



PRELIMINARY RESPONSE

TO THE

INDEPENDENT REVIEW OF

ECONOMIC POLICY

November 2009

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Introduction

1. The Economic Research Institute of Northern Ireland (ERINI) welcomes the opportunity to comment on the Independent Review of Economic Policy (DETI and Invest NI) – IREP.

2. Northern Ireland has a long history of producing reviews of economic strategy and policy but it has been some time since a serious attempt has been made to examine the performance of some key dimensions of the economic policy mix in detail and to relate this to structural and organisational issues. The IREP report is, therefore, a welcome addition to the evidence base from which future policy may be derived. IREP is not, of course, a critique of economic strategy in Northern Ireland in the wider sense since its terms of reference focus mainly on the activities that fall within the competence of DETI and Invest NI although the review team were expected to have regard to the responsibilities of other departments where these could impact on the principle goal of improving productivity. The review team do also touch on the fuller dimension of economic strategy in taking account of the ‘drivers’ of productivity growth and the experience of development policies around the world.

3. The IREP report is a long document and at this stage ERINI wishes to focus on what we consider to be key issues it raises. To that end we have little to say in these preliminary comments about the organisational recommendations of the report save where they deal with the creation of new structures to promote innovation. Our comments, therefore, concentrate on the following areas:

- (a) The review team’s understanding of the nature of the local economy and its relationship to the UK and the wider world.
- (b) The review team’s analysis of the performance of existing economic development policies that are the responsibility of DETI and Invest NI.
- (c) The review team’s recommendations for the future development of policy.

The Northern Ireland Economy

4. The review team have opted for what might be called a fairly conventional description of conditions in the local economy over the relatively recent past and its prospects for the future. By this we mean that performance across a range of indicators such as growth, employment and economic activity is measured relative to other UK regions or to national averages. The fact that there is a wider world context and that it is important is acknowledged but that argument is not taken very much further until later in the report.

5. Over the past quarter-century we have seen a dramatic increase in the pace of globalisation of economic activity. This has resulted in rapid growth in trade, the freeing up of capital movements and increasingly a growth of economic migration in labour markets. The costs of carrying out systematic and routinised activities have fallen leading to a shift in such activities to areas where costs are low. Examples are most routine manufacturing in products such as garments and electronic assembly.

6. On the other hand the costs of carrying out non-routine activities that are difficult to capture in standardised processes have grown leading to the concentration of these activities in locations where economies of scale can be best captured. Invariably this is in cities. Activities such as finance and business services, including software development exhibit these characteristics.

7. The key driver of globalisation has been the Multinational Corporation which is able to segment and service its markets by optimising the locations where it operates and the network of suppliers it supports.

8. How is this important for Northern Ireland? For a start it is obvious that the Northern Ireland economy and its immediate market is very small in world terms. Since it is a regional economy it is also extremely open in the sense of depending on trade but it is also highly constrained in the autonomy of its policy making and the range of policy instruments it can draw upon. In fact only in terms of public expenditure does the region have much

room to manoeuvre in influencing the economy and even then there are increasing constraints arising from international obligations such as the state aids rules of the European Union.

9. The immediate target of these expenditure instruments is the productivity performance of the economy, now commonly measured as Gross Value Added per head of population or more accurately per person employed. Relative to the UK average local productivity is less than 80 per cent and, relative to the best in Europe, very considerably less. This is not a new phenomenon. Indeed for at least half a century or longer successive governments have struggled to make much headway in raising the region's performance. For all that time and despite the spending of £billions, Northern Ireland has either been at or near the bottom of UK regional rankings.

10. The fundamental difficulty is the inability of the private sector to sustain growth in net exports (ie the value of exports less the value of imports needed to create them). This is the only sure way for a small economy to grow and should be the over-riding strategic priority for our economic development programme. As a means of achieving this result enhancing productivity and thus competitiveness is critically important but in a sense the relationship is circular – export-driven firms are forced, through competition, to raise their productivity which in turn drives forward exports.

