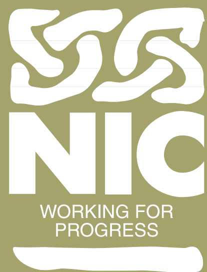
Statement on the Economy

"NOT OLD WINE IN NEW BOTTLES"



Northern Ireland Committee
Irish Congress of Trade Unions

introduction

Old Wine in New Bottles

Over the past decade, there has emerged a new 'conventional wisdom' about the condition of, and prospects for, the Northern Ireland economy. The Northern Ireland Secretary of State, Peter Hain, summarised the key arguments in a speech to the Fabian Society in January 2006. He claimed that he was responding to the lack of serious, realistic debate on key economic issues, in particular about how the local economy could respond to the global competitive pressures.

His central contention was that, unless things changed, the economy would not be sustainable in the medium, never mind the long, term. A key feature of the problem was the high reliance on public spending (two thirds of GDP) that required an annual subsidy of £5 billion from the British Exchequer to maintain it. At the same time, higher relative spending levels had failed to deliver quality services – the local NHS had the highest waiting lists in the UK – the local education system signally failed a significant section of the school population – the area was over-administered with too many units of local government, health education etc. In a radio interview in March, he took the argument further – the very large scale of the public sector was 'crowding out' the private sector and was thus acting as an inhibitor on its development.

Moreover, this was in the context of relatively low local rates (around £550 per household) compared to an average combined community charge and water bill of £1,200 in England, where the bulk of the Exchequer subsidy had to be raised.

Some of these problems were being addressed by existing initiatives – the Review of Public Administration.

However, an additional range of interventions was required:

1 The economy needed to be 'rebalanced' so that the ratio between public and private sector activity shifted closer to the average for the UK (40%);

2 The public sector needed to be improved in terms of both efficiency and effectiveness via a 2.5 per cent annual efficiency saving to be transferred from back-office to front-line services;

3 There was an urgent need for a sustainable energy strategy.

A fourth, though unprioritised, theme of the speech was greater cooperation with the Irish Republic and a greater focus on all-island economic strategies and more complementarity between both states in Ireland.

This general analysis and the recommendations that emerge from it are shared by many who comment on the economy. It is important to note, however, that such arguments are not new, but have simply been repackaged for consumption in the 21st Century. Indeed, the proposition that the public sector was too large and crowded out the private was developed in the mid 1970s and not only provided the framework for the Thatcherite assault on Labour, but was also the core operating assumption for economic policy under the Tories. Thirty years later, it has simply been reframed with a regional focus.

It is, nevertheless, important that the Trade Union Movement takes it seriously and declares where it stands on these issues that are vital to the well-being of the Northern Ireland people and the economic development trajectory of the region.

Ignoring the Issues?

Before commenting on the specific arguments, it is worth addressing the contention that mainstream political debate has taken its eye off these core economic development issues. The Trade Union Movement agrees and, indeed, has been saying so for more than 30 years. Since the 1970s, in both its statements and campaigning, it has demanded that politicians focus on the economy. In 1974 during the massive intimidation of the 'Ulster Workers' stoppage, it organised back to work marches with remarkably little support from direct rule ministers. It originated the Better Life for All campaign. It has participated in every initiative to bring peace and prosperity to Northern Ireland. In short, it does not need to be told – 'it's the economy, stupid'.

Is the Northern Ireland Public Sector too large?

The scale of the public sector is measured in relative rather than absolute terms, principally its share of total GDP, but also it should be noted that it is a function of population size. However, GDP is a measure of output and a substantial element of public spending is about redistribution rather than output (i.e. redistributing income from tax payers to those on various kinds of benefits). Thus, taking all public expenditure as a percentage of total GDP tends to over-emphasise its real share of GDP. Some commentators deliberately gloss over the fact that large chunks of public expenditure are paid into the private sector in the form of grant aids, etc. This is compounded for regions with substantial levels of poverty-social-exclusion where relatively high shares of regional income are benefits derived – in the case of Northern Ireland over 20%. It also means that simple comparisons of public spending as a share of GDP between such regions and the whole state (e.g. public expenditure making up over 60% of GDP in Northern Ireland compared to 40% in the UK) is unfair to the more deprived regions.

