reduce the United Kingdom tax burden of (i) employees who are themselves domiciled outside the United Kingdom, and employed by an employer who is not resident in the UK, and (ii) employees whose earnings include income earned from working outside the United Kingdom for 30 days or more. With the help of the Inland Revenue we have considered whether variations of these reliefs, or developments of them, could be used to give tax relief to foreigners, or to residents of Great Britain, who take up employment in Northern Ireland. Our conclusion is that any scheme to do this would be excessively complicated both to draft (legislation would be needed in a Finance Act) and to administer - the effort (and the frustrations caused by the inevitable attempt to find and exploit loopholes) would not be worth the modest extra edge this would give to companies needing managers in Northern Ireland. We are, however, conscious that the reason some companies decide not to settle in Northern Ireland is because senior managers are unwilling to live there.

SMALL FIRMS

4.21 The impressive array of assistance available to the small firms sector has already been mentioned and is detailed in Annex VII. The Department of Commerce and LEDU have been developing a strategy for 1982-85 incorporating a number of proposals to increase the level of job promotions. This is outlined in Annex X. Significantly stress is laid on enhancing competitiveness through measures designed to complement financial assistance. We support the thrust of these proposals. We find it difficult to identify any scope for further Northern Ireland initiatives beyond these and of course any schemes introduced on a national basis. (The question of risk capital is dealt with specifically in para 4.34). One option considered, however, was the possibility of extending the existing derogation from employment protection provisions to firms with more than 10 employees as a means of encouraging such firms to hire more staff. Such

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a proposal would attract strong trade union opposition and is unlikely to produce any significant benefits in the form of expansion of existing small enterprises. Therefore is it not recommended.

4.22 An element in the national approach to the encouragement of small businesses has been the establishment of Enterprise Zones. The first Northern Ireland Enterprise Zone was set up in Belfast and another is planned; these represent a significant addition to the range of Government incentives. However the scope and generosity of the existing incentives and the 75% industrial derating available in Northern Ireland as a whole means that in the local context the Enterprise Zone concept alone will not provide the stimulus necessary to fuel a significant expansion of the small firms sector.

4.23 The key to any additional major expansion of the small firms sector may lie more in the nature of whatever new investment comes to the region in future. There is scope for some spin-offs in local enterprises from new investment projects and this has been tapped by the Republic of Ireland in particular. In as much as it is possible this aspect could be built into the promotional activities of the Department of Commerce abroad.

PRIVATE SERVICE SECTOR

4.24 The size of the private service sector is in part a function of the market it serves. The need is to attract mobile service projects particularly from Great Britain. There may be little scope for expansion of indigenous service activities, leading to net growth in that area. LEDU has focussed on the promotion of small scale service developments in the past year with some 300 jobs resulting. This is to be encouraged, and the IDB should similarly be encouraged to give special attention to promoting the service sector, and to promoting manufacturing investments likely to stimulate the service sector.

4.25 The difficulties in attracting the key managerial staff involved with such projects have been mentioned already and the scope for overcoming these has been considered in paragraphs 4.19 and 4.20.

4.26 Another option is to reshape the service sector package. In both GB and ROI, the main marketing line in seeking to attract mobile service sector projects is a per capita employment grant. While such grants are also available in NI they are 'hidden' as part of the overall selective package rather than identified specifically and set at guaranteed minimum levels. We believe that there could be advantages in marketing and packaging employment grants for service sector companies to provide the 'shop window' effect currently missing, enabling the region to compete more effectively for mobile service projects. This could be done without any change in powers although the establishment of fixed levels of employment grants for service projects could involve a small amount of additional expenditure. We recommend that this course be adopted.

4.27 One option designed to stimulate the private services sector and attract mobile projects would be to extend the 75% derating available to manufacturing industry to the service sector. The cost of this is likely to be substantial (£50M in 1982/83) and the benefits uncertain. The impact of industrial derating which has operated in NI since the 1920s has not been assessed. It is reasonable to assume however that, even on the most optimistic assumptions of the boost it would provide to the services sector, the impact of extending derating would not match the resources employed due to the high dead-weight element in the scheme.

4.28 The only other incentive available in Northern Ireland to manufacturing industry but not available to the service sector is Standard Capital Grant. We do not think this omission is important since the service sector is eligible for the more generous levels of assistance available under SFA, and the Department of Commerce is already able to use its discretion to give SFA to worthwhile service sector projects. To extend the automatic Standard Capital Grants Scheme to the service sector would put an undue, and undesirable emphasis on capital investment as well as offering scope for deadweight payments.

4.29 Service industry will, of course, benefit alongside manufacturing industry from the reduction we recommend in NIS (paragraph 4.10).

MEASURES TO ATTRACT NEW INVESTMENT

4.30 The need to make Northern Ireland fully competitive in the search for new inward investment is very clear. The existing package is failing on two counts; first, it has not in recent years enticed sufficient potential investors to even consider the region; and second, it has patently failed to secure adequate actual investment from outside in the face of increasingly strong competition. Both these aspects must be taken into account in considering possible improvements to the range of incentives. The incentives must at the same time be presentationally attractive - to provide the 'shop-window' appeal which will induce potential investors to take the first step in considering NI as an investment location; and they must also be inherently effective in enabling Northern Ireland to compete for attractive internationally mobile projects. The need is for specific, presentationally alluring instruments, which are designed to revive the flow of foreign investments including projects from Great Britain, against the stiff competition which will undoubtedly continue to be in evidence from the Republic of Ireland in particular. The options below are tested against these complementary factors of presentational attractiveness and likely efficacy.

4.31 Increased Selective Capital Grant Rate Superficially, increasing the present maximum grant rate of 50% seems attractive. It could be seen as enhancing the international competitiveness of the financial incentive package, thereby inducing more overseas investment to locate in Northern Ireland, as well as encouraging all indigenous industry to engage in productive investment and reinvestment. However, there is no evidence to suggest that the present rate of selective capital grant is a flaw in the incentives package in the eyes of the potential investor; nor that offering more assistance in this particular way would necessarily generate more projects. Indeed an increase would

induce more capital-intensive projects at a time when the emphasis should, as recommended, be shifting where possible towards labour-intensive projects; an increase in Selective Capital Grant rate would be a step in the wrong direction. There does not appear as a result any justification for any change in the rate of Selective Capital Grant.

4.32 Greater Use of Employment Grants At present the Selective Capital Grant occupies a primary role in the formulation of most selective financial assistance packages. The employment grant, which is negotiable, serves to top-up the package. In the light of our proposal to actively encourage more labour-intensive industry through easing distortions in the labour market and in particular removing the capital bias there is a case for re-examining the use of employment grants. We have already discussed in paragraph 4.26 the scope for the employment grant at a fixed level forming part of a service sector package. A switch of emphasis within the general selective financial assistance arrangements, in effect reversing the roles of the capital and labour elements and making the employment grant the primary element in the package would complement the other measures we propose in particular the reduction in NIS; in aligning the impact of the incentives package more directly on employment, it would be a further demonstration of the Government's intent to encourage labour-intensive projects. We recognise that in some cases eg re-equipment, the primary requirement will still be for capital assistance. We recommend that in the determination of selective financial assistance in the future the Industrial Development Board should seek to make greater use than at present of employment grants as opposed to capital grants.

4.33 "Soft Loans" The use of "soft" loans is favoured in a number of countries, as an instrument of industrial development. In France, in particular, it was a major element of the assistance package. Despite this it is unlikely that a switch to this type of approach would have a significant impact on the

difficulties in Northern Ireland. Government already provides this type of assistance through interest relief grants (up to 3 years at a concessionary rate) and advances of employment grants. There is also already scope for cheaper loans through the European Investment Bank but the take-up in Northern Ireland is disappointingly low. While such loans involve a lot of paperwork and the Northern Ireland business man tends to be parochial in approach if "soft" loans represented an answer to the problems of local industry this would be evidenced by a more enthusiastic approach to the EIB. While it would be a new step for Government to step in and offer loans at concessionary rates, further development of "soft" loans is not seen as a useful enhancement of the existing incentives.

4.34 Easier availability of Risk Capital The performance of the four major banks in Northern Ireland (subsidiaries of two UK clearing banks and two based in the Republic) in the field of risk capital has caused concern in recent years. Despite exhortations from Government they have adopted an increasingly conservative attitude to providing venture capital and some poor trading performances recently have not helped. Further the absence of an Industrial and Commercial Finance Corporation office in the region renders its services less accessible than elsewhere in the UK. Any initiative to increase the availability of risk capital to local entrepreneurs and businessmen would have to come from Government. A joint venture fund with the banks may be a way forward although it is likely that Government would be expected to carry the bulk of the risks involved - equivalent to the Small Firms Loan Guarantee Scheme. Government already has scope to invest in equity through the Northern Ireland Development Agency (NIDA) and on coming into being, the Industrial Development Board will continue that role. We recommend that further thought be given to the most effective way of stimulating the availability of risk capital and the role the industrial promotion agencies could play.

4.35 Tax and tax related incentives This is a major area for examination, and is one we were asked by E(NI) to bear particularly in mind. In view of their importance, we discuss the issue in a separate section. As will be seen from that section, it is in this area that we find the major opportunity for a new incentive for inward investment.

STIMULATING NEW INVESTMENT THROUGH A TAX INCENTIVE

5.1 We turn now to look at the case for some form of tax incentive forming part of the industrial development assistance available in Northern Ireland. Such an incentive might be based on one of two possible approaches. First it might be an element of the United Kingdom tax system operated through appropriate tax legislation by the Inland Revenue in the form of a special reduced rate of Corporation Tax applicable to profits deriving from Northern Ireland. Alternatively the incentive could be a grant, in proportion to the tax paid on Northern Ireland profits, operated through the industrial development arrangements. These options are developed and considered below.

REDUCED RATE OF CORPORATION TAX

5.2 In its most direct form a tax incentive would take the form of reducing to, say, 10% the rate of Corporation Tax levied on profits earned in Northern Ireland. This would have major advantages:-

- (a) it would be a major, readily understood addition to the existing range of investment incentives;
- (b) it would cancel out the advantage which the Republic of Ireland currently holds with its Corporation Tax rate of 10%. (Even if in response the Republic were to lower its tax rate below 10%, its advantage compared with Northern Ireland would then be marginal - whereas at present the advantage is that of an entirely different major incentive);
- (c) it would reward only companies that make profits and that remain in business (so providing stable employment);
- (d) it would reduce the degree of front-end loading in the assistance package: the emphasis in the present incentives is on Government payments during the very early years of the project, but reduced Corporation Tax would not begin to bite until the later years, when net profits begin to be earned.