11. The export platform in Northern Ireland is too small to maintain a path of sustainable growth. Expanding the export base is, therefore, an essential contribution to growth. On this point we are in agreement with IREP.

12. Taking all these factors into consideration it is clear that attracting Foreign Direct Investment (FDI) is critical for economic development. The right sort of FDI automatically brings with it existing export markets, new technology and new skills that complement our own public investment in education and training. In the global economy it is the multi-nationals who drive forward growth and if we wish to share in that growth Northern Ireland must be an attractive place for them to do business.

13. The review team acknowledges that the Northern Ireland competitive advantage at present stems principally from lower wages for workers with comparatively high educational qualifications. This requires some further explanation. Broadly speaking the standard of living in Northern Ireland is sustained by the wealth created by the private sector and expenditure by the public sector. The underlying trade deficit is financed through private borrowing and a large fiscal transfer from the UK government. Since the region has no control over the exchange rate, it can only sustain a competitive position by restraining costs in those businesses (the majority) which effectively face world determined prices for their products. Hence the relatively low private sector wage offer. This would become starkly apparent if the fiscal transfer were to be reduced since the resulting adjustment would fall predominantly on the labour market with rising unemployment placing wages under further downward pressures.

14. The review team desire to see the economy move to a higher value-added structure, in effect to creating a measure of market power through the adoption of innovation and skills intensive activities. This is greatly to be desired. It is also very difficult and time consuming to achieve, especially through the process of developing indigenous companies. Once again the fastest and surest ways forward with such a programme is through the attraction of FDI and the embedding of that FDI in the local economy.

15. It is encouraging that the review team recognise the importance of attracting the right sort of FDI as a cornerstone of economic development policy (Chapter 5 of the Review makes this clear). However, there are other aspects of the growth experience that require some attention.

16. Almost as a matter of accounting, economic growth occurs both because more people become employed at or around the existing levels of productivity and because the productivity of each person employed tends to increase over time as skills develop and newer technology is taken into production. The first of these processes, known as 'extensive' growth, requires participation rates in economic activity to rise and is in itself a powerful driver of growth. Northern Ireland's participation rate is the lowest in the UK and

getting more people into work, even if the jobs offer less than the average wage, should not be dismissed as a policy objective.

17. In the longer-term, of course, the productivity of all workers (a process known as 'intensive' growth) is the essential goal and that is the main focus of the review team's considerations. Nevertheless, in the pursuit of productivity it would not be right to make the best the enemy of the good by neglecting the contribution that greater participation can offer. The fact that some call centres pay less than the private sector median wage does not mean that they cannot make a contribution to growth if the alternative is to have no jobs at all¹.

18. A final point that the review team touch upon (paragraphs 5.41 and 5.42) is the importance of place in understanding growth mechanisms. Where there are economies of scale and scope to be drawn from clustering together the natural home for such activities is within cities and to a great degree the larger the city the more powerful this centripetal force will be. This has absolutely profound implications for the future of the Northern Ireland economy if the policy is pursuing growth through attracting companies that are influenced by these factors. The simple truth is that the region only has one city (Belfast) of any size and even that is marginal in the context of agglomeration dynamics. The future of Derry / Londonderry in the face of these forces must be a matter of great concern (and even more so for small rural towns) for policymakers. We believe that this issue and how it might be addressed needs much greater attention than has been accorded to it so far.

