



Northern Ireland Economic Council

From the Director, L. D. McClements

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Sir Ewart Bell
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20 September 1983

Dear Sir Ewart

SIR CHARLES CARTER'S PRESENTATION TO FORUM

As you know, Sir Charles Carter has agreed to make a presentation to the New Ireland Forum acting in a personal capacity. He has asked me to pass on to you a copy of what he intends to say on that occasion and would be grateful if you would treat it in confidence until 1.00 pm on Wednesday, 21 September 1983.

Yours sincerely
Leslie McClements



L D McCLEMENTS

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- ① Sir Ewart *19/9*
② Mr ~~GM~~ *19/9* ③ Mr ~~Russell~~

*A copy has been delivered to
15/505 who will distribute
copies to other interested officials
AGM 19/9*

Economic issues relating to Northern Ireland : Charles Carter : 21 September 1982

The present economic illness of Northern Ireland is grave, but in no way surprising. The province has had a fertility rate over 50% greater than that in England and Wales. The potential working population is therefore increasing fast. The ratio of dependants to potential workers is now falling. The safety-valve of emigration works imperfectly when jobs are also hard to get in Britain and in other English-speaking countries. But agriculture and the older manufacturing industries need fewer workers; and though there was a period of marked success in attracting new industry in the 1960's, that has meant that some foreign-based firms have reached a natural moment for renewing their equipment during the present world depression, and many of these have decided to withdraw, having milked the full value from the special advantages offered to new enterprises. In the more difficult conditions of the 1970's, Northern Ireland had a system for the attraction and development of enterprise which had far less marketing appeal than that in the South; and that deficiency was put right only in the worse circumstances of the present decade. But even in the 1970's, employment was growing much faster than in Great Britain, assisted by a catching-up process in the public services; and the trends of unemployment have remained in a quite normal historical relation to those in the United Kingdom as a whole.

You will note that in all this I have said nothing about the effects of the Troubles and of political uncertainty. These must of course have had an adverse influence, for instance by preventing the development of the tourist trade, and by providing some potential investors with an excuse for saying No. The curious colonial system of government under Direct Rule has not contributed to sound and decisive economic management. But it is in fact quite difficult to know what the net consequences have been. The media perception of trouble is much worse than the reality, and this has certainly led to an external loss of confidence in the Northern Ireland economy. But the Troubles have also caused additional public expenditure, which has its own multiplier effect; and quite possibly the fact of living in a situation of stress has improved productivity and has brought a greater sense of responsibility into industrial relations.

A lot has been said about the great and increasing cost to the UK Exchequer of maintaining Northern Ireland, but this needs to be put in perspective. If a unitary state desires to maintain reasonably comparable levels of income and of social services throughout its territory, it is certain to be faced by substantial transfers to its more remote or otherwise economically disadvantaged regions. But these transfers will usually not be recorded; it is an accident of political history that we know the cost of transfers to Northern Ireland, but not those of transfers to Merseyside. Studies have shown that, until recently, almost all the extra public expenditure per head in Northern Ireland was an inevitable consequence of maintaining parity of service, or had some special reason such as the different way of financing the electricity subsidy or the higher law and order costs: very little was left as a contribution to the capital costs of catching-up in areas where the province's standards are still deficient. At present there is a genuine but small surplus for catching-up, applied in particular to housing.

Leaving out of account (for the moment) any change in relationship to Britain or to the South, what are the prospects for Northern Ireland? The British economy is in a process of hesitant recovery, and is certainly in a better state of health than for some time: the Northern Ireland economy would be expected - probably with a time-lag - to follow it. There are some hopeful factors in this recovery. There is a better appreciation of cost-effective methods of encouraging economic development and in particular of the contribution to be obtained from smaller locally-based firms. There is the beginning of an understanding of the role of service employment, given that in all advanced countries manufacturing employment is likely to use a declining minority of the labour force. The sad story of the collapse of older industries, and of those founded in the 1960's, has one bright feature: it cannot happen twice, and most of the loss has already occurred. The shipyard has gained a reprieve, by getting new orders, and it has plans which - if effectively carried through - will put it in a much stronger competitive situation for the future. The identification of large reserves of lignite, and the continuing possibility of oil and gas discoveries, of geothermal power and of tidal energy offer an opportunity to reduce or avoid the harmful effects of rises in world energy prices. The renewed emphasis on housing should lead to a significant revival in the construction industry. But, above all, the link with Britain ensures that rising incomes there are at least to a substantial degree associated with rising incomes in Northern Ireland, with a consequent growth in demand for local services and for locally-produced goods.