5.3 It may be argued that the principle of having a uniform tax system throughout the United Kingdom has already been breached by Enterprise Zones. To go further and introduce not only special tax provisions for a whole country or region but also a specially reduced tax rate would be a much bigger step to which some might see grave political objection. We believe however that the circumstances of Northern Ireland are such to justify an exception being made. We do not think therefore that, as a matter of principle, there should be overriding difficulties in introducing a reduced rate of Corporation Tax in Northern Ireland. But on detailed consideration - with the assistance of the Inland Revenue - we believe that the difficulties of detail and implementation would be formidable and make it inadvisable to pursue this option any further. The main difficulties are:-

- (a) the difficulty of drawing up a watertight scheme in which benefit would be given only to those Corporation tax payers who we intend to benefit, and of limiting the reduced rate to profits genuinely earned in Northern Ireland. Many companies in Northern Ireland also have establishments outside the Province: the allocation of profits between plants would be difficult, particularly in the case of a company whose Northern Ireland plant provided one stage in a manufacturing process which involved several stages and several other plants;
- (b) any scheme must be created by statute; it will thus be relatively inflexible; and because it would create an entitlement to favourable tax treatment the scheme would need to spell out all the details needed to ensure that the benefit is limited to profits genuinely earned in Northern Ireland. This complexity and inflexibility could reduce the value of the scheme as an incentive;
- (c) administrative cost - while we have not attempted to calculate the precise number of staff required it is evident that both the creation of this scheme and its subsequent administration would occupy considerable staff resources in the Inland Revenue; the circumstances of thousands of Corporation tax payers would have to be examined each year to see if, and if so, to what extent, they qualified for this lower rate; there would certainly be ingenious attempts to qualify for reduced rate tax without making any significant investment in Northern Ireland;

- (d) to the extent that the scheme is not watertight there will be a tax drain on the United Kingdom Exchequer. To the extent that the cost of this scheme falls on Northern Ireland expenditure this would be a waste of that expenditure, and of scarce resources.

5.4 Our conclusion is that while it may well be possible to devise a scheme that will be watertight, this would require much more detailed study than we have been able to give the subject; but given the range of difficulties we have already identified, we doubt the value of pursuing this tax option any further when our examination of the subject has already disclosed an alternative approach which seems much simpler and equally effective, namely, a tax related grant.

A TAX RELATED GRANT

5.5 The alternative to a reduced rate of Corporation Tax would be a grant to the tax payer that would reimburse him some (or all) of his Corporation Tax payments. We have concluded that it would be feasible to create such a grant, and that it would have significant advantages.

5.6 To have the immediate and striking appeal which would have been given by a cut in Corporation Tax, this grant would have to be clearly and positively identified with the Tax: it would need a title such as "Corporation Tax Relief Grant" and would need to be forcefully advertised as being the equivalent of a reduction in Corporation Tax. It would be available only to those enterprises which are incorporated and which qualify for Selective Financial Assistance.

5.7 It would of course be seen as in effect a tax cut but given the view we take on the point of principle (in paragraph 5.3) we think it acceptable in concept. Such a grant could also, we suggest, avoid most of the difficulties identified with the tax option simply because it would be a grant outside the tax system. The grant would form part of the existing selective financial assistance package. Like the remainder of that package it would be available on a discretionary basis to companies making appropriate agreements with the Department of Commerce. There would be no need for the complex code that would be needed to restrict a cut in Corporation Tax to its desired objective. Nor would the grant require the same level of policing. Tax payers who seek

the grant would identify themselves by applying for Selective Financial Assistance. In addition the grant as outlined below could be operated largely within existing Northern Ireland legislation and hence could be introduced quite quickly.

Main features of Corporation Tax Relief Grant

5.8 The grant would be available only to those enterprises which with the Department of Commerce to make an investment leading to new employment in Northern Ireland and which satisfy the usual rules for selective financial assistance. It would be equally available to industry coming into Northern Ireland and to firms already in the Province that now wish to expand. It would apply to industry coming from Great Britain, as well as to industry coming from overseas; in the case of industry coming from Great Britain, the existing restrictions on the availability of selective financial assistance would continue to apply*. Significantly, the new grant would not be available to existing industry in the Province, except in relation to new developments. We regard this as an important qualification since it would keep down the cost of the scheme, and also reduce deadweight. (This unavailability of the grant to existing industry could be a source of resentment in existing industry, but we think this can be largely avoided if the scheme is put in the context suggested in paragraph 7.8).

5.9 Eligible tax payers would receive an annual grant equivalent to a stated percentage of the Corporation Tax paid in that year. The exact percentage will have to be considered but if the grant rate is 80% the grant rate would have the same value as the net tax rate of 10%, offered in the Republic of Ireland. We have not discussed this idea with the Inland Revenue but our proposal is that payment of the grant would be conditional on an appropriate certification of the amount of tax paid being furnished by the Inland Revenue. Responsibility for determining what proportion of the tax which has been paid would qualify for the grant would rest with the Northern Ireland authorities although it might be necessary to invoke Inland Revenue assistance. The grant would not itself be taxable, and this would require legislation.

* In respect of moves from Great Britain Selective Financial Assistance is only provided where it can be demonstrated that the relocation of a company (or part of its operation) to Northern Ireland will lead to the company as a whole operating more efficiently, ie there is a national economic benefit in such a move taking place. This policy is the same as that operated by DOI for moves within Great Britain.

5.10

In the case of companies having operations outside Northern Ireland as well as inside the Province, the grant would be limited to tax paid on profits made in Northern Ireland. This could be designed in a way which might at the same time encourage United Kingdom companies to locate a greater proportion of their employment in Northern Ireland if the United Kingdom profits of the company were attributed according to the proportion of its total United Kingdom employees working mainly in Northern Ireland. The perils of adopting a rigid formula have already been spelt out in discussion of the first option, and it would be important to use the discretionary nature of the grant to ensure that a realistic assessment is made in each case of the proportion of tax that ought sensibly to be attributed to the Northern Ireland part of the company's operation.

5.11

In the case of companies already in Northern Ireland, and now seeking Selective Financial Assistance in relation to an expansion, there would be some entitlement to tax grant; the extent of that grant, and the conditions (including employment conditions) attaching to it would be negotiated on a case by case basis.

5.12

The grant should not be paid indefinitely; it should be payable for a fixed period: this might be 20 years (to have much the same effect as the Republic's tax concession which is guaranteed to 2,000) but it could be a shorter or longer period.

5.13

The grant should of course be considered in the calculation of the cost of Selective Financial Assistance for each project (see paragraph 7.13).

The Balance of Advantage

5.14

A Corporation Tax Relief Grant constructed on this basis would have significant advantages:

- (a) it would enable Northern Ireland to compete more effectively, both in practical as well as presentational terms, for mobile international investment;
- (b) by its nature it would give most benefit to successful companies and would give no benefit to unsuccessful ones: it would be a success accelerator;

- (c) it would be neutral as between capital and labour intensive industry, and to that extent would mark a shift away from the present emphasis on capital intensive industry;
- (d) some companies undertaking new operations in Northern Ireland with the benefit of less "front-ended" assistance from Government than might otherwise have been the case, it should have the complementary benefit in these cases, of increasing the percentage of the initial investment coming from private sector sources. Arguably, such projects, with the confidence of private sector money behind them, could be regarded as offering sounder prospects than those largely or wholly reliant on public sector investment.

5.15 We commend an approach based on such a grant to Ministers and we recommend that officials should now be tasked in consultation with the Inland Revenue, to prepare detailed proposals.

EC DIMENSION

6.1

Membership of the Community involves certain obligations affecting regional policy and the implications, for any proposals, of the provisions of the Treaty of Rome relating to state aids will need to be assessed. These provisions give considerable powers of discretion to the Commission and their application through guidelines is described in Annex XII. As the Annex explains, any new regional aid should be notified to the Commission.

6.2

There are signs that the Community may be prepared to take a constructive attitude to the problems of Northern Ireland. Certainly the institutions of Community have shown sympathy when looking at Northern Ireland's problems. There could be positive advantage in considering what scope there might be for a Commission initiative in parallel with any new proposals from Government provided that the arrangements were such as to permit enhanced activity in Northern Ireland.

6.3

Despite its rather rigid view of the purposes of state aid - that assistance should be linked to new investment and in particular should not relate to operating subsidies - the Commission has taken a lenient view of some of the existing Northern Ireland aids (eg Standard Capital Grants) because of the Province's socio-economic and political difficulties. It is clear that of the possible initiatives we have examined, labour subsidies or Corporation Tax incentives would be examined critically by the Commission: but the alternative approaches we have recommended (reducing the National Insurance Surcharge and offering grant in place of tax incentives) should prove more acceptable.

THE RECOMMENDED APPROACH

7.1 In this final section of our report we;

- (a) summarise the conclusions and recommendations made in the earlier sections of the report and suggest how our major recommendations for action should be integrated with each other, and with the existing range of incentives (paragraph 7.2 to 7.10);
- (b) discuss the financial implications of these recommendations (paragraph 7.11 to 7.14);
- (c) make some concluding remarks (paragraphs 7.15 to 7.17).

CONCLUSIONS AND RECOMMENDATIONS

7.2 On the basis of a close examination of Northern Ireland's economic circumstances, we have concluded that the Province is suffering from economic and social disadvantages to a degree not experienced by any other Region of the United Kingdom. Although Northern Ireland, like the rest of the United Kingdom, is suffering from the current recession, the underlying causes of Northern Ireland's problems are weaknesses in the regional economy - declining indigenous industry, geographical location, and a relative lack of competitiveness, all exacerbated by high labour supply growth. The adverse effects of these weaknesses were obscured in earlier years by expansion in the public sector and by the inflow of new industry, but as a result of these weaknesses further deterioration in employment is expected, with an unemployment rate well over 20% for most of the 1980s.

7.3 Unless policy action is taken, this will lead to an increasing disparity in economic conditions between Northern Ireland and the regions of Great Britain. Analysis of likely labour demand and supply suggests that there is no real prospect of present policies securing any real recovery in Northern Ireland even after the United Kingdom as a whole has begun to emerge from the present recession.

7.4 Given the factors behind the deterioration in the Province's economy, we believe that the objective of any medium-term strategy should be the maximisation of secure and productive employment through the development of viable and competitive industry.

7.5 There is no single policy step which will offer a solution to Northern Ireland's economic ills. We think it important that the strategy for the medium-term should aim to secure a real improvement in performance at several different points in the economy. We believe that action is required to;

- (a) strengthen existing industry and maximise its already limited potential for employment growth;
- (b) intensify efforts to develop the small firms sector;
- (c) investigate the scope for promoting growth in the private services sector;
- (d) attract new inward investment;
- (e) maintain, on a selective basis, existing employment in firms which have long-term prospects;
- (f) seek improvements in competitiveness, particularly through improvements in labour productivity and the quality of management;
- (g) shift the focus of industrial assistance away from capital intensive industry;
- (h) exert downward pressure on wage levels.

7.6 The current range of industrial incentives has served Northern Ireland well, but it is no longer adequate to meet the present problems, nor to avert the threat of yet higher levels of unemployment during the rest of the decade. There is no conclusive evidence on the relative effectiveness of each of the existing incentives, and given Northern Ireland's parlous situation we think it would be a mistake to discard any weapon from the existing armoury. We recommend that none of the existing incentives should be abolished but as we discuss in paragraph 7.15 they may in time need to be cut back.

7.7 We do, however, suggest that some changes should be made:-

- (a) greater emphasis should be given to the employment linked element in selective financial assistance, as opposed to the capital grant element - though recognising that capital grant can be a primary consideration in some cases, eg where an enterprise is re-equipping in order to compete more effectively;
- (b) it should be an objective, where possible, to simplify the existing range of incentives (taking into account any new measures which may be agreed); and to re-examine how these measures (new and old) are presented.