¹ Some simple algebra brings these factors together. Gross Value Added is the sum of profits and the wage bill; thus Gross Value Added per head is:

$$GVA / Head = \left(\frac{\pi Q + wL}{P} \right) = \left(\pi \frac{Q}{L} \frac{L}{P} + w \frac{L}{P} \right) = (\pi p + w) \frac{L}{P}.$$

Or: $GVA / Head = (\text{profit mark-up} \times \text{productivity} + \text{wage rate}) \times \text{Participation (activity) rate}.$

Here, Q is output, π the profit mark-up, p is productivity, w the average wage and L/P the activity rate. You can boost GVA per head by moving up the value chain and increasing mark-ups for high quality goods and services, boosting productivity, transforming yourself into a high-wage economy (clearly linked to moving up the value chain) and increasing the activity rate. Note that this is an accounting framework and does not specify the technical or behavioural relationships between variables. Wages for example are not independent of the profit mark-up or productivity so it's not possible to simply boost GVA/ Head by increasing wages!

Conclusions

19. Broadly speaking we believe that the review team have grasped the fundamental issues presented by Northern Ireland's economic performance and have placed these in a conceptual framework that contains most of the essential elements.

The Analysis of Performance

20. Perhaps the most contentious part of the IREP is its assessment of the performance of existing economic development policies administered by DETI and Invest NI. It is also the part of the report that the general reader will struggle most with because of its technical nature. For those familiar with this territory the basic data assembled in the bespoke IREP database is unremarkable. Indeed, ERINI has its own database covering the same variables and drawn from the same source materials. The difficulty arises in evaluating the review team's assessment of the data to determine how much of the activity recorded by recipients of Selective Financial Assistance (SFA) and other aid granted by Invest NI can firmly be attributed to this assistance. This is the issue of additionality or more specifically in the context of this report, 'deadweight'.

21. Deadweight is a measure of how much of an intended outcome would have been secured in the absence of assistance. Additionality is a broader measure of the impact of assistance which takes account of displacement (other activity in the economy being negatively affected because of the aid given to certain firms), substitution, leakage (benefits to those outside the target area) and other effects. The IREP analysis focuses on deadweight.

22. The review team cite three sources of evidence to support their conclusion on the degree of deadweight in SFA.

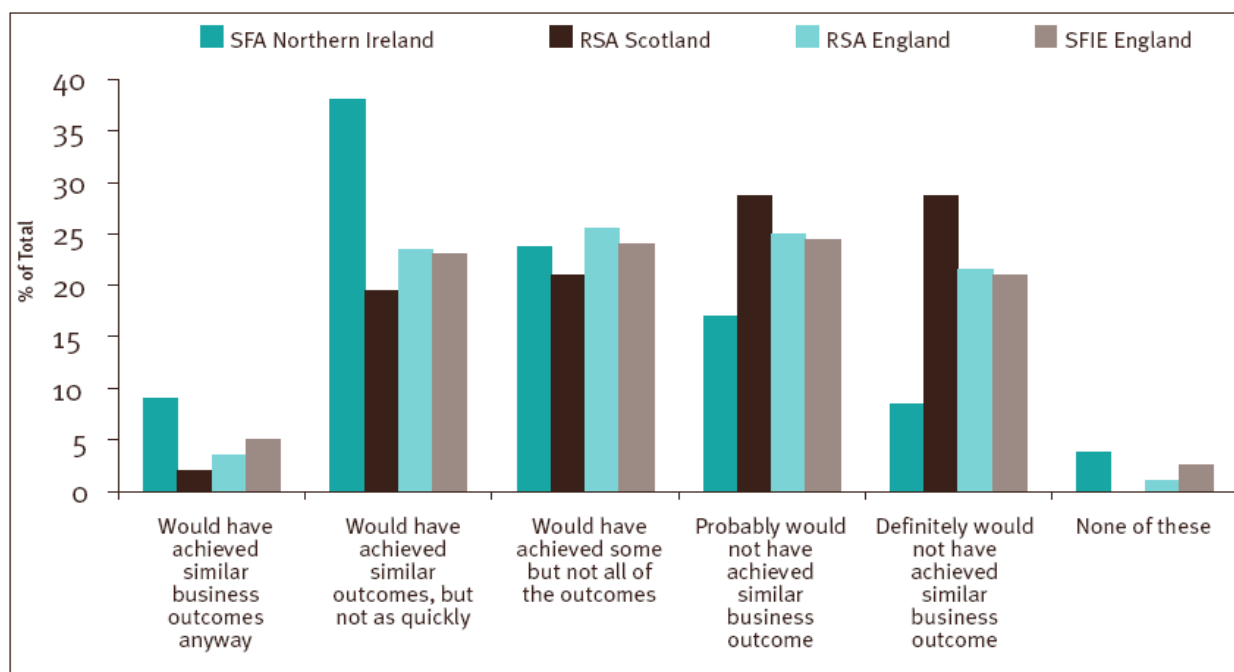
- (i) Survey evidence.
- (ii) Econometric studies.
- (iii) Shift-Share analysis.