But there are more sombre facts to be faced. There is no way in which existing manufacturing industry can be expected to employ as many people in AD 2000 as are employed now, even if one makes optimistic assumptions about the growth of the UK and world economies and about the effect of shorter hours. Therefore, unless there is to be massive emigration, it is necessary to find from new manufacturing activity and from growth in non-manufacturing employment enough jobs to offset both the decline in existing manufacturing and the growth in the labour force. The contribution to this likely to be made by Government employment is small, because of budgetary constraints, though there are areas of the health and personal social services which will probably still expand. The contribution of the natural growth in services, with rising incomes, will not be enough. If, therefore, one envisages anything approaching a satisfactory 'solution' of the employment problem by the year AD 2000 - say 5% unemployment, and half the present level of emigration - it is necessary to make heroic assumptions about the rate of development of new private sector enterprise, producing services or goods which can be exported or substituted for imports.

The prospects of attracting this enterprise from outside the province are a good deal worse than they were in the 1960's, or even the 1970's. Peripheral areas offering a good available labour force were competing, in earlier years, with central areas which had labour shortages. Now the central areas, too, have a labour surplus; and the main advantage which Northern Ireland can set against the disadvantages of geographical position and of limited natural resources is simply the greater size of the bribes on offer. But these bribes or inducements tend to be very expensive in terms of cost per job actually created, or (better) per job-year actually sustained, and they are of course on offer from a host

of depressed locations around the globe. Furthermore, it is not certain how far they can be made effective in relation to service activities, where the capital investment, which is the easiest thing to subsidise, is less. If, of course, Northern Ireland workers were to accept a large cut in wages, this would be a powerful and easily publicised incentive for external enterprise to come in; but you will have no difficulty in seeing why any such development is unlikely.

It remains conceivable, however, that geographical disadvantage could be offset by labour and enterprise of superior quality. Here Northern Ireland certainly has some positive advantage to offer: an educational system which is better than that in Great Britain: a tradition of hard work and relative industrial peace: some of the modern skills in short supply, for instance in computer science. These advantages will occasionally influence the incoming investor, but (more important) they could, if combined with managerial skill and entrepreneurial fire, lead to a successful growth of new businesses which have their roots in the province. Policy in the United Kingdom has become much more favourable to the smaller business, and it is possible that, in the remarkable results achieved by the Local Enterprise Development Unit, we are seeing the beginnings of a new era of growth through locally based firms.

It would be highly optimistic, however, to suppose that this could be large enough to provide all the jobs needed to achieve 'success' (as I have defined it) by AD 2000. I conclude that Northern Ireland will have a major unemployment problem, with expensive financial and social consequences, for many years to come.

You asked me to say something about the scope for greater cooperation between North and South. I am in favour of developing economic cooperation between North and South, and also between the Republic and Great Britain, in every way which can be shown to make sense. But I can offer you no new ideas, in this well-explored field, which would be likely to make a significant difference to the central problem of unemployment. Historically the economy of the North followed a separate line of development, and therefore the wounds which it received long ago from the sharp knife of Partition were not as serious as some propagandists have supposed. Within a common membership of the European Community, there are now no major obstacles to the development of non-agricultural trade apart from those offered by bureaucracy and by fluctuating exchange rates. Common sense suggests that most of the advantages of cooperation between two small countries would arise from the widening of markets made possible by free trade, and these are already available. If one looks at the voluminous literature on possible further types of cooperation - special studies of Londonderry and Donegal, of the Newry and Dundalk area, of the Erne catchment and of the Mourne herring fisheries: consideration of joint action in industrial promotion, tourism, energy, education, communications and many other fields - I am constrained to conclude that, though there are many good ideas which should be followed up, their effect on unemployment would be about equivalent to the product of nine bean rows on the Isle of Innisfree, when set against a requirement of new jobs in the North in the coming two decades which is of the order of 200,000. Indeed, I think that some of those who have urged cooperation have done so more with an eye to the promotion of general understanding and respect than to any economic consequence. My main priority for further action - though it

is one only available to be determined by wider circumstances - would be for the United Kingdom to join the European Monetary System, which would lessen the obstacles to trade caused by uncertainty about exchange rates.