7.8 We have considered and rejected a number of possible new measures including the attractive notions of a cut in the rate of Corporation Tax and creating a transport subsidy. The new measures which we do recommend are set out below. They are intended to interlock to have an overall bracing effect on the Northern Ireland economy that should exceed the sum of the values of the individual component. In our view, each of the measures we suggest has an important place in the package; we would for example attach as much priority to the measures which do not involve direct financial assistance as those which do. We appreciate that some of our recommendations may appear more striking than others, but we recommend that each of them should be pursued with the same degree of determination, and that in any public presentation of Ministers' decisions care should be taken to emphasise the importance of each.

7.9 Our recommendations are:

- (a) National Insurance Surcharge should be reduced in Northern Ireland to a level at least one percentage point below that in Great Britain (paragraph 4.10);
- (b) a new Corporation Tax relief grant should be introduced to tilt the balance of incentives in a more cost-effective direction and to give Northern Ireland an incentive of immediate appeal to inward investors (paragraph 5.15);
- (c) the Northern Ireland Department of Economic Development should seek, and take, opportunities to contain wage levels in Northern Ireland through its industrial assistance policies, and through its ownership of Harland and Wolff and Short Brothers (paragraph 2.38);

- (d) IDB and LEDU should adopt a higher profile in advising companies how they might continue to improve their competitiveness (eg through improved marketing, introduction of new products, adoption of higher technology techniques) (paragraph 4.17);
- (e) the management initiatives recently progressed by the Northern Ireland Department of Manpower Services should be sustained and pressed through (paragraph 4.18);
- (f) LEDU's plan to boost employment in the small firms sector through new initiatives should be supported (paragraph 4.21);
- (g) LEDU and IDB should be encouraged to promote the private services sector (paragraph 4.24);
- (h) launch a new service sector incentive package, by identifying clearly the many existing incentives available to the sector (paragraph 4.26).

This wide spread of measures is intended to match the strategic requirement to search for competitiveness, to cut costs, to stimulate small firms, to exploit the potential of service industry, and to attract new inward investment.

Financial Implications

Our recommendations are not directed towards increasing public expenditure in Northern Ireland but rather to securing the more effective use of the resources allocated by the Secretary of State for Northern Ireland, from within his 'block', for industrial development and support.

The reduction in NIS would be a clear additional cost to public funds. Since NIS is a United Kingdom revenue, there would need to be a surrender from Northern Ireland PES to match the cost; if national policy were changed and if NIS were abolished or reduced, there would need to be a return to Northern Ireland PES. Whether any cut in existing expenditure plans was needed to finance this transfer would depend on the pressure of demand on the resources presently allocated for industrial development and support. If a re-distribution of such resources were required to

accommodate all or part of the cost, it would be consistent with the strategy we recommend that it should be achieved by cutting the rate of Standard Capital Grant. A cut of 6 percentage points (ie from 30 to 24) would save £8.3m on the basis of 1981/82 expenditure and would still give Northern Ireland a lead of 2 percentage points over the SDA in Great Britain. A cut to 22% would save £11.1m.

7.13 The Corporation Tax Relief Grant should not give rise to any significant cost in the first few years since it is proposed to limit it to new cases qualifying for selective assistance and it would normally be some time before profits are generated. Indeed there could be some initial saving. Companies eligible for Corporation Tax Relief Grant could expect parallel reductions in the level of assistance provided under the other schemes of selective assistance. This assistance is paid early in the life of a project before the company would begin to generate net profits and qualify for payment of the tax grant.

7.14 In an ideal world any proposed change of policy should have an estimated cost placed upon it; and if precise balancing of public expenditure implications is sought it is incumbent upon those pressing the proposed change to point to other changes which can provide adequate savings to meet the expected cost. The difficulty in the present case which we feel must be faced honestly, is that we cannot put a figure of cost on the proposal for a Corporation Tax Relief Grant particularly in the longer-term. This is because we can form no quantified view of the number of additional projects which the scheme would attract, nor of the profits qualifying for grant which, over a period of years, such projects would make.

7.15 However, we believe that the position is containable in the short to medium-term and that existing arrangements can cope with such pressures as might arise in the longer-term. Our view is influenced by the following:

- (a) in any year the Northern Ireland administration begins the year with an agreed total allocation and established priorities accorded by the Secretary of State for Northern Ireland for industrial support. The latter, as other programmes, is in part effectively committed by contractual obligations entered

into in previous years, and in part is free for use on new projects. During the year the uptake of the former (not always precisely predictable because of varying expenditure profiles over time) and the commitment of the latter are carefully monitored to ensure that this element of the Northern Ireland allocation is used effectively and that its priority in relation to the Northern Ireland total is kept under review;

(b) because industrial projects are spread over two or three years or more the allocation for industrial development within the Northern Ireland total, for the second and third years of the Public Expenditure Survey period reflect a similar pattern, but of course with a progressively decreasing element of contractual commitment as one looks further ahead. If the Corporation Tax Relief Grant were added to the armoury, and it appeared, when looking at the later years of the Survey that so much of the available funds was getting committed that it would become impossible to fund any new projects, there would be time for the Departments concerned (including HM Treasury where appropriate) to consider the emerging situation and - as part of the annual Survey exercise - to agree the necessary adjustments to correct the situation (which could include reducing the generosity of the Relief Grant for future cases; reducing or abolishing some other forms of industrial support; or according some other Northern Ireland expenditure a lower priority to enable the industrial assistance to have a larger share of the Northern Ireland block). The precise approach to be taken would depend on the national and regional circumstances prevailing at the time. There would not be an automatic addition, and the Survey arrangements would provide the appropriate machinery for considering the position;

(c) in a different dimension, it must never be forgotten that, should the proposed changes lead to a great stampede of new and successful projects in the Province, so that the new Grant meant large liabilities in year 3 and later, the position of the Exchequer would nevertheless be one of net benefit because;

- (i) as long as the grant was less than 100% of the tax paid, the Exchequer would gain;
- (ii) successful projects mean extra employment, which means a reduction in payment of social security benefits and an increase in personal income tax payments and - through extra personal spending - in VAT and other taxes;
- (iii) the strengthening of the regional economy overall is obviously beneficial to the national economy as regional dependence on special help is reduced.
- (d) there is only one situation in which the Exchequer could be at risk, viz where an appreciable number of new projects come to Northern Ireland (and get the benefit of the Relief Grant) which would have come even without a change of policy eg because of a sudden and lasting improvement in the security situation. We cannot say this could not happen; but on the evidence to date brought out in this Report there is no sign whatever of such an upturn. We believe that the balance of advantage is to make the attempt to reverse the evident decline in the Northern Ireland economy through the stimulation of private sector led growth rather than do nothing in what on the evidence would be the forlorn hope of a natural generation of such growth.

7.16 In agreeing to the proposals in this report the Northern Ireland Department of Finance and Personnel, which is responsible for controlling the Northern Ireland public expenditure programme, has been satisfied that the normal public expenditure controls on the industrial development programme can continue to be effectively exercised.

7.17 The Treasury while noting the contingency arrangements set out in the foregoing paragraphs wishes to reserve its position, until full illustrative costings are available (on which see next paragraph), as to whether some further action may not be needed now. In its view we are proposing to introduce a number of new measures with costs attached, including at least one that is potentially very expensive,

without proposing any immediate offset by way of cutting out, or cutting back on, any elements in the existing package.*

7.18 The full illustrative costings which the Treasury has asked for would relate to this concern. They would show, on a range of assumptions about degrees of response to the new package (implying a range of assumptions about the economic and political/security environment, which do not themselves need to be spelt out in detail), what the take-up of the revised incentives package might illustratively be, when broken down into its component parts - ie into the individual incentives, existing and new, which together make up the total package. This set of figures would in its turn be compared, in aggregate and in detail, with a further set of figures which would illustrate the different results if the existing package were, on the same range of assumptions about the underlying situation, to be retained unchanged. In order to take account of the delayed effect of the proposed Corporation Tax Relief Grant, these illustrative costings would need to be projected over a period of, say, ten years.

7.19 The Treasury thus seeks to compare the putative outflow of funds under the two scenarios - the existing package on the one hand, the proposed new package on the other. Its aim is to see what kinds of pressures for public expenditure are in practice liable to build up from the availability of a bigger battery of incentives covering, in some cases, a wider spread of industry. A major part of the Treasury's concern is to see whether the new arrangements will produce a greater expenditure per job secured or created - the average cost per job in fact, although they accept that this may be a difficult concept to apply to operational use. The Treasury has indicated that if it were indeed possible to secure now a credible assurance that the average cost per job would remain unchanged, that would go a long way to meet its concern. But since that appears unlikely, the Treasury feel that the need for immediate decisions to cut, or cut out, elements of the existing incentives package becomes plainer, if our public expenditure objective is itself to remain credible in Ministers' eyes.

* The proposed adjustment between Selective Capital Grant and Employment Grant, in favour of the latter, is not intended to lead to any overall saving.

7.20 Whilst the Northern Ireland Departments have doubts about the usefulness of the suggested illustrative costings and of the concept of average cost per job, they fully accept the need to review the system of budgetary control in respect of Industrial Development expenditure to see whether it remains apt for its purpose, in the new context. There will be further discussion with the Treasury on different issues raised in this paragraph and in paragraphs 7.17 to 7.19 above.

7.21 Our recommendations, if agreed by Ministers, will require follow-up action by officials. In particular;

- (a) we think Ministers will wish to see a detailed scheme (including the rate and duration of the grant) for the introduction of a Corporation Tax Relief Grant before giving final approval to it; but if Ministers accept our recommendation that such a grant should be introduced, officials from the Northern Ireland Department of Economic Development, the Northern Ireland Department of Finance and Personnel, the Treasury and the Inland Revenue should be commissioned to draw up a detailed proposal;
- (b) the cost per job formula (used to assess the cost to Government of industrial development cases so as to provide the basis for inter-project comparison) should be revised to take account of, inter alia;
 - (i) the impact of any new measures which Ministers may approve as a result of this report;
 - (ii) the changes in prices, particularly those affecting industry, since the existing cost formula was fixed in 1977; and
 - (iii) the distinctive institutional arrangements (the new Industrial Development Board, the 'Northern Ireland Treasury' role of the Northern Ireland Department of Finance and Personnel) in the Province, and the need to provide for appropriate levels of authority within those arrangements.

7.22

Adjustment of the cost per job limits has not in the past affected the determination of the Northern Ireland public expenditure allocation, or of the industrial development component of it. This will continue to be the position.

7.23

Finally, we return to the question of Northern Ireland's image outside the Province. There can be no doubt that in international competition for inward investment Northern Ireland still suffers from the casual belief that instability is so great and disorder so pervasive as to threaten the viability of enterprises and the safety of their employees. This belief is grossly exaggerated and we strongly endorse any steps that can be taken to rectify Northern Ireland's image overseas, in view of our intention expressed above to give particular attention to attracting new investment from that source. Repeated efforts have of course been made to do this, and their limited success demonstrates how difficult it is to rectify.

7.24

We have no hesitation in recommending to Ministers the full range of initiatives described in paragraph 7.9 above. But given the levels to which the Northern Ireland economy has dropped we cannot be confident that even this broad range of measures will be sufficient to start closing the unemployment gap which, without these measures, will widen steadily during the next decade. We believe this is the most effective package of measures that can be devised within our terms of reference. But we recognise that if these changes fail to produce a revival in the Northern Ireland economy, it may become necessary to consider economic measures of an altogether more radical nature (such as would, for instance, enable the Northern Ireland economy to enjoy some of the advantages of a separate currency and fiscal organisation).