23. Survey evidence comes from the direct interrogation of firms who are recipients of SFA. In the present case the review team relied on a survey that was part of a wider evaluation of SFA completed in 2007 and covering the period 2002/06².

24. Self-reporting surveys need to be handled very carefully simply because the answers solicited can be unreliable. The same question asked at a different time or of different people in the same firm can elicit quite different answers.

25. A further issue with the survey approach is the way the review team have used the answers. Basically the questions were (1) would the same results have been achieved even without the assistance; (2) would the same results have been achieved but less quickly without the assistance; (3) would some of the results have been achieved without assistance; (4) and (5) the degree (probably and definitely) to which results would not have been achieved without assistance. The basic diagram containing the responses to these questions is reproduced below from the IREP report.

Figure 4.5: Regional Comparison of SFA Additionality



Source: DETI Evaluation of Selective Financial Assistance in Northern Ireland 1998-2004

² Hart, M., Diffield, N., Roper, S. and Mole, K. "Evaluation of Selective Financial Assistance in Northern Ireland, 1998-2004", DETI (2007).

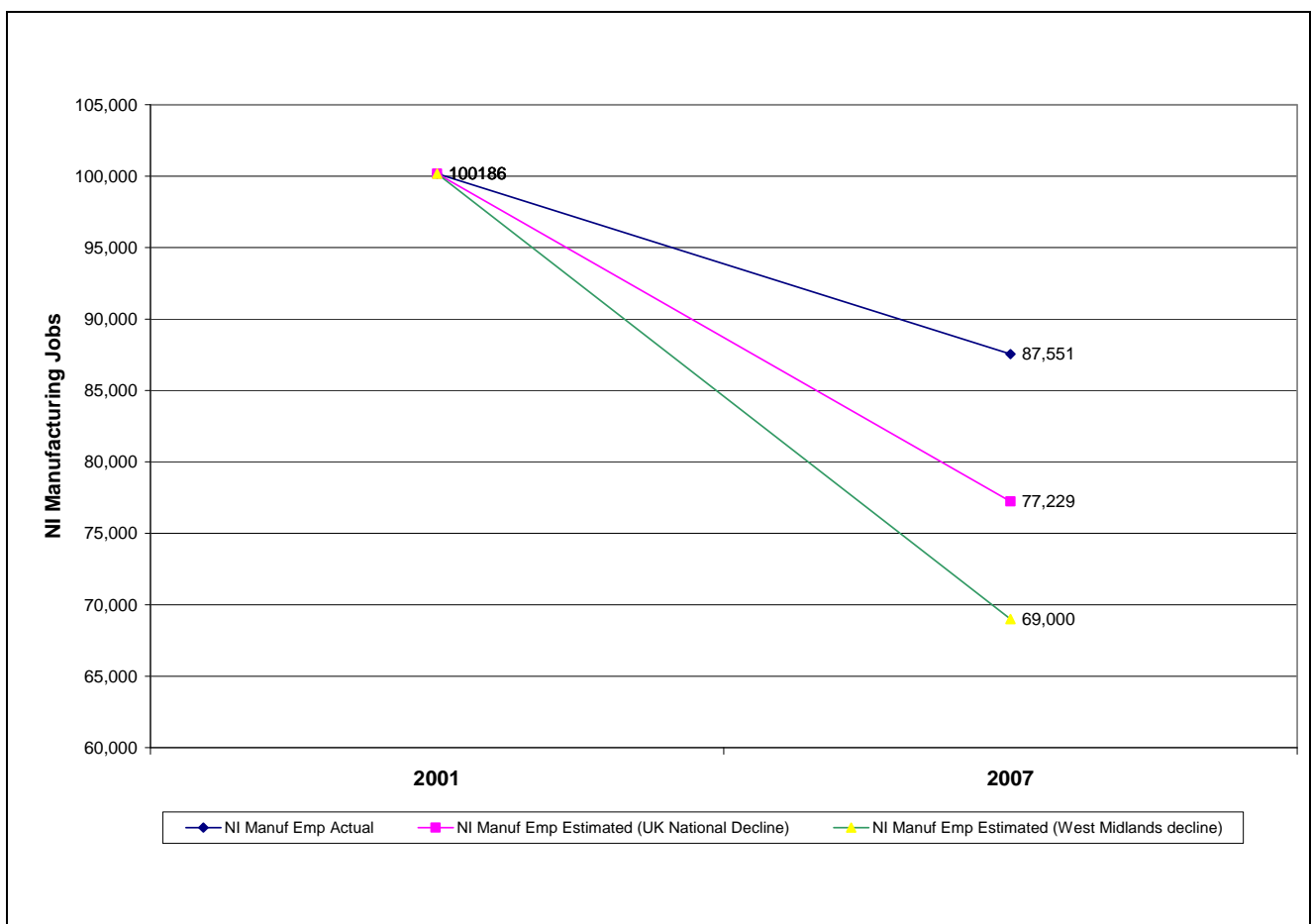
26. In their calculation of a 50 per cent deadweight factor the review team counted all positive responses to questions (1) and (2) and one quarter of responses to question (3) as indicating deadweight. This is towards the extremity of weightings that could have been used and since almost 40 per cent of the sample answered question (2) positively it does bias the estimate of deadweight. There is a further problem in that the time dimension of jobs created or promoted is ignored. Basically the review team regard a job today as being equivalent to a job tomorrow. This disregard of time preference would generally be regarded as unacceptable.

27. The econometric work drawn on by the review team is also part of the SFA evaluation study cited above. The object of this work was straightforward – to identify and quantify the influence of SFA on the performance of recipient firms. However, the econometric difficulties of addressing this question are formidable as the authors of the evaluation study acknowledge. These include issues of selection and causality (do firms grow faster because of SFA or are fast-growing firms better at attracting SFA?) and endogeneity (is it the case – as in FDI – that the SFA offer and the location decision of the firm are essentially determined simultaneously?).

28. The econometric evaluation was directed towards estimating a cost per job for SFA rather than a direct measure of additionality. The study also used two methodologies to calculate cost per job with somewhat differing results. As a consequent we do not feel that there is a large congruence between this study and the work undertaken by IREP.

29. The third approach to estimating deadweight was a study undertaken by the review team using what is known in the literature as a ‘shift-share’ technique. Shift-share is a rather old methodology going back more than 50 years and it has largely been superseded by the use of econometric methods and large scale micro-data bases. The basic idea is to construct a counterfactual version of events by adjusting for industrial structure and national change factors in order to isolate the specific contribution of regional factors to the activity being studied, in this case employment. The essence of the argument used by the review team is shown in the diagram below for employment in manufacturing.