Deprived regions will, in general, require more public expenditure, not just in the form of relatively higher numbers in receipt of benefits, but a higher share of social housing and more intensive use of NHS resources. Richer regions are beginning to exhibit a phenomenon known as wealth-social-exclusion where the rich 'opt out' of state schools, National Health Service facilities and so on. In turn, this means less pressure in such regions on the public sector to deliver the totality of services. Regions in which the public sector is responsible for the totality of services will have to spend more. Northern Ireland is one such region.

Another factor that should be taken into account when examining the scale of the public sector at regional level is the impact of population movement. Many of Northern Ireland's best educated people leave the region in pursuit of better career opportunities elsewhere. Thus, the investment in their education and skill is gained by other regions, but the public spending associated with gaining such skills and qualifications is tracked to Northern Ireland. Of course, the region benefits also from those who migrate here, but to the extent that it remains a net exporter of skilled labour, the public spending comparisons are distorted.

There is a further problem with comparing a small region, like Northern Ireland, with a much larger entity like the UK because there is considerable variation in the scale of the public sector within the UK regions. For example, David Smyth, the economics editor of the Sunday Times revealed in March 2006 that 'in areas such as the northeast of England the state accounts for 60% of the economy' Thus, compared to another weak region, Northern Ireland's public sector does not look disproportion-ately big. Moreover, given that Northern Ireland has always had separate public accounts, it is much easier to identify the total volume of spending and the degree of subsidy required to support it. Other weak regions have similarly large public sectors and require central government subsidy – it is simply less apparent than in Northern Ireland.

Moreover, the northeast of England has not endured three decades of violent political conflict. Economists like John Bradley (1996) have suggested that the political conflict was one of the key factors accounting for Northern Ireland's historic underperformance. The impact of political violence includes:

1 The direct costs in terms of the dead, injured, damaged property/infra-structure and job loss within the economy;

2 *Over the past twenty-five years the public sector has grown substantially, in no small measure due to the Troubles* (Northern Ireland Economic Council 1995) - associated with higher need and additional costs (e.g. security);

3 Political uncertainty inhibiting the ability of firms to plan for the longer term and set down long-lasting roots in any particular place - *Political risk can be expected to have a particular influence on the size of the tradable goods sector. This sector has an alternative to invest elsewhere, and, for a given rate of return, will seek out a lower risk environment* (Barnett, 1995);

4 Indirect costs in terms of the diseconomies of conflict – inefficient labour and housing markets generated by intimidation and community division – the lack of social capital, the complex matrix of trust, collaboration and shared responsibility that some argue is a necessary precondition for successful development – community segregation that inhibits the scale on which local development can take place thus inhibiting opportunities for success.

Thus, Northern Ireland cannot be treated as just another UK region. Certainly the peace process has brought enormous economic gains, but many of the political effects of residual conflict remain and these have distinct implications for the scale of the public sector.

It should be noted that the 'solution' advocated by others to the problems of an alleged 'over-large' public sector is focused on the involvement of the private sector in the delivery of public services. This is based on the assumption that the private sector will bring independent resources into the equation, as for example in the multiple PFI projects. However, in general the private sector pays higher interest on the money it borrows than the public. On that basis alone, the private sector will ultimately be more expensive. It is supposed to work by making efficiency savings so that total costs will still be less even after higher barrowing costs. However, many evaluations of PFI initiatives have challenged the notion that the private

sector does introduce greater efficiency. Rather, these paint a picture of extreme cost cutting through the reduction of quality service. The MRSA debate makes the point.

In addition, the following costs of public private partnerships have been identified.