UNEMPLOYMENT IN NORTHERN IRELAND

1. The figures for July 1982 show that 120,852 people were unemployed, a rate of 21.1%. This is the highest number ever recorded out of work. Unemployment among males is 25.4%, among females 15.3%. The distribution of unemployment in the region is set out in Table 1: among males the level is approaching 50% in Strabane; 40% in Dungannon and Cookstown. The number of unemployed school leavers (under 18) is 10,877. In addition there are 10,949 unemployed school leavers aged 18 or over.

Background

2. Despite Northern Ireland's history of successful industrialisation going back to the 19th century it has exhibited high rates of unemployment, generally in excess of those in Great Britain, since levels were officially recorded. The average level in 1930 was 18.7% with some 50,000 persons out of work. The highest rate recorded to date was in January 1938 when 90,456 (26%) were unemployed: the average for that year was 23.6% more than twice the Great Britain average.

3. Following the outbreak of war unemployment quickly declined to 10.3% in 1941 and 3.8% in 1944; comparable rates for the United Kingdom were 2.2% and 0.5% respectively.

4. In the post-war period the Northern Ireland level rose again despite the high level of job creation and up to the 1970s averaged 7% compared to the national average of around 2%. Following a decline to a post-war low of 5.1% in May 1974, the trend has been steadily upwards, much steeper than in Great Britain. This has been particularly marked since 1979 with the rate rising from 13% to the most recent level indicated in paragraph 1. This trend is detailed in Table 2 which shows that Northern Ireland has consistently had an unemployment level higher than any region in Great Britain with the differential between the region and the next worst region continuing to rise.

Trend

5. The seasonally adjusted figures indicate that the situation in Northern Ireland is much graver than elsewhere in the United Kingdom. The underlying trend continues to move sharply upwards and the rate

of increase is significantly higher than at the end of 1981. In contrast all other regions indicate a slackening in the upward trend apart from the North. This suggests that the disparity between unemployment levels in Northern Ireland and Great Britain will continue to grow. This is supported by the Warwick forecast for the period 1981-1987 (Table 3) which, points to a Northern Ireland rate of 26% in 1987, compared to a national average of 12%, and 10 percentage points above the next worst region.

TRAV
WORK

Armagh

Bally

Belfa

Coler

Cooks

Craig

Downp

Dunga

Ennis

Londo

Newry

Omagh

Strab

NI TOT

NI TOT

TABLE 4: Distribution of Northern Ireland Unemployment
(July 1982)

TRAVEL TO WORK AREA	TOTAL UNEMPLOYED BY TRAVEL-TO- WORK AREA			PERCENTAGE UNEMPLOYED		
	Males	Females	Total	Males	Females	Total
Armagh	1882	820	2702	27.3	14.1	21.2
Ballymena	7680	3291	10971	27.8	16.8	23.2
Belfast	36570	18134	54704	20.4	14.2	17.8
Coleraine	4459	1601	6060	29.0	15.3	23.5
Cookstown	1398	594	1992	36.2	26.8	32.8
Craigavon	5158	2722	7880	21.7	15.0	18.8
Downpatrick	2723	1388	4111	27.4	17.8	23.2
Dungannon	2686	1100	3786	39.1	27.6	34.9
Enniskillen	2864	1230	4094	28.4	20.0	25.2
Londonderry	8831	3182	12013	35.1	19.0	28.7
Newry	4556	1549	6105	39.4	21.8	32.7
Omagh	2036	938	2974	26.5	18.1	23.1
Strabane	2699	761	3460	47.3	21.5	37.4
NI TOTALS	83542	37310	120852	25.4	15.3	21.1
Corresponding totals for Northern Ireland for previous month						
NI TOTALS	81424	34647	116071	24.8	14.2	20.3

TABLE 5

REGIONAL UNEMPLOYMENT RATES (%) 1971-1981

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	July 1982
South East	2.0	2.2	1.5	1.5	2.8	4.2	4.5	4.2	3.7	4.8	8.0	9.7
East Anglia	3.2	2.9	1.9	1.9	3.5	4.8	5.3	5.0	4.5	5.7	9.1	10.9
South West	3.3	3.4	2.4	2.6	4.8	6.3	6.8	6.5	5.7	6.8	9.9	11.3
West Midlands	3.0	3.6	2.2	2.1	4.2	5.8	5.8	5.6	5.5	7.8	13.5	16.2
East Midlands	2.9	3.1	2.1	2.2	3.6	4.7	5.0	5.0	4.7	6.5	10.1	12.1
Yorkshire & Humberside	3.9	4.2	2.9	2.6	4.0	5.5	5.8	6.0	5.7	7.8	12.1	14.3
North West	3.9	4.9	3.6	3.5	5.4	7.6	7.4	7.5	7.1	9.3	13.7	16.2
North	5.8	6.4	4.7	4.6	6.0	7.4	8.3	8.8	8.6	10.7	15.0	17.5
Wales	4.5	4.9	3.5	3.7	5.7	7.2	8.0	8.3	8.0	10.3	14.5	16.5
Scotland	5.9	6.5	4.6	4.0	5.2	6.9	8.1	8.2	8.0	10.0	13.6	15.6
GB	2.1	2.2	1.5	2.6	4.1	5.6	6.0	6.0	5.6	7.3	11.1	13.2
Northern Ireland	7.9	8.0	6.1	5.8	7.9	10.0	11.0	11.5	11.3	13.7	18.3	21.1
Differences between Northern Ireland and worst GB regions	2.0	1.5	1.4	1.2	1.9	2.4	2.7	2.7	2.7	3.0	3.3	3.6

Note:

UK

North

Scott

Wales

North

North

Yorks

East

West

South

East

South

Table

Table 6: Registered Unemployment Rates by Region

WARWICK FORECAST 1981-1987

	1981		1987	
	%	Rank	%	Rank
South East	8	1	10	1
East Anglia	9	2	12	5
South West	10	3	11	3
West Midlands	13	6	14	6
East Midlands	10	4	11	2
Yorkshire	12	5	12	4
North West	14	7=	16	10
North	15	10	15	9
Wales	14	9	14	8
Scotland	14	7=	14	7
Northern Ireland	18	11	26	11
UK	11		12	

Note: Registered unemployment rates are projected at the mid year and include school leavers.

LABOUR SUPPLY TRENDS

1. The supply of labour is dependent on the size of the working age population and the extent to which persons participate in the labour force (ie economic activity rates). The former is determined by movements in demographic factors, which may be projected over the medium-term with a high degree of confidence, and the latter by socio-economic factors such as the level of demand, society's views on working women etc, projections of which are much more prone to error.
2. Northern Ireland has traditionally experienced the highest rate of natural increase in population of all the UK regions: currently 7.6 per 1000 population compared to the Great Britain average of 1.4. This is almost entirely due to higher fertility rates in NI - the age-standardised fertility rate was 44% higher than in GB in 1976 - but is also partially due to a younger age structure. Between 1961 and 1980 the natural increase in the population was 19.4% (277,000 people) in Northern Ireland compared to 6.8% in Great Britain.
3. Because of high levels of net outward migration, actual population growth in NI has been only marginally above the national level and over the period 1961 to 1980 only the fourth highest of the UK regions behind East Anglia, the South West and the East Midlands. Between 1961 and 1980 migration siphoned off around 56% of the natural increase in population in NI compared to 14% in Great Britain. Actual population growth during the period was therefore 8.4% in NI compared to 5.9% in GB and 26.3% in East Anglia, the fastest growing region.
4. Due to the high birth rates of the 1960s the age structure of the population has been changing with the result that the population of working age has been growing at a faster rate than the population as a whole. Between 1961 and 1980 the working age population (population aged 15 or over until 1972 and thereafter aged 16 or over) grew by 11.9% in NI and by 9.0% in GB. The male working age population at both national and regional level grew faster: in NI by 13.8% compared with 9.8% for females and in GB by 10.1% for males compared with 8.0% for females.

5. The male employee activity rate (employees in employment plus registered unemployed as a proportion of the working age population) was virtually unchanged between 1961 and 1979. The female activity rate began to rise in the early 1960s due to the increased involvement of females in the workforce encouraged by changing social attitudes and the growth of job opportunities for females.

6. As a result the overall employee activity rate rose from 47.2% in 1961 to 53.4% in 1979 with the male activity rate falling from 64.3% to 64.0% and the female activity rate rising from 31.7% to 43.7%. The effects of the recession and PE constraint since 1979 have resulted in a fall in activity rates as the lack of demand discouraged persons from entering or remaining in the workforce (ie prolonged education, early retirement, lack of incentive other than financial for registering as unemployed). At June 1981 the overall activity rate had fallen to 51.8%; male 61.6%; female 42.8%.

EMPLOYMENT STRUCTURE AND TRENDS

1. Trends in the employment structure of Northern Ireland are set out in Table 7. It is evident that the growth of total employment since 1960 has been dependent largely upon the promotion of new manufacturing industry and the expansion of public sector services; major offsetting areas of decline have been in agriculture and indigenous manufacturing.
2. Chart 1 (in the main report) illustrates the contrasting trends of the new and indigenous components of manufacturing employment since 1950. It shows clearly that (i) the apparent overall stability of manufacturing in the 1950s and 1960s was the net result of the relentless decline of indigenous industry and the growth of new industry, and (ii) the sharp loss of manufacturing jobs in the 1970s was due to the loss of momentum in new industry rather than to a change in the performance of indigenous industry.
3. The erosion of indigenous manufacturing has been going on at a remarkably steady rate for most of the post-war period, involving the loss of 99,000 jobs between 1950 and 1981, an average of nearly 5,000 per annum. There have been some partial recoveries during the period, but none of any size or duration. Some growth points have been evident in the indigenous structure and they have been eligible for government assistance, but their contribution to total employment has been modest - no more than a couple of hundred jobs per year, on average. Even the gains from the creation and expansion of locally-owned small firms (with up to 50 employees) have made little impact against the decline of larger indigenous industry: their net contribution of 1,400 jobs between 1971 and 1974 and 3,100 jobs between 1974 and 1978 compares with declines in larger industry (including overseas firms) of 5,400 and 30,500 respectively. Much of this employment growth was due to the establishment of new enterprises; if openings are excluded, the net change becomes negative.
4. The importance of new undertakings is similarly evident amongst inward investment projects: between 1960 and 1970 (at the height of industrial development success), when total employment in new industry rose from 20,000 to 50,000, about three-quarters of the increase was

due to the introduction of new ventures during the period. The major growth of employment in new projects occurs in their first 5-10 years of existence, as they establish and expand if successful; thereafter growth tends to be slower and aggregate performance is increasingly depressed by the impact of closures (see Chart 2/^{in main report}). Overall the trend rate of closure seems relatively independent of age, at around 3% of projects per annum, but is responsive to the economic climate and therefore greatest in times of recession. Because of the loss of projects through closure and the slower growth of surviving projects as they mature, a continuing injection of new projects has been essential to maintain the momentum of new job creation. This momentum was lost during the 1970s due to the increasing difficulty experienced in attracting new investors to Northern Ireland in the face of the civil unrest.

5. The service sector exhibits a dichotomy of experience similar to that apparent in manufacturing. Although service employment has increased substantially in Northern Ireland over the last 20 years, it is primarily a reflection of the growing influence of the public sector. Employment in private services has done no more than hold its ground, apart from a sharp downward shift in 1971/72 and a temporary rise in 1978/79 during the UK consumer boom (Chart 3). The sector is less important in Northern Ireland than elsewhere in the UK, accounting for 22% of total employment in the province in 1978 compared with the GB range of 23% in the East Midlands to 35% in the South East.