30. Point A represents the starting point in 2001 when 100,186 people were employed in manufacturing. Point B represents the actual employment in 2007, some 87,651 people. Point C represents the employment level that would have been achieved in 2007 if Northern Ireland manufacturing sectors had declined at the national average. This number is calculated at 77,229 and is referred to as 'expected' employment. The difference between actual and expected employment in 2007 is 10,422 (ie 87,651 – 77,229) and this is assumed to be the employment saved by SFA. Unfortunately Invest NI claimed that some 25,000 jobs had been created or saved in manufacturing during this period through SFA. Since the review team's calculation is only 40 per cent of this figure they assert that the remaining 60 per cent represented deadweight. Adjusting for timing effects brings this figure down to just over 50 per cent deadweight and this is the figure that has captured the headlines since it implies that Invest NI has paid twice as much per job than was necessary to support employment in manufacturing.



31. Shift-share analysis is deceptively simple but its results depend crucially on the assumptions used to create the counterfactual or 'expected' result. In this case one

assumption adopted by the review team was that in the absence of SFA Northern Ireland manufacturing firms would have lost jobs at the national or UK average for such firms. However, it is at least plausible that in the absence of SFA firms in Northern Ireland would have declined at a rate that was close to or perhaps exceeded the worst performing region in the UK (the West Midlands). If this alternative scenario is run then the 'expected' decline would have been at point D in the figure at around 69,000 jobs in 2007. The calculated deadweight of SFA would then have been less than 30 per cent rather than the 50 per cent quoted by the review team.

32. Although these calculations of deadweight may appear alarmingly high they are in fact well within the range for other assisted areas that have appeared in the evaluation literature. The review team quote a recent study by PwC of additionality in English Regional Development Agencies which suggest 50 per cent is the norm. An even more recent study for BIS which looked at 280 evaluations of economic development and regeneration interventions across the UK and examined the full range of additionality elements (deadweight, displacement etc) concluded that a median figure of 50 per cent for deadweight was typical³.

33. The existence of deadweight is not in itself a sufficient argument for discontinuing a policy instrument if the feasible alternatives are even more ineffective. Deadweight is evidence of the inability of external agencies to incentivise recipients to maximum effect. It is simply another manifestation of the ageless problem of a principal (the government agency) being unable to fully control its agents (the recipient companies) because of the asymmetry of information between them.

34. The more powerful argument for re-thinking the future of SFA is a much more practical one. In a few years time the limitations of the European Commission on state aids in more affluent member states is highly likely to render SFA ineffectual.

Safeguarded Jobs

³ Cambridge Economic Associates "Research to improve the assessment of additionality", Department for Business Innovation and Skills, October 2009.

35. The review team has taken a somewhat jaundiced view of Invest NI support for safeguarding jobs. This needs careful consideration. The majority of safeguarded jobs have been in externally-owned firms which are either established FDI companies or local companies that have been incorporated into multinationals. The question is whether these safeguarded jobs are conceptually similar to those in indigenous firms or are they in practice closer in nature to newly created jobs in new FDI companies? The answer depends on the alternative choices open to the companies seeking assistance to safeguard employment. For a multinational a new project or product line is an investment (or re-investment) decision and simultaneously a location decision. They have viable options on how much to invest and where to invest it and if they are refused assistance they are free to exercise those choices which may not be in favour of Northern Ireland. A judgement will be made depending on how embedded the company is in its present location and how disruptive a move would be for its global operations. In principle a local company could have a similar choice but in practice it is much more likely to have its roots and fundamentals in Northern Ireland.

36. A thought experiment may help clarify the issue. Suppose in 2002 assistance for safeguarding jobs had been discontinued in favour of assistance for innovation and R&D. The IREP analysis suggests that at least half of the safeguarded jobs would have gone ahead anyway, say 7,500 jobs. Of course a similar number (on the same analysis) would not have gone ahead. The question is whether the impact of the new policy to support Innovation and R&D would have produced at least 7,500 new jobs? We do not know what the answer to this question would have been but it illustrates the dilemma policy makers face when contemplating a change of direction for policy.