It will be in your minds, however, that if one could look beyond cooperation within the present political framework to some permanent settlement of 'the Irish question', there would be much greater benefits to be obtained by both North and South. The level of trade between the communities might increase; at present it appears to be surprisingly low, no doubt because of uncertainty, suspicion and lack of knowledge. Peace and political stability would make it easier to attract and to retain new investment. The use of resources, such as energy, could be planned for a wider area. Obstacles to sensible development which are caused by suspicion and lack of knowledge would wither away. The expatriate Irish could be encouraged to use their funds for purposes of peaceful development. Ireland, North and South, could become another Sweden, though hopefully without the social diseases which afflict that wealthy country.

I am in some difficulty about discussing this delightful scenario, because it is so often associated with the simple idea that the members of the Unionist community will recognise the advantages of voting themselves out of the United Kingdom and into an Irish state, whether unitary or federal. Despite the Queen's advice to Alice, on the matter of believing six impossible things before breakfast, I cannot find any conviction in this as the path to a peaceful and prosperous future. I do not think that many Unionists would believe in the economic advantages, but, even if they did, I do not think that they would at this time be moved from their settled political conviction (greatly strengthened by the events of the past fourteen years) by any economic advantage, however large. And if you suppose that the British Government would coerce them to make the change, you have failed to notice an alteration in political thinking in London, which has become much more enamoured of principles and much less ready to sacrifice them in clever schemes for appeasement. You can hardly expect that the principle that the majority in the North should remain British if it wishes would be given any less priority than that which applied to 1300 inhabitants of the Falkland Islands.

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I have made this political digression because I want to make the point that the economic and political difficulties about any simple scheme of reunification reinforce each other. For, as your secretariat's Working Document has shown, there remains a considerable difference in standards of living between North and South; and, whereas it was permissible in the 1970's to suppose that the Republic's successful policies of economic development would remove or even reverse this disparity, the events of the last two years leave one with much less confidence that this will be achieved in the near future, even on the back of an oil boom. Standards and employment in the North are in part sustained by heavy Government expenditure, and it is sometimes supposed that the British government would be so glad to see the backs of these turbulent Ulstermen that it would promise the continuation of massive transfers for a considerable time; for certainly the economic benefits suggested for a new settlement would only arise gradually over a long period. But any such view betrays an ignorance of the process of drawing up a public expenditure programme, in a period when there will continue to be pressure to reduce the budget total. The principle that no part of the United Kingdom should

have services or standards greatly worse than the average is one which the Secretary of State and the Chancellor of the Exchequer can successfully defend. The proposition that it is necessary, for reasons of past history, to make large transfers to another State (which is not suffering Third World poverty) would be vulnerable to the very first round of budgetary cuts. Indeed, no British government is in a position to make long-run promises of aid; Parliament will defend its right to vote money a year at a time. Nor would I put too much faith in long-run aid from the United States. It is for Congress, not the President, to find the money, and the American budgetary problem is a very serious one.

(//) I doubt therefore if the Republic is in a position to make any proposition for simple reunification economically convincing or attractive. The economic considerations point the same way as the judgement of political realities: this is a problem which has always had a British dimension as well as an Irish dimension, and there is no solution which sacrifices one to the other. That may mean that your search for constitutional innovation has to be along novel paths, but it would be impertinent for me to speculate on that. But I would suggest that you must search for a solution within the constraint that you must leave good ground for a continuing British economic responsibility for the welfare of those who are and wish to remain British subjects: otherwise you will simply propose the turning of a grave economic problem into an almost insoluble one.