6. A closer understanding of the movements in private services can be obtained by splitting the sector into two categories: producer services (comprising goods transport, wholesale distribution and general business services such as finance, advertising, etc) and consumer services (comprising retail distribution and leisure services such as pubs, restaurants, hairdressers, etc). It is then apparent that the overall employment stability is the net result of the growth of producer services (particularly banking and computer services) and the decline of consumer services (mainly retail distribution).

7. All these services - including the growth area of business services - are tied closely to the local market and are therefore constrained by the general health of the local economy. Even during the 1960s, when

major years after the economy displayed much greater buoyancy than at present, the growth of private service employment was of minor proportions, averaging around 500 jobs per annum.

Table 7: Trends in NI civil employment (ie employees in employment plus employees and self-employed).

	thousands employed at June				
	1960	1966	1970	1974	1979
Agriculture	97.7	69.6	63.2	58.1	57.0
Mining and quarrying	3.1	3.7	3.3	2.4	2.2
Manufacturing	183.6	180.9	179.7	169.6	142.2
of which: new industry ²	20.5	38.0	50.3	54.0	40.6
indigenous industry ³	163.1	142.9	129.4	115.6	101.6
Construction	40.5	48.9	52.7	47.3	45.6
Services (including gas, electricity and water)	230.0	249.7	267.4	290.4	342.4
of which: public services ⁴	67.7	82.8	97.7	122.9	N/A
private services	162.3	166.9	169.7	167.5	N/A
Total civil employment	554.8	552.8	566.2	567.9	589.4

Notes: 1. Estimated using 1981 data on employees in employment and 1979 data on employers and self-employed.

2. New industry of external origin established in Northern Ireland since 1945 with selective financial assistance from the Department of Commerce.

3. All industry established before 1945 and more recently established industry of local origin.

4. Non-market public services only - ie central and local government, education and health services.

LABOUR COSTS AND COMPETITIVENESS

1. Average weekly earnings in all industries and services in Northern Ireland in April 1981 were somewhat below average GB levels, particularly for men (92% of GB compared with 97% for females). The gap was slightly greater in the manufacturing sector because, although manual earnings were closer to the GB average (marginally above it for females), non-manual workers fared less well.

Male manual earnings in NI were lower than in all other UK regions, but male non-manual earnings compared favourably. Female manual earnings were close to but slightly above the level of many other regions, while female non-manual earnings were significantly above every other region except the South East (see Table 8).

2. Much of the gap between NI and GB is attributable to differences in industrial structure and hours worked rather than real differences in basic rates of pay for similar jobs. When allowance is made, albeit imperfectly, for these factors, male hourly earnings in October 1980 rise from 94% of the UK average to 96%. This closeness of the national figure reflects the fact that many workers in Northern Ireland are subject to national wage agreements. At the end of 1978, 55% of all employees in employment in NI belonged to UK trade unions (compared with 58% in GB), many of them negotiating rates of pay which are directly or indirectly linked to agreements at national level. The public sector (including public corporations) is a particular example of this, and covers 42% of all employees in employment in Northern Ireland.

3. Table 9 sets out the results of a special analysis for 1977 of data on manufacturing earnings and productivity split between new industry and indigenous industry, with UK figures for comparison. Earnings in new industry are generally higher than in indigenous industry, with the average for the former equalling the average for all UK manufacturing. Labour productivity (as measured by net output per worker) in new industry is generally superior to that in indigenous industry, but is substantially below the UK average. The gap between NI and the UK is slightly narrowed, as Table 10 shows, if gross value added is compared instead of net output, which does not take account of purchases from the service sector. Both measures of output per worker

are significantly affected by the degree of capital investment in an industry - thus for example, net output per worker in the relatively labour-intensive UK clothing industry in 1977 was only 28% of the level in the relatively capital-intensive chemicals industry. Part of the reason for the lower productivity in Northern Ireland manufacturing can therefore be attributed to the region's industrial structure in which relatively labour-intensive activities are particularly strongly represented. This may also be a factor in explaining the existence of a productivity gap between NI and the UK which is greater than the earnings gap. This may happen when more labour-intensive production methods are applied in NI requiring a higher skill input and so boosting average earnings.

4. Subject to these limitations, a notable feature of the NI experience is, as Table 10 shows, that the gap between the NI and UK productivity performance has tended to increase since the mid-70s while the earnings gap has remained fairly steady. The influence of individual large firms has played a part in this shift. Thus if NI's 2 major tobacco firms are excluded (as treatment of duties distorts net output in some years) along with Short Brothers and Harland and Wolff (in view of their special characteristics and problems), the overall shift is much less - see Table 11 - but it is still evident.

Table 8: Average weekly earnings (£) in all industries and services, April 1981
(adults on full-time work whose pay was not affected by absence)

Region	Males			Females		
	manual	non-manual	all	manual	non-manual	all
South East	126.2	174.6	152.4	70.3	104.4	80.6
East Anglia	116.7	157.6	133.7	71.3	92.4	87.2
South West	114.4	153.3	133.6	71.4	91.4	87.2
West Midlands	117.1	152.7	131.5	72.0	92.0	86.7
East Midlands	122.5	151.5	133.6	71.2	90.7	84.6
York & Humberside	121.0	153.4	133.6	72.0	90.3	85.6
North West	119.8	152.1	135.5	72.0	93.8	83.4
North	122.9	155.7	134.7	75.3	92.2	88.0
Scotland	124.8	161.8	140.0	73.3	92.5	87.1
Wales	120.3	152.7	132.7	74.1	92.1	87.5
Northern Ireland	110.0	157.6	123.7	73.1	95.0	83.5
GREAT BRITAIN	121.9	153.1	140.5	74.5	96.7	91.4

Table 9: Earnings and net output per worker in manufacturing industry in 1977 (£'000)

	Earnings per worker			Net output per worker		
	New	NI Indigenous	UK	New	NI Indigenous	UK
Food, drink & tobacco	3.6	3.3	3.2	3.5	7.8	8.7
Engineering & metals	3.0	3.4	3.5	5.8	4.5	6.5
Textiles	3.5	2.4	2.7	7.0	4.0	4.9
Clothing & footwear	2.2	1.8	2.0	2.8	2.7	3.6
Other manufacturing	3.8	3.2	-	8.5	7.2	-
ALL MANUFACTURING	3.3	2.9	3.3	6.2	5.3	7.1
as % of UK	100.4%	87.7%		87.3%	74.6%	

Table 10: NI manufacturing net output, gross value added and earnings per worker as a percentage of the UK average

	1973	1974	1975	1976	1977	1978	1979	1980	1981
Net output per worker	91	85	91	86	79	77	74	76	78
Gross value added per worker	93	88	92	82	80	-	-	-	-
Earnings per worker	87	88	91	93	92	91	94	93	93

Figures for 1973-77 from Census of Production; later figures estimated using Index of Production, Census of Employment and October Earnings Inquiry

Table 11: As for Table 9 but excluding NI&W, Shorts and the tobacco industry from the NI figures

	1973	1974	1975	1976	1977
Net output per worker	85	84	85	83	81
Gross value added per worker	86	85	85	84	81
Earnings per worker	83	85	86	89	88

EMPLOYMENT PROJECTIONS 1981-1986

1. The following review of employment prospects in Northern Ireland (summarised in Table 12) has been based on the period June 1981 to June 1986 as employment data for 1982 are not yet available. It suggests that, even on the basis of optimistic assumptions, the medium term outlook is bleak. Continuing job losses in many industries, coupled with a still expanding labour supply, point to a further deterioration in the labour market imbalance to produce an ongoing unemployment rate in excess of 20%.

2. On the demand side, total employment (including the self-employed) is expected to show a net loss of 20,000 jobs between 1981 and 1986. A brief description of expectations in the major sectors is given below.

- (i) Agricultural employment (the major element in the primary sector in NI) has declined consistently as a result of increased mechanisation and rationalisation. Farm incomes fell to very low levels in 1979 and 1980 partly due to the withdrawal of certain agricultural support schemes. First estimates indicate a limited recovery in 1981 and the hope is that levels of production should help in this respect.) The most optimistic outlook for employment in agriculture is therefore for a continuation of the rate of job loss pertaining during the 1970s, since there is considerable under-employment in the industry. It has been assumed that there will be a further reduction of 2500 in the number of self-employed (due to deaths and retirements) and 1,500 in employees over the 5 years, a total fall in numbers on farms of 4,000 by 1986.

- (ii) Manufacturing employment is expected to decline by 19,000 jobs to around 96,000 in 1986. The present recession, in concert with sectoral decline, is expected to have caused a further major loss of jobs in 1982. Thereafter, the projected scenario assumes that the secular decline is ameliorated somewhat by an increased rate of new job promotions. Nevertheless, the net result is a total of 19,000 jobs lost by 1986.
- (iii) Construction employment has been trending downward since the late 1960s, but has fallen particularly sharply in recent years as a result of the recession and government spending curbs. The recently announced initiative on public expenditure should provide some relief for the industry, but any further sustained recovery in construction activity relies on an expansion in private demand, the scope for which is limited. The assumption therefore made is that the level of employment does not fall below its present level.
- (iv) Public Sector Service employment (including the public utilities) is expected to contract by 3,000 jobs, reflecting present government policy to curtail the public sector. Projected employment levels are based on stated government manpower targets for the civil service and educational services and assumes a constant level of Health Service employment, with some growth in the strength of the police, prison and fire services.

(v) Private Sector Services at national level are expected to benefit from the improved economic climate which government policies are intended to create: in effect this implies a multiplier mechanism by which renewed growth in manufacturing is transmitted to the private services sector. However, past experience suggests little evidence of such a mechanism in Northern Ireland. In any event, the bleak outlook for the manufacturing sector suggests that, even if a multiplier does exist within the region, there is likely to be little stimulus for its operation. Nevertheless, some services should exhibit growth: on an optimistic view and assuming that there is no major shift towards greater computerisation, employment in financial services might be expected to continue to show some growth: some limited recovery might also be expected in the distributive trades. In consequence, private sector service employment is projected to recover towards pre-recession levels, involving an increase of 6,000 jobs between mid-1981 and mid-1986, and giving a net increase of 3,000 jobs in the tertiary sector as a whole.

3. Projecting the labour supply required assumptions (based on past trends and expected future demand for labour) about future movements in employee activity rates and applying these to the Government Actuary's projections of the working age population. The Government Actuary's migration assumptions for Northern Ireland are for an annual net outward migration of 5,000 persons of working age. Employee activity rates were used because of the lack of information on non-agricultural self employment since 1974. Since the demand for labour in NI is expected to decline in the short-

term and since the increase in the overall employee activity rate over the past decade has been mainly due to an increase in public sector female employment, now restricted by Public Expenditure constraints some further fall in activity rates is expected in the short term. Hence it was assumed that by 1983 employee activity rates would have fallen by one-half of the decrease between 1980 and 1981 and remain constant thereafter. A constant self-employment estimate was then added and adjustments made to allow for the introduction of the Long Term Supplementary Allowance Scheme in Winter 1981/82 and the Youth Training Programme in Autumn 1982/83. The net result was a projected increase in the working population of around 8,000 between 1981 and 1986. If activity rates were to remain at present levels, the effect would be to add a further 5,000 to the working population by 1986.