- Transferring debt off the Government's balance sheet comes at a cost of billions of pounds in extra debt charges.
- The creation of a 'secondary market' in PFI equity and debt means that the public is unaware who owns 'public assets'.
- Some contractors have achieved windfall profits of millions of pounds through refinancing and selling equity stakes in PFI contracts.
- A declining pool of willing and able PFI specialists means that the Government will pay an increasingly high price for PFI contracts and will find it difficult to get the market to provide all the schools and hospitals it wants to procure under PFI.
- Annual expenditure commitments on PFI are at least £4bn until 2012, much more than if these projects were conventionally procured.

At the same time, the Secretary of State not only claimed that the public sector in Northern is too large, but that local contributions (in the form of rates) are markedly lower. This raises an equity problem if other British citizens have to pay more for similar services than those in Northern Ireland. Again, however, the simple comparison is misleading. Rates are based on property valuations and despite recent increases in house prices in Northern Ireland, the average price of a house here remains lower than in the UK. Thus, the average amount of rates paid in Northern Ireland will be lower even if calculated on exactly the same basis as in the rest of the UK. The rates comparison is like saying that the average amount paid in income tax in a poor region is lower than in a rich one and suggesting it to be unfair.

Water charges are something else. The Northern Ireland Trade Union Movement has opposed the privatisation of utilities as a matter of principle not because of a reluctance to pay. It remains convinced that the provision of water supplies is a natural monopoly that can be best delivered with efficiency and equity via the public sector. It recognises the need for substantial physical investment, the need to improve the treatment of waste water, rivers and beaches and the need for an efficient, effective service. It does not regard the experience of privatised utilities in Britain as offering a model for best practice in these respects. Indeed, there is considerable disquiet in the developing world about the role of private water utilities with the consensus being that they will fail to access more than a fraction of the billion people without clean water supplies. Most of all, it does not believe that people should be denied access to the most basic of all services on the basis of income deficiency. In this respect, the Poverty and Social Exclusion Bulletin on water poverty found that the proposed arrangements for low income families are inadequate and regressive.

This is not to avoid the challenge of making the provision of public services more efficient, effective and equitable. Tackling waiting lists is but one aspect of

this process, but there is greater long-term gain in tackling the causes of morbidity (largely to be found in forms of multiple deprivation) than treating its effects. Thus rather than just the importation of managerial ideology in the running of public services or the rationalisation of structures, the key task is to reconfigure their operation to tackle root causes. In health, some progress was made in the Investing for Health process, but the ideas in that strategy need to be at the core of mainstream health provision.

Central to that process is reinvigorating the morale, commitment and energies of public sector employees who feel displaced by the endless managerial revolutions and changes in structure. The original conception of the welfare state involved a value system of providing service to those in need. Too much of that has been lost in endless reorganisation and this might help to explain the low productivity gains from Gordon Brown's substantial investment in the public sector. The key to restoring public service values is to ensure that decision making, rather than coming from the top, is made at regional level – the principle of subsidiarity. When employees and patients/clients are fully involved in the design, delivery and evaluation of public services, then we could expect real gains in efficiency and effectiveness.

The Trade Union Movement agrees that a process of sustainability will have to take place in Northern Ireland and affirms the idea of a self-sustaining region that can deliver economic growth and social inclusion without the need for external subsidy. However, it remains unconvinced that the Secretary of State has shown us the way to do so.

The Role of the Private Sector?

Since the scale of the public sector is measured relatively, it could also be said that the private sector is too small, or more accurately if the wealth creating sector (public or private or combinations thereof) was much larger. If total public spending (including the Northern Ireland Office) amounts to around £12 billion and Northern Ireland's GDP is less than £24 billion, then the ratio looks high. However, if GDP was in the region of £30 billion, then Northern Ireland's public sector would be completely unexceptional.

Increasing regional GDP by around a quarter is a serious challenge, but the Trade Union Movement remains convinced that this should be the starting point in any strategic discussion about the economic development of the region. If the target was a 25 per increase in GDP above the actual trend, the question would then be what particular contribution the public and private sectors and the organisations of civil society can assist the achievement of that goal, both individually and co-operatively.