4. Combining the projected fall of 20,000 in labour demand and the lower increase of 8,000 in labour supply, the labour surplus (ie registered unemployment) in 1986 is therefore projected to be at least 12,000 (compared with 104,000 in June 1981) an unemployment rate of 23%. There are two factors which potentially could reduce the excess supply of labour: higher net outward migration and lower activity rates as a result of persons withdrawing from the labour market. However even if emigration were to run at twice the projected level, the labour surplus in 1986 would still amount to 117,000 (21%). A larger fall in activity rates is also unlikely since, particularly among females, they are already lower than in GB. Indeed, female activity rates in NI display a secular upward trend which more than offsets the effect of the decline in male activity rates. Higher male unemployment, for whom the propensity to register as

unemployed is high, could also, in the short term at least, induce an increase in female activity rates. If activity rates were to continue to increase as in the period prior to 1981 - after allowing for the step down effect of the new training initiative and the extension of the Long Term Supplementary Allowance Scheme etc - the labour surplus would rise to 160,000 (28%).

Table 12

Projected Labour Market Changes: June 1981 to June 1986 (thousands)

<u>Supply</u>	<u>1981</u>	<u>1986</u>	<u>Change</u>
1. Civilian labour force (after allowance for migration)	648	656	+ 8
<u>Demand</u> (employees in employment plus self-employed)			
2. primary	57	53	- 4
3. manufacturing	115	96	-19
4. construction	35	35	0
5. tertiary	337	340	+ 3
6. total	544	524	-20
7. registered unemployment	104 (18%)	132 (23%)	+28

net outward migration of economically active persons
(total for period):

15
(3 per annum)

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Annex VI

LIFESPAN OF NEW INWARD INVESTMENT

1. Since 1961 the Industrial Development programme has attracted 153 projects from outside Northern Ireland. Of these 67 remain open, 82 have closed and 4 in receivership.
2. The attached Chart sets out the lifespan of each of the 153 projects and demonstrates that of the 82 which have closed a significant number operated, and provided employment, for a respectable period of time, 15/20 years. In addition it indicates the number of projects surviving which were established more recently and have therefore not yet been able to reach that length of lifespan.

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MR.



PROJECT STILL EXISTING

ASSISTANCE AVAILABLE TO INDUSTRY IN NORTHERN IRELAND

This annex outlines the range of schemes available to Northern Ireland industry with brief notes on each. As well as the schemes administered by Northern Ireland Departments or statutory bodies, it includes assistance available on a UK basis and help available from European Community institutions.

1. Standard Capital Grants - automatic 30% grants against investment in buildings, machinery and equipment (analogous to Regional Development Grants in GB).
2. Selective Financial Assistance - a package of measures negotiated with companies who are creating or safeguarding jobs. Assistance includes:-
 - (a) capital grants of up to 50% of cost of buildings, machinery and equipment;
 - (b) employment grants - per capita linked to employment build up;
 - (c) rent grants - contribute to rent costs for up to 5 years whether premises are Government or privately-owned; and
 - (d) interest relief grants - covering major part of interest costs on private sector loans for up to 3 years, and can be offered at 3% per annum for up to another 4 years.
3. Government Factories - new or second-hand can be purchased or leased for all industrial or commercial purposes other than retailing.
4. Industrial De-rating - all premises used for manufacturing purposes in NI are de-rated by 75%.
5. Research and Development Grants - of up to 50% on the first £50,000 and up to 40% expenditure above that, with a limit of £250,000 on the total grant received for any single project.

6. Northern Ireland Development Agency (NIDA)* - helps industry by:
- (a) providing all forms of capital and loan guarantees;
 - (b) advice on financial matters, marketing and market research;
 - (c) arranging business marriages between local and overseas firms by way of joint ventures, licensing agreements or mergers;
 - (d) promoting export trading companies to help firms sell overseas;
 - (e) personnel services, particularly help with establishing a balanced Board of Directors and recruiting senior staff.

* NIDA, along with that part of the Department of Commerce responsible for industrial development will be absorbed into the new Industrial Development Board.

7. Local Enterprise Development Unit (LEDU) - is the agency responsible for promoting small firms (less than 50 employees) in NI. It provides packages of Selective Financial Assistance (compare with 2 above), which can include:

- (a) up to 50% grants for investment in buildings, machinery and equipment;
- (b) grants towards setting-up costs, including removal, legal, accountancy and planning fees, and once-for-all expenses;
- (c) salary grants for employing qualified production managers;
- (d) working capital grants;
- (e) employment grants for those employed over and above an agreed number;
- (f) pump-priming grants of up to 80% (subject to a specific cash limit) for agreed research and development programmes to exploit new ideas or technical innovations;
- (g) incentive grants of up to 66 $\frac{2}{3}$ % (subject to a specific cash limit) for Market Research, Exhibitions, Package and Graphic Design, Design Consultancy, Work and Method Study,

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Book-keeping and Costing and Preparation of Financial or Technical Projections;

- (h) interest relief grants;
- (i) rent relief grants during the early stages of a project;
- (j) loans and guarantees for working capital, the loans at concessionary interest rates;
- (k) equity finance, where LEDU will take a minority stake with an agreed buy-back option.

LEDU can also give practical advice on Marketing, Technical Appraisals and Production, and Promotion, including Trade Fairs and Exhibitions, and runs the Small Firms Counselling Service in NI.

8. Key Workers Scheme - helps when workers have to be transferred to fill new key posts in plants being set up or expanded in Northern Ireland. Assistance can normally be given for up to 2 years from the transfer, whether temporary or permanent, and examples of the forms it can take are:-

- (i) free fare for the journey to take up employment in the new area;
- (ii) free fare home when employment of a temporary key worker ends;
- (iii) free fares of the key worker and his wife for preliminary visits to inspect housing, school, shops, etc;
- (iv) weekly contribution towards lodgings;
- (v) household removal expenses;
- (vi) legal and other fees in connection with selling or buying a house.

9. Government Training Centres (GTC) - of which there are twelve in Northern Ireland, provide over 3,000 training places. The main emphasis is on training for the engineering and construction trades.

10. Secondment of GTC Instructors to Industry - an instructor may be seconded to your firm if your training requirements cannot otherwise be met - following, if necessary, a technical survey.

The secondment period can vary from one week to over a year.

11. Training on Employers' Premises Scheme (TOEP) - helps new and expanding firms meet their manpower requirements by a planned systematic approach to the training of new employees. Grants for additional workers for approved training periods are available at the following rates:-

- (i) young persons under 18: £20.00 per week;
- (ii) adults aged 18 and over: £30.00 per week;
- (iii) unemployed adults aged 50 and over: £40.00 per week.

Also:

- (i) travel and accommodation costs when training is necessary away from the place of employment;
- (ii) the cost of technical courses undertaken by employees for whom other aid under this scheme is not received;
- (iii) salaries of full-time training officers or instructors;
- (iv) the cost of renting temporary accommodation for training purposes;
- (v) Industrial Training Service consultancy fees.

12. European Social Fund - can provide matching grants plus another 10% when training costs are shared between a firm and the Department.

13. Training Within Industry Service - offers a range of short courses by trained instructors to assist supervisors in industry.

14. Apprentice Training Scheme - encourages companies to provide craft skill training for young people. It offers two types of grant:-

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- (i) Grant "A" - up to £2,000 for one year for each apprentice recruited over and above the company's normal apprentice complement.

For an engineering apprentice who has already completed his first year's training in a Government Training Centre, companies can obtain grants for two or more years, the third and fourth years of apprenticeship;

- (ii) Grant "B" - £20 per week for up to 52 weeks for apprentices recruited to fill vacancies and who have satisfactorily completed initial apprentice training at a Government Training Centre.

15. Young Workers Scheme - encourages companies to recruit young persons at realistic wage levels. It provides grants for up to 52 weeks for each recruit, providing they are under 18 and in their first year of employment.

The grant is £15 per week for each eligible young person being paid less than £40 per week - £7.50 if they are being paid between £40 and £45 per week.

16. Temporary Short-Time Working Compensation Scheme - can compensate companies adopting short-time working to avoid redundancies (where there would be 10 or more) in agreement with any appropriate Trade Union.

Companies are expected to pay the workers half of their normal pay for workless days, and can get this back in full for up to 26 weeks plus a sum for National Insurance contributions.

17. Job Introduction Scheme for the Disabled - offers £40 per week for six weeks if companies engage certain disabled persons on a trial basis.

18. Capital Grants to Employers for Adaptations - companies can get a grant of up to £5,000 for adaptations to premises or equipment if they are essential in order to engage or retain specific disabled persons.

19. Industrial Scholarship Scheme - provides a five-year programme of integrated education and training in mechanical/industrial, electrical/electronic or aeronautical engineering for suitably qualified undergraduates sponsored by participating companies.

Fifteen non-means-tested scholarships are awarded yearly to applicants with top A levels in mathematics and science for a pre-University year and for the three-year University course. Remuneration in the fifth year (post-graduate) is the responsibility of the sponsoring company.

20. Market Research Grants - help companies examine export markets.

Companies can receive 50% of consultant's fees and expenses, or for an in-house operation, 50% of travel costs plus a subsistence allowance and £150 per week towards overheads. A 50% grant for purchasing published market research or special marketing studies, is also available.

21. Trade Support Services -

- (i) The Ulster Office offers excellent facilities as a commercial base in London.

Exhibitions featuring particular product groups are arranged there regularly. These events are to help Northern Ireland firms present themselves to major private and public sector organisations, and they are attended by British and overseas buyers.

The Ulster Office has a display area in its Trade Centre, where many local firms have products permanently on view. It also has the display window fronting on to Berkeley Street and facilities for holding interviews, conferences and private exhibitions.

- (ii) Financial and organisational help is available for companies exhibiting along with other Northern Ireland firms on group stands at certain trade fairs in Great Britain, the Irish Republic and Europe.

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- (iii) The Department organises trade missions to European countries to help local firms get better acquainted with the opportunities offered by the markets there.

22. Small Firms Loan Guarantee Scheme - under this Scheme Government guarantees 80% new term loans for small firms which would not otherwise be made in the absence of such guarantees. Individual loans made under the scheme are limited to a maximum of £75K.

23. Micro-Electronics Industry Support Programme (MISP) - provides up to 33 $\frac{1}{3}$ % grants towards the research development and production of micro-electronics component products and processes, or shared-cost contracts arrangements with a levy on subsequent sales pre-production orders for the development of processing equipment. Grants up to 33 $\frac{1}{3}$ % on qualifying costs for investment in production facilities.

24. Software Products Scheme - provides 33 $\frac{1}{3}$ % grants towards the research and development of software products or packages.

25. Microprocessor Application Project (MAP) - Grants of up to £3,000 towards feasibility studies by authorised consultants in the use of microprocessors in product and processes. Grants of up to 33 $\frac{1}{3}$ % or 50% shared-cost contracts recoverably by a levy on sales, for projects involving the development of new products or processes using micro-processors.

26. Support for Industrial Robots - this scheme offers grants up to 33 $\frac{1}{3}$ % towards the cost of robotic installations and design and development of industrial robots. 50% grants towards consultancy studies for installation and development projects.

27. Fibre-Optics and Opto-Electronics Scheme (FOS) - provides grants up to 33 $\frac{1}{3}$ % towards R&D, manufacture, applications of fibre-optics, opto-electronics, optical sensors, instruments and test gear or 50% shared-cost contracts with a levy on subsequent sales. Pre-production orders where there is a novelty in the system or sector of application.

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28. Computer-Aided Design/Computer-Aided Manufacturing (CAD/CAM) Scheme - refunds up to the first £2,000 of what it costs to employ consultants to investigate the economic or technical feasibility of using CAD/CAM, or to advise on its application. Grants up to 33 $\frac{1}{3}$ % of the cost of product and process development of new CAD/CAM equipment.

29. Computer Aided Design, Manufacture and Test (CADMAT) - Grants of up to 33 $\frac{1}{3}$ % of the costs involved in the research and development of CADMAT tools and standards.

30. Flexible Manufacturing Scheme (FMS) - Grants of up to 33 $\frac{1}{3}$ % of the costs involved in developing, commissioning and installing new flexible manufacturing systems for batch production or the linking up of existing plant to create a flexible system. Up to 50% of the cost of consultancy fees for feasibility studies, up to maximum grant of £50K.

31. Business Start-UP Scheme - will help an individual investor buying equity shares in a new small company. For an investment of £500 to £10,000 it gives immediate income tax relief at the investor's top tax rate, which can be as high as 75%.

32. Venture Capital Scheme - gives some protection to an investor in a new or established unquoted company. If shares are eventually sold for less than was paid for them, the loss can be set against the investor's income rather than against capital gains for tax purposes.

It applies to investment companies as well as individual investors.

33. British Overseas Trade Board's Services for Exporters - the Department of Commerce acts as the BOTB's regional office for Northern Ireland. The BOTB directs the gathering, storing and dissemination of overseas market information, and can provide information, advice and help on exporting. It also organises collective trade promotions and stimulates export promotion publicity.

34. Export Credits Guarantee Department (ECGD) - has an office in NI and ensures against the main risks of not being paid by overseas customers such as buyer's default or insolvency, payment transfer difficulties or import restrictions in the buyer's country preventing or delaying payment. Normally 90% to 95% of any loss is covered.

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ECGD can also give banks a guarantee under which companies may obtain finance for export credit transactions, probably at a favourable interest rate.

35. Energy Saving Interest Relief Grants - to meet part of the interest costs on loans from Northern Ireland banks to finance energy saving projects. The grant effectively reduces the interest rate on outstanding loan by 3%.

Eligible projects involve existing buildings only and costs between £2,500 and £100,000. A more expensive project can get partial support.

36. Energy Conservation Demonstration Projects Scheme Grants - of up to 25% of the cost of demonstration projects to promote more efficient use of energy.

37. Coal-Fired Boiler Scheme Grants - of up to 25% of the net cost of replacing existing oil and gas fired equipment by coal-fired equipment, or their conversion to coal-firing. The scheme applies to projects costing over £15,000.

38. European Community Energy Sector Schemes - offers grants and loans to projects exploiting alternative energy sources.

39. European Investment Bank Loans With Exchange Risk Guarantee - loans in sterling are available for projects safeguarding or creating jobs. The minimum loan is £15,000.

Repayment is over 7 years and the exchange risk cover will protect against unpredictable effects of fluctuation in the exchange rate during the term of the loan. The interest rate is 3% below the normal commercial rate.

40. European Agricultural Guidance and Guarantee Fund (EAGGF) - two schemes operate to provide grants from EAGGF for improvements in the processing and marketing of agricultural products.

41. Industrial Science Division of the Department of Commerce offers a range of advisory services to help industry overcome its technical problems. Advice and information are free, and moderate fees are charged for direct laboratory work or extended studies.

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42. Belfast Enterprise Zone. For firms operating inside the Belfast Enterprise Zone the incentives available are:-

- (i) total exemption from rates;
- (ii) 100% capital allowance for tax purposes on property. Elsewhere in Northern Ireland manufacturing premises qualify for 79% capital allowance in the first year and 4% in subsequent years;
- (iii) exemption from Development Land Tax;
- (iv) relaxed planning controls;
- (v) speedier handling by Customs and Excise of applications to store goods in customs warehouses or to obtain exemption from duty on imported raw materials (inward processing relief);
- (vi) exemption from Industrial Training Board levies;
- (vii) Government requests for statistical information are reduced to the minimum.

The 300 acre Inner City section of the Enterprise Zone offers:-

- (i) approximately 1,000,000 sq ft of vacant property for letting at competitive rates;
- (ii) two workshop or small factory complexes with units of from 860 to 3,230 sq ft;
- (iii) 19 acres of cleared sites for sale or lease.

In the North Foreshore section there are nearly 200 acres of undeveloped land, some of it immediately available for development as serviced sites.

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Annex VIII

EXPENDITURE ON INDUSTRIAL INCENTIVES IN NORTHERN IRELAND

	<u>£ million</u>				<u>Estimated</u>
	<u>1978/79</u>	<u>1979/80</u>	<u>1980/81</u>	<u>1981/82</u>	<u>1982/83</u>
Selective Financial Assistance	61.33	10.40	83.76	68.47	75.52
Standard Capital Grants	27.22	18.37	39.81	41.71	45.75
Factories and Sites	11.39	15.98	15.56	10.82	14.89
Industrial Promotion	1.08	0.89	0.48	1.02	1.85
NIDA (Capital expenditure)	15.57	5.36	6.78	3.68	6.87
LEDU (Capital expenditure)	3.87	5.04	4.78	4.91	6.50
Marketing Assistance	0.02	0.05	0.19	0.25	0.45
Training Grants	3.58	7.47	8.15	9.66	8.76
Total	124.06	63.56	159.51	140.52	160.59

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ANNEX IX

LOCAL ENTERPRISE DEVELOPMENT UNIT (LEDU) - STRATEGY 1982-85

LEDU have been discussing with the Department of Commerce proposals for a comprehensive strategy to promote additional employment in the small firms sector in Northern Ireland; the proposals have not yet been made public and will be refined in the light of the discussions with the Department. LEDU estimate that, as a result of this strategy, their annual job promotion figures may increase up to a level of 3000-3500. The strategy is organised into six programmes with specified objectives and a number of new initiatives. These are described below.

1. PROMOTIONAL PROGRAMME

Objective - to promote the opportunity for establishing profitable small businesses in Northern Ireland.

To create and foster the recognition that small business is an important element in the economic life of the Province.

To identify both product and business opportunities, including public services suitable for exploitation and location in Northern Ireland.

Proposed Initiatives

1. Encourage and support applied technical research at universities and colleges of higher education into areas suitable for small scale commercial development.
2. Establish closer relationships with universities and other research bodies and by this means try to ensure that manufacturing and service opportunities are retained and developed in Northern Ireland.
3. Encourage the creation of student companies by fifth and sixth form pupils and by this means help to foster an interest in small business as a realistic career option.

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4. Commission, with the assistance of public sector bodies, research into the potential for the development of service sector business.
5. Develop the Unit's relationship with local authorities, community groups, enterprise trusts, etc., thereby recognising their concern with the state of their local communities. By this means, ensuring that all parties are operating in a complementary fashion and maximising the opportunities for long term business development.
6. Discriminate in favour of those companies which act as growth centres and provide every possible support to maximise their potential.
7. Promote, by way of extensive advertising, LEDU's services to business.

2. DEVELOPMENT PROGRAMME

Objective - To increase the number of potential businessmen by assisting those with skills or ideas, but who require further support to enable them to establish and operate a viable business. The Programme will seek to overcome the obstacles to the growth and development of small businesses.

Proposed Initiatives

1. Periodically invite applications for LEDU's Small Business Development Programme. This Initiative is designed to appeal to individuals with skills and expertise, who may be reluctant to respond to the usual package of aids, because of their perception of the risks involved in establishing their own business. It is expected that these individuals will have high technology skills.
2. Make available sheltered workshop facilities providing accommodation and access to plant, machinery and equipment for rental on a month by month basis. The period of use will be restricted to the development phase of the project and will be subject to the promoter making satisfactory progress.

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3. Develop a means of assisting individuals looking for product opportunities, including carrying out searches for product licences.
4. Support, by the provision of financial aid, companies who wish to carry out research and development of products which have commercial potential.
5. Assist companies design appropriate development programmes. Ensure that the contributions of differing external bodies are properly integrated and controlled in the overall development programme.
6. Seek to influence the development of an integrated approach to the provision of services to the small firms sector by Government and public sector agencies and bodies.

3. BUSINESS START UP PROGRAMME

Objective - To provide the necessary support to enable a promotor, with a well conceived idea, to establish and, where appropriate, develop his business. The package of aids will be specifically designed to meet the requirements of the business and to remove the obstacles to establishment and growth.

Proposed Initiatives

1. Maintain a register of private and public sector accommodation which is suitable for use by small scale industry.
2. In the event that suitable accommodation is not available, encourage the owners of private property to sub-divide and make it available for letting. In the event that private landlords cannot be persuaded to sub-divide their property, acquire such property with a view to conversion and sub-division.
3. In the absence of suitably located property, seek to encourage the speculative building of small factory units.

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4. In the event that private sector provision cannot be encouraged, make provision under the Unit's Advance Factory Programme.
5. Liaise with the Department of Economic Development and the respective Industry Training Boards in relation to the special training needs of an individual business.
6. Facilitate the small business by establishing the Unit as the point of application for standard capital grants, training grants, as well as selective assistance. Explore the possibility of the Unit obtaining direct access to European Community monies.

4. EFFICIENCY PROGRAMME

Objective - The Programme recognises that business must be competitive to survive. It aims to encourage companies by a variety of measures to improve their operating efficiency.

Proposed Initiatives

1. Mount a campaign to create an awareness of the need for improved industrial efficiency in Northern Ireland.
2. By use of its own staff, augmented as necessary by the staff of other bodies and agencies, work directly with small companies to improve their efficiency and assist companies with the costs of employing specialists (whether on a full-time or temporary basis). Special attention will be given to companies which are deemed to have considerable potential for growth.
3. In recognition of the part that management education can play in the development of small businesses, encourage the development of an integrated approach to management education.
4. Publish articles and handbooks on various management topics and ensure that these are written in an easily understood form.

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5. Encourage the development of the various private sector advisory services to small businesses, for example, ARC.
6. Foster the development of small business clubs throughout the Province.
7. Develop, as required, the Unit's own advisory services to small businesses.
8. Maintain and develop the Small Firms Counselling Service and its supporting team of specialists.
9. Having regard to the requirements of individual companies and also taking account of the Unit's risk exposure, develop a selective programme of after-care.

5. MARKETING PROGRAMME

Objective - In recognition that small company growth is dependent upon effective marketing, the Unit will devise a number of initiatives to assist small companies to promote and market their products and services.

Proposed Initiatives

1. Create an awareness of the opportunities for export into the United Kingdom and overseas, and an appreciation of the supports available.
2. Support the development of effective marketing plans and assist companies to engage suitably qualified staff or consultants.
3. Promote individual companies and trade sectors at the LEDU Business Centre and other relevant national and international trade exhibitions.
4. As appropriate, encourage the participation of small businesses on overseas trade missions.

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5. Encourage the creation of trade sector export and marketing agencies.
6. Encourage the private sector, in particular the clearing banks, to make a better and fuller provision of export services along the lines of those provided in other parts of the United Kingdom (eg. Midland Bank International Smaller Exporters Scheme).