From that perspective, it makes little sense to suggest that the development of the public sector 'crowds out' the private. It can hardly be suggested that the private sector in Northern Ireland has been denied adequate resources for development. Even Strategy 2010 provided evidence of considerably greater subsidy to the private sector in Northern Ireland than in England and Wales. A report by the Northern Ireland Economic Council (1999) suggests that, in the previous decade, policy was implemented with considerable variation amongst the DED agencies and with mixed results. For example:

...there has been little reduction in overall public expenditure on economic development, either in absolute terms or relative to GB...;

...there is scant evidence that the Government's economic development strategy is being implemented with vigour.

IDB, the lead development agency, has not made substantial progress in implementing 'Competing in the 1990s';

This decade has seen a new department and new economic development agencies with a renewed focus on competitiveness enhancing strategies. However, the previous two decades saw money thrown at the private sector with scant regard for public sector return. It should be said that such policies were the direct responsibility of Peter Hain's predecessors.

It has also been argued that the public sector attracts scarce resources in terms of talent and skills that are needed by the private. However, our education system provides an excellent service at the top (many of whom then migrate), but continues to under-perform at the bottom. This is most explicitly illustrated by the fact that in an era supposedly defined as the 'information age' with skills as the universal currency, Northern Ireland's largest city Belfast has a school system where a quarter of children leave primary school without the appropriate literacy/numeracy skills; 40% of teenagers failing at maths and 51.5% of boys in secondary schools failing to reach the expected standard in English and two-thirds failing basic literacy tests. Peter Hain, Secretary of State for Wales should perhaps look to Bevan "You cannot make progress without treading on somebody's corns. So long as the right people squeal I like to hear them" to face down the voluble grammar school mafia who regard the continuing exclusion of the many as a price worth paying for their privilege.

As a result the skills profile of the labour force remains deficient. Providing industry with sufficiently skilled and qualified people requires challenging an education system that is segregated by social class, religion and, in many cases, gender. It is to be hoped that the Bain review of the education system will tackle the inequities in the system that also inhibit the development of the economy.

A Different Agenda

A key challenge for any region in the 21st Century is to find a development model that will enable it to compete economically on a global scale while retaining its commitment to social cohesion and social inclusion. This will be no easy task. Even large economic units, like the EU, are not immune to rapid changes occurring within the world economy. The world has become more open, more complex and more interdependent. The end result is that international developments have had an increasing significant impact on national economies and regions have become more open to competition from elsewhere.

At the same time, however, there is no international consensus about how competitiveness can be achieved. The Asian model of export-led development sustained by a close alliance between enterprises, government and the banks has been tarnished by recent problems. The United States approach has produced impressive growth and millions of jobs, but the bottom 40 per cent of US society has paid the price in terms of slow growth in real incomes and greater risk of job loss.

By definition, regional economies are smaller than their nation states. As a result, they are more open and more dependent on external trade. Success requires an ability to attract external customers. Their labour markets are also more open – declining regions tend to lose knowledge intensive and highly skilled workers, successful regions gain them. Nevertheless, regions can have two key advantages (Nyhan, 1999):

1. Cohesiveness and manoeuvrability in being able to target high value-added external markets and
2. High competence profile and versatility of its workforce, which gives the capacity to deliver the required goods and services for these markets.

Achieving these advantages requires an integrated approach within the framework of a new development model. On one hand, there has been recognition that top-down, centrally-driven programmes are too inflexible to account for the unique circumstances in each local area, and, on the other hand, there has been a growth of well organised and increasingly vociferous local organisations determined to contribute to regional development.