6. MAINTENANCE/RE-EQUIPMENT PROGRAMME

Objective - To assist companies which are adjudged to have long term survival potential, but which are in need of re-equipment or re-financing.

Proposed Initiatives

1. Provide financial assistance for re-financing and/or re-equipment of companies.
2. Devise, in association with management, appropriate strategies to improve the long term survival potential of companies presently in difficulty.

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Annex X.

MANAGEMENT TRAINING: PROVISION BY DEPARTMENT OF MANPOWER SERVICES

1. The Department of Manpower Services has two roles in management training. For many years it has provided assistance to companies and opportunities to individuals to develop management skills, and more recently it has been given the role of co-ordination of management training and education. The Department's current year budget is £2m.

CURRENT ARRANGEMENTS

2. The Department operates two schemes of assistance to employers in respect of management recruitment and training. These are available to companies in the manufacturing and construction sectors:

(a) the Management Structure Grant Scheme supports 25% of the salary for 3 years of additional managers; and

(b) the Management and Supervisory Course Grant Scheme offers 50% of fees and related expenditure for staff on courses outside their company.

The Management Structure Grant Scheme, which spent some £1.5m last year, was closed for applications on 1 January 1981 to make way for a new Management Development Programme. The Management and Supervisory Course Grant Scheme accounted for only £25,000 last year.

3. The Department also operates schemes to attract able individuals into management and to develop existing managers. Only the most important are described here. The Industrial Scholarship Scheme encourages young people to obtain an engineering degree and to pursue a career in local industry. The Junior Management Development Course is designed to give academically well-qualified young people a basic appreciation and some experience of management in industry. About 112 places are available each year under these schemes. Two further schemes for specialist managers in employment are the Specialist Managers Bursary Scheme which offers a combination of on and off the job training

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and a bursary of £3,600 each, to develop managers in industrial relations, personnel, training, and work study; and the Marketing Management Development Scheme, a pilot scheme on similar lines with training and a bursary of £3,000, intended to widen the range of marketing skills available to local companies.

PROPOSED NEW ARRANGEMENTS

4. The Department has recently published a Discussion Document reviewing management training and education in Northern Ireland and proposing a new Government strategy. The main thrust of the strategy is that there should be a new Northern Ireland Management Training Institution controlled by industry, and improved grant arrangements to help companies identify and meet management training needs. Interested parties have been invited to give their views before 30 September 1982.

5. The proposal for a new Management Institution stems from the conclusion that leadership and co-ordination in management training could be most effectively achieved by such a body if it is heavily influenced by, and orientated towards the needs of, industry by the direct financial support and involvement of employers. The Institution would be membership based and would be a substantial provider of management training through a variety of means, taking account of facilities already available from academic institutions. If there is reasonable initial support from industry for the proposal, Government will be prepared to offer financial help to get it underway.

6. Improved grant arrangements will offer companies financial assistance to adopt and implement a planned approach to their management training needs. A new grant of 50% of the cost of a professional survey or audit of a company's management development needs will be available. Present expenditure on assistance for the cost of sending staff on management training courses will be increased substantially; companies in manufacturing and selected service (export or import substitution) industry sectors will be eligible for 50% grants. This aid will not be restricted, as it is at present, to new or expanding companies. £250,000 has been earmarked for funding the first full year, a ten-fold increase. The Department will also be discussing with the Local

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Enterprise Development Unit and the Industrial Development Board the scope for grants to companies to encourage them to strengthen or enlarge their management teams where desirable.

7. Under the new Programme, schemes (such as Junior Management Development) for assisting the training and entry into management of suitably able individuals will continue with any necessary adjustments in the light of review and of the successful uptake.

8. It is anticipated that the new Programme of schemes will operate from the autumn of this year.

INCENTIVES IN THE REPUBLIC OF IRELAND

The package of incentives available to industry in the Republic of Ireland is outlined below.

Tax incentives:

- (i) The corporation tax rate for all manufacturing industry is 10% (the normal rate is 45%). This is guaranteed to run until the year 2000. This replaced the previous 100% tax relief for profits earned on exports which ceased in 1981 although companies enjoying this relief may continue to do so for a total of 15 years or until 1990; whichever is the earliest.
- (ii) Free depreciation is available on all plant and machinery.
- (iii) Companies not paying tax may take advantage of free depreciation by leasing at reduced rates from financial institutions who receive tax allowances.
- (iv) Companies not paying tax may borrow at reduced rates by incurring interest in a form which is tax free in the recipient's hands.

Capital Grants:

- (i) Non-repayable cash grants are available for expenditure on land, buildings, plant and equipment up to the following limits:
 - 60% in designated areas
 - 45% in non-designated areas.
- (ii) Non-repayable cash grants are available for capital expenditure on product and process development, including R & D units at the IDA's own research station up to the following limits:
 - 35% in designated areas
 - 25% in non-designated areas for R & D facilities to be established.
- (iii) Maximum of 50% or £50,000 for development of new or improved industrial processes or products.

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Revenue Grants:

- (i) Training grants of up to 100% towards the costs of wages, travel and subsistence in Ireland or at parent companies abroad; salaries, travel and subsistence of training personnel; management training and training consultants.
- (ii) Grants towards factory rent reduction in IDA industrial estates, IDA advance factories or commercially operated estates.
- (iii) Loan guarantee and interest subsidies.

Others:

- (i) IDA equity participation where desired and possible.
- (ii) Development services, including advice on taxation, financing, location, manpower and legal matters.
- (iii) Provision of advance factories on IDA industrial estates and other locations.

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EC ASPECTS OF NORTHERN IRELAND STATE AIDS

1. The power for controlling regional aids provided by EC Member States derives from Articles 92-94 of the Treaty of Rome. Article 92 states that save as otherwise provided in the Treaty, any aid granted by a Member State or through state resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, in so far as it affects trade between Member States, be incompatible with the common market.

2. However, Article 92 contains derogations which may be applied to regional aids. The Commission may in the light of these derogations consider that aids to assist the development of a region are compatible with the Common Market if they do not distort competition to an extent contrary to the common interest.

3. **Any new proposal for regional aid should be notified to the Commission.**

4. The Treaty provisions in Articles 92-94 relating to state regional aids are of very wide effect, and give considerable powers of discretion to the Commission. There is no automatic authorisation of state aids for regional purposes, but the Commission is empowered to judge which are consistent with the Common Market, and which are incompatible.

5. The Commission has a clearly defined view of the purposes of state aid; they consider that ideally aid should be given in pursuit of agreed Community objectives (eg investment in new technology, restructuring research and development reduction of regional disparities and that companies should be able to be viable without continuous aid).

6. The Commission tends to oppose all non degressive operating aids because they consider them not to be in the interest of the Community or of the industry concerned, since they serve only to perpetuate the process of decline and delay the return to international competitiveness.

7. They have particularly strong reservations about labour subsidies, partly because they consider that it is difficult to quantify them and thus form a judgment about the effect on competition. Although the Commission are concerned by aspects of some of the existing NI aids (eg standard Capital Grants), they have not prevented their continuing operation, because of the Province's socio-economic situation and political difficulties.

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5. Although the Commission's powers are extensive, they have not sought to use them arbitrarily, but have tried to work out a coherent body of principles by which to judge state regional aids. These principles are embodied in a set of guidelines - the Principles of Co-ordination of Regional Aids - which provide the framework within which the Commission exercises their powers under the Treaty in regard to the various systems of regional aid throughout the Community. The present version of the Principles (issued in 1978 and currently under review) sets limits (measured in terms of the discounted after-tax value of the subsidy element of the assistance expressed as a percentage of the discounted fixed investment costs - the net grant equivalent) on the amount of aid which can be given in different parts of the Community. In Northern Ireland the net grant equivalent of aids which are linked in relation to initial investment or jobs created must not exceed:

(a) 75% of the discounted initial investment; or

(b) 13,000 ECU (in 1982 13,000 ECU = £7,370).

The words "linked in relation to initial investment or jobs created" means that this ceiling applies to grants, loans, rent reliefs, labour aids and similar aids.

6. An additional ceiling was introduced from 1 January 1981 on the aids which might be given to large projects exceeding 3m ECU (about £2m). This additional ceiling restricts the assistance which may be given through "other aids" (ie tax concessions) to a net grant equivalent of:

(a) 25% of the initial investment; or

(b) 4,500 ECU (about £2,550) per job created.

This additional aid must be spread over a minimum of 5 years; but if the grants etc have not reached the ceilings specified in the preceding paragraph then these "other aids" may take up the balance. In effect, the total aids may not exceed 100% net grant equivalent or 17,500 ECU (about £9,900), provided that part of it is spread over 5 years. There continues to be no ceiling on the amount of "other aids" which may be given to small projects below 3m ECU.

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7. Generally the amount of aids given to projects in Northern Ireland have been well below the limits set by the Commission in the Principles of Co-ordination and these have not in practice constituted a serious restriction on Northern Ireland's ability to provide regional aids.

Commission approach to new regional incentives

8. It is reasonable to assume that the Commission will continue to use its powers under the Treaty with sympathy for the political and economic needs of Northern Ireland. But it cannot be assumed that it will automatically authorise new industrial incentives, which exceed the limits laid down in the Principles of Co-ordination, or which take forms which the Commission judges to be unmeasurable ("opaque"), or whose affect may be considered prejudicial to the interests of other Member States. In planning new incentives or changes in existing aids, full account should be taken from the outset of the likely reaction of the Commission, and it is likely to prove useful to sound out the Commission informally before we are committed to any scheme.

9. The Commission's general approach to state aids was set out in the EQO note for guidance on EC Aspects of State Aids (EQO(82)45). Previously the Commission has taken the line in accordance with the derogations mentioned above that aids may be compatible with the Common Market, if they promote or facilitate economic development. In practice this usually means that aids should be linked to some factor in the regional economy (eg new investment) and should not be given merely towards running costs of enterprises established there, since such aids do not "develop" the regions but merely serve to keep enterprises in being. It must be expected that it will be opposed to the introduction of any new regional aids of an operating character.

10. It should be noted in this context that Northern Ireland is at some disadvantage vis-a-vis its major competitor for new overseas investment, the Irish Republic, in relation to EC rules applying to the introduction of new aid proposals which are tax-related. The Irish Republic is a "country", whereas Northern Ireland is a "region" part of the UK. A tax incentive, eg a 10% rate of Corporation Tax, applying only to Northern Ireland would be classified by the Commission as a "regional aid", and hence be counted against the regional aid ceilings for Northern Ireland. While the Commission may have prepared

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to give Northern Ireland a derogation so that aid given in this form would not be taken into account in accumulating the regional aids granted to a project, it is likely that such a derogation could prove difficult to secure. The Irish Republic, therefore, enjoys potential advantages over Northern Ireland in that it can give tax concessions which do not count against regional aid ceilings, whereas similar concessions in Northern Ireland would.

Summary and Conclusion

11. It would be advisable to take full account of the likely reaction of the Commission to any proposal for new regional aid for Northern Ireland from the outset. It may be useful to sound out the Commission informally before any commitment is made to a new scheme or incentive. In assessing the Commission's likely reaction it is reasonable to assume that the Commission (and some of the other Member States) will be opposed towards any regional aids which are of an operating character. It might also be expected, however, that the Commission will take a reasonably sympathetic view to any new aid proposals, given its recognition of the Province's social and economic needs and political difficulties.

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