However, since the mid-1960s, mechanisms to tackle poverty and to stimulate economic growth have been traditionally separate. The basic principle was that macro-economic and regional policies would create the conditions for competitiveness and growth while social integration programmes would enable the disadvantaged to grasp the opportunities of an expanding economy. The growth of structural unemployment and the persistence of long-term unemployment generated a new emphasis on labour market, rather than social, integration, but the insulation of economic development and integration measures has remained.

In the contemporary situation, however, separate programmes do not address the complex interplay and overlapping of economic and social problems. Thus, New Labour has constantly emphasised the necessity for 'joined-up' government; although without spelling out how can this be operationalised without additional layers of bureaucracy. However, the integration of different programmes requires the mobilisation of all possible resources (human, social, economic and political) while retaining popular stakeholding and ownership. While policy integration has a strong regional and local dimension, if an increasing share of decision-making can be taken at the local level, Northern Ireland's 'democratic deficit', though a cliché, is a reality. This informs what passes for political discourse and therefore limits the requirements for logic, planning, focus, discipline and output that need to be the bedrock for political/economic regeneration.

The Trade Union Movement has no problem with the Secretary of State expressing a desire to *"develop a sustainable energy strategy that protects our environment, invests in renewables, and delivers fairness to consumers"*, however, to move this beyond rhetoric he has to address how to oppose the economic orthodoxy that allows the market to act as it pleases. In environmental terms, therefore, watchdogs local, and international need to be supported. In addition, while supporting the restoration of the Assembly, we should focus on the need

for an effective, well informed, accountable devolution.

Best (2000) argues that the key to regional development lies in productivity growth that is derived from production capabilities, which include technology and skills. This requires synchronised advances in business organisation, production capabilities and skill formation – the productivity triad. In Europe, similar sets of ideas have emerged in the debate about the 'learning region'. Here the focus is on small to medium sized enterprises *(the backbone of economic life in most European regions)* and on the supporting and complementary activities of other institutions. The co-production of common solutions is emphasised, organised by way of genuine partnership arrangements that bypass bureaucratic control and transcend competition.

The UK hits the average EU-25 spend on R&D in 2004, 1.9% of GDP by business and public sector combined. Compare this to Sweden (3.7%), Finland (3.5%) and Denmark (2.4%). NI needs to emulate the level of expenditure of these other small successful economies just to catch up to the average. NI expenditure on R&D is worse than the UK average. Excluding public sector spending on R&D, the UK private business sector invested 1.4% in research and development projects in 2004. The equivalent figure for NI was 0.8%. (DTI Regional Competitiveness Indicators).

To achieve success, Congress urges that the following targets need to be reached in a reasonable timescale:

- R&D intensity (as a proportion of GDP) should be at least 3% EU and this target should be reached by 2010 (a goal set by the Lisbon summit in EU)
- At least two thirds of R&D expenditure should be financed by the business sector, also a Lisbon target.
- There must be significant synergy between business and universities with business financing significant R&D projects at third level institutions.
- High-technology exports as a percentage of total exports should be similar to Scandinavian levels.
- The proportion of Science & Engineering graduates per 1,000 must be among the highest in Europe, at least above average.
- The proportion of the workforce involved in lifelong learning should be above the EU average
- Innovation must lead not just to new products and services but ones which are delivered to market efficiently.
- Availability of venture capital should be easy and the process as uncomplicated as possible.
- High ICT expenditures (incl. on broadband penetration) is essential
- employment in high technology services needs to be expanded
- The innovative capabilities of SMEs especially must be greatly expanded.

Congress posits the following areas for debate:

Manufacturing Industry

Denmark, Switzerland, Finland, Germany, Italy, Sweden are six high-cost economies with strongly performing manufacturing sectors which are sustained through growing automation. They compete in terms of high precision and quality rather than price. More than their competitors they use integrated automation in machinery and in back-office operations.

Six manufacturing sectors have been identified as important to these economies and to Ireland:

- Construction components
- Electronics sub-supply
- Engineering sub-supply
- Food ingredients
- Medical devices
- Prepared consumer foods.

For SME's to make significant gains in these industries, it is essential to gain access to dynamic networks of suppliers, sub-suppliers, sales outlets, officials in public agencies dealing with these sectors, European contacts, academics working on relevant technology etc. These networks already exist informally, and sometimes formally, among business organisations. Active participation in dynamic networks has been shown to be a significant boost to productivity.

All-island networks are especially significant. One of the great disadvantages which NI business operates under is the 12.5% Corporation Profits Tax for firms in the Republic. It is alleged it gives the Republic a huge advantage in attracting Foreign Direct Investment. Unless NI can operate on a level playing field, it is arguable that a dynamic all-island economy, where productivity and income levels can converge towards the upper end of the European scale, may never occur.

The conditions can be equalised by introducing the same taxation rate throughout the island or by finding some way of providing NI businesses with advantages which would compensate for the higher tax rates through grants, tax relief etc. In the context of a European dimension Congress has argued for a co-ordinated tax strategy across the EU.

Taxation

A common tax rate would be difficult to achieve as other regions of the UK would seek the same. However, Congress believes that if both governments were willing, they could find a solution to this problem. Business networks could be formally set up in each sector, regulated, but not run by the authorities. They could be run by trade associations. Businesses anywhere in Ireland could register to join an all-island network, pay a fee and engage in the market intelligence gathering, technology transfer and diffusion which are the crucial business of such networks. In addition, state agencies could provide productivity funds for SME's technology acquisition grants etc. (Studies show a 15% - 20% improvement in productivity for those who participated in such funds.) Only companies registered in a network could avail of the benefits. Governments could agree to match grants for projects which increase a productivity indicator (e.g. exports as a percentage of sales) with the equivalent in tax reliefs, for any taxes liable in excess of 12.5% of profits.

Biotechnology

A key area for future growth is the biotechnology sector. A National Institute for Bioprocessing, Research & Training has been set up at University College Dublin. Four leading third level institutions came together to form the Institute. They will provide the academic and technical expertise, as well as providing a research team which will undertake joint research projects between academia and industry to address the major technology issues of the industry. The aim is to act as a magnet attracting major bio-pharmaceutical investments from overseas and the indigenous market. It will create a competitive advantage through the achievement of a critical mass, as occurred with the chemical industry in Ringaskiddy.

The pharmaceutical sector in the Republic employs 20,000 people and has exports of €30 billion per annum. The Biopharmaceutical industry is growing at 15% per annum and two thirds of drugs have a biopharmaceutical base. As the Republic captured 25% of global FDI in the pharmaceutical sector, it is hoped to achieve similar success with biopharmaceuticals. NI also has a number of enterprises in this sector. However, there is little planning or integration as to how to ensure that the island as a whole gains in an optimum way from these developments. None of the founding Third Level Colleges, on the 'ground floor', are involved in the project. There is no indication that the industrial development agencies co-ordinated efforts in this instance.

This is understandable as they are in competition with each other for international mobile investment. There are also areas where their activities are complementary and add value to each other. Agencies North and South would want to encourage indigenous start-ups as well as attracting foreign investors. New start-ups regardless of where they are located will add value to the island economy as long as they are part of all-island networks.

Public Procurement

Congress has proposed the establishment of a high level Task Force to oversee a planned infrastructure spend of some €100 billion, north and south of the border. Congress proposes the Task Force would be charged with drawing up a strategic plan to ensure the planned investment package – €24 billion in Northern Ireland and €76 billion in the Republic of Ireland – is properly co-ordinated and delivers maximum benefit to the citizens of both jurisdictions. Such an approach is essential to ensure that this expenditure of €100 billion of ordinary taxpayers' money is used in a way that recognises the integral connection between a dynamic economy and a decent society. This unique investment opportunity can also develop practical ways of building effective and energetic relationships North and South that enable a reskilled and integrated labour market. Such an investment will have a major social and economic impact. We want to ensure that this investment changes patterns of disadvantage, protects and enhances work opportunities and supports the development of indigenous enterprise.

Transport & Regional Development

According to the recent NCB report, the population of the island could reach over 7 million by 2015. The number of cars

on the roads will almost certainly double. The pressure on housing, infrastructure, and all services will increase to a point which may be unsustainable unless more rational strategic choices are made concerning regional planning and development.

The West of NI and of the Republic have always suffered from lower living standards, poorer services, less industry and a constant drain of people and resources.

Regional Development strategies, North & South have been drawn up to halt or reverse this process and all have failed. It is now imperative, as a matter of efficiency as well as equity, that far more powerful nodes of development are located in the West.

Both governments need to make some major decisions on the following matters, perhaps linked to the forthcoming National Development Plan 2007-12 for the Republic:

- A western Rail corridor linking Limerick-Galway-Castlebar-Sligo-Enniskillen-Derry-Letterkenny. This would be a major tourist boost for the west as well as attracting more investment and development along its length.
- Integrating Derry into the National Spatial Strategy as the leading Gateway and growth centre in the North-West.
- Establishing an integrated health service for the North West where the Hospitals and Health facilities of Fermanagh, Tyrone, Derry, Donegal, Sligo and Leitrim, would be open to all in that catchment area and the Health authorities would deliver an integrated service for the region.
- Similar decisions need to be made about the future of educational facilities, with the large number of vacant school places emerging in Northern Ireland.

Because of the long lead times in delivering major infrastructural projects, and the shortage of time before the infrastructure of the east coast becomes unable to take the ever growing pressure, these matters need to be treated with some urgency.

In short, there are many models of regional economic development that should be explored for Northern Ireland. The Secretary of State's approach is simply to resurrect arguments that should have been firmly buried in the 1970s. In addition, Peter Hain the Secretary of State for Northern Ireland and as a representative of New Labour might care to address how his recipe, having clearly failed in GB will be likely to succeed in even more testing conditions in NI. Failure in relation to equality issues in GB are illustrated as follows:

> In a detailed analysis of poverty and inequality, the Institute for Fiscal Studies said that eight years of Labour government had left inequality virtually unchanged from when Tony Blair first arrived in Downing Street in May 1997. Ministers, the IFS said, had struggled to reduce the number of people living on less than 60% of median income - the government's benchmark of poverty - at a time when average incomes had been rising more quickly than they had under the Thatcher and Major governments". (The Guardian, March 14, 2006)

Clearly, something more radical is required than the grafting of a failed

English model to Northern Ireland where: general poverty levels are higher than the Republic of Ireland or Britain; more than a quarter of all households in Northern Ireland defined as 'poor'; child poverty is calculated as affecting 8% of all children in Northern Ireland in 'severe' poverty (defined as lacking three meals a day and also more likely to be enduring inadequate housing conditions), wages (average wages 20% lower in Northern Ireland than in the UK) and 'fuel poverty' (experienced by 28% of Northern Ireland's households).

Furthermore, if the real peace dividend is a transformation from a 'war' economy to one based on education/skills/training/innovation etc. we can support this rhetoric of delivery and accountability but oppose privatisation that is the enemy of both of these ambitions. Again, Bevan's "why look in the crystal ball when you can read the book" is appropriate here – to teach us what isn't the answer - the confusion of economic development with property development which, in Scotland, for example, "faced with some very simple demands for decent homes, decent services and decent jobs" appears to offer the most impoverished areas, the solution - "let them buy luxury flats"!.

Prosperity for Northern Ireland must be forward, rather than backward, looking. Four lessons follow:

1 The problems of disadvantaged regions are not going to be solved by more of the same. They need a fresh vision and fresh strategies. Moreover, while the long-term goal must be to generate a wealth/job creation sector, more resources will be required, at least in the short run, to put the region onto a different trajectory;

2 There is no quick fix. The duration and intensity of the difficulties demands a long-term strategy - a vision of at least 20 years - a 2020 Vision.

3 A special effort, above and beyond what has been attempted to date, must be made to tackle social exclusion in the widest sense. This is an essential and, if not pre-requisite, at least a simultaneously addressed, component of any debate on and delivery of economic transformation.

4 Any new approach, therefore, has to be characterised by genuine partnership. A partnership reflecting the composition of the political, economic and social organisations in NI, incorporating a new system of local governance affecting not just the economic but political and social.

Appendix

The Nordic countries are the leaders in the world competitiveness league tables and this is in no small measure due to their investment in R&D. The Nordic countries combine economic efficiency and social cohesion. They feature repeatedly in the top ten countries for competitiveness, productivity, labour force participation, good public services and social infrastructure, such as childcare. They have the highest level of investment in R&D and innovation in Europe. They are highly unionised and operate on the principles of a well-defined social dialogue. They have flexible labour markets in which the emphasis is on 'employability' rather than job protection per se. Sustainable development is a central part of their polity. Finally, these countries plan with a skill and foresight that we have not yet mastered.

Sweden

With Finland, Sweden is an innovative leader within the EU, **ranking first** among the EU countries. Sweden has **above average performance on all EIS indicators**. It ranks in 1st place for innovation & entrepreneurship and IPR and in 2nd place for the three other EIS indices. For individual indicators, Sweden only ranks below the EU average for the share of university R&D financed by business and in high-technology exports as a percentage of total exports. Many of the **trend results for Sweden are below the EU average**, but this is usually from a starting point well above the average.

Sweden continues to pull ahead of the EU trend for public R&D, but business R&D declined between 2001 and 2003, although still over double the EU average. Although Sweden is one of the EU innovation leaders, the country presents below average static economic performance on productivity or GDP per capita. However, the GDP growth rate is significantly higher than EU average with 20% above EU average between 1996 and 2004). It can therefore be expected that the return on investment in innovation will be a long term one. Taking full advantage of this long term investment will be the key challenge for Sweden.

Denmark

Denmark is **one of the most innovative countries** within the EU, as shown by **third place** performance on the EIS out of the 25 EU member states (for innovation drivers 3rd, IPR 4th and applications 4th). However, it is below the expectations of its performance peer group for knowledge creation, where it ranks 10th. Denmark's trend performance is **particularly good for venture capital and for business R&D**. The worst trend performance is for the broadband penetration rate.

Denmark is **only at the EU average** for two leading indicators for innovation drivers: the s**upply of new S&E graduates** and the **youth education attainment level**. Improvements to the education system could be required to motivate an increase in the supply of S&E graduates. The next area of weakness, although only relative, is in innovation & entrepreneurship, due to average performance for the percentage of SMEs that innovate in-house and for ICT expenditures, and below average performance for the percentage of firms that have introduced non-technological change, such as organizational innovations.

Finland

Finland is one of the **EU's two star performers on innovation**, a position that it shares with Sweden. It **ranks second** out of the 25 EU countries. Finland ranks among the top three countries for each of the six EIS composite indices with the exception of applications. Consequently, **Finland has no readily identifiable weaknesses**, with above average results for all EIS indicators except one: the **youth share of the Finnish population is 18.6%**, which is below the EU country mean of 20.7%.

The **trend results are below the EU average for many indicators**, but this is often due to Finland's good performance. Although Finland is one of the EU innovation leaders, the country presents below average static economic performance. Finland's per capita GDP is below that of the majority of countries in the intermediate innovator group. More discouragingly, its labour productivity per hour worked in 2003 was only 92.6% of the average for the EU-15. However, the GDP growth rate is significantly higher than EU average (65% above EU-15 average on average between 1996 and 2004). It can therefore be expected that the return on investment in innovation will be a long term one. Taking full advantage of this long term investment will be the key challenge for Finland.

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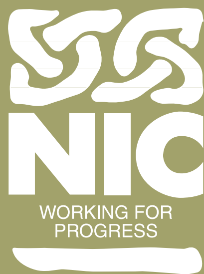

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