The Review Team's Recommendations for the Future Development of Economic Policy

37. The IREP contains about 60 recommendations for action covering policy development and implementation, strategic direction and a raft of organisational and administrative reforms. At this stage ERINI intends to confine its comments to the major thrust of the changes in policy that IREP considers necessary. This does not mean that

other issues are unimportant but rather that other bodies may be better positioned to respond to them.

38. For a considerable time ERINI and other researchers have been aware that the current economic development model in Northern Ireland has been approaching the end of its useful life. Stripped to its essentials this model seeks to attract new business and to encourage expansion in established businesses through the application of financial inducements – SFA being the principal instrument. Other policies to provide an educated workforce and reasonable infrastructure are also important but in a subsidiary role. Jobs for grants is at the heart of current policy.

39. There are many reasons why this model now has a limited shelf life. The objectives of policy have changed to embrace not only, or not primarily, jobs but also productivity, itself a much more subtle concept. Diminishing returns are inevitable when so much funding consistently goes to a limited range of companies through the business expansion route. Companies have come to expect financial assistance not just as a help to become established but every time their business needs to change to respond to market conditions. With multinationals there is always a good deal of game playing in their dealings with government and the outcome is influenced by the relative bargaining power of the two sides. Finally we may note that the European Commission has been progressively narrowing the aid intensity allowed for all sizes of projects. By 2011 the ceilings will be down to 10 per cent for large firms rising to 30 per cent for small firms in Belfast and 15 per cent rising to 35 per cent outside Belfast. The current levels are 30 per cent and 50 per cent respectively.

40. If SFA is in decline as an effective instrument of economic development what alternatives do the review team see to replace it? The answer is that they wish to see a shift in the emphasis of assistance towards activities associated with Innovation and Research and Development (R&D). There are basically two reasons for this recommendation. The first is that the economic return to support for Innovation and R&D is expected to be higher because firms where these activities are embedded are more dynamic and better able to survive and prosper in a changing world. The second reason is more pragmatic – EU aid ceilings for Innovation and R&D are much higher than for

traditional aid so that the development agencies will be less constrained in their expenditure via this route. At the same time the review team wish to see a renewed effort to enhance other complementary drivers of growth such as increasing skills levels and improving business related infrastructure.

41. In a nutshell the argument of the review team is that in a globalised world where Northern Ireland has to grow through exports seeking competitive advantage on the basis of low labour costs is a doomed policy. The way forward must be through exports based on high value-added products and activities and these are more likely to be developed by supporting innovation and R&D rather than subsidising capital and labour.

42. At the conceptual level this is entirely the correct view. No one would disagree with its vision and indeed it reflects the views expressed in innumerable strategy documents going back many years. The problem, of course, is that we have not been able to fulfil that vision with existing policies. Part of the difficulty is the scale of the problem.

43. This policy recommendation that Invest NI focus now on more vigorous support for Innovation and R&D is tantamount to moving towards a more knowledge based economy and has important implications for the scale of graduate employment in the Northern Ireland economy.

44. Northern Ireland's position as a knowledge based economy can be illustrated by a few radar diagrams. Drawing upon DTI research⁴ it is possible to compare NI⁵ with other GB regions using the number of SIC 2-digit sectors with 40% or more (K1) or 25% to 40% (K2) graduate employment as an indicator of knowledge intensity. Roughly speaking, the greater the number of K1 and K2 sectors, the stronger the region's knowledge economy^{6,7}.

⁴ Hepworth M, Binks J, Ziemann B, Local Futures Group, Regional Employment and Skills in The Knowledge Economy, A Report for the Department of Trade and Industry, 2005.

⁵ NI data is from the 2001 Census of population. The GB data is at 2002 and derives from a variety of sources including the ABI and LFS.

⁶ K1 = >40% graduate level employment, K2 =25% to 40%, K3 = 15% to <25%, K4 = <15%.

⁷ K-Sector Classification for Great Britain, 2002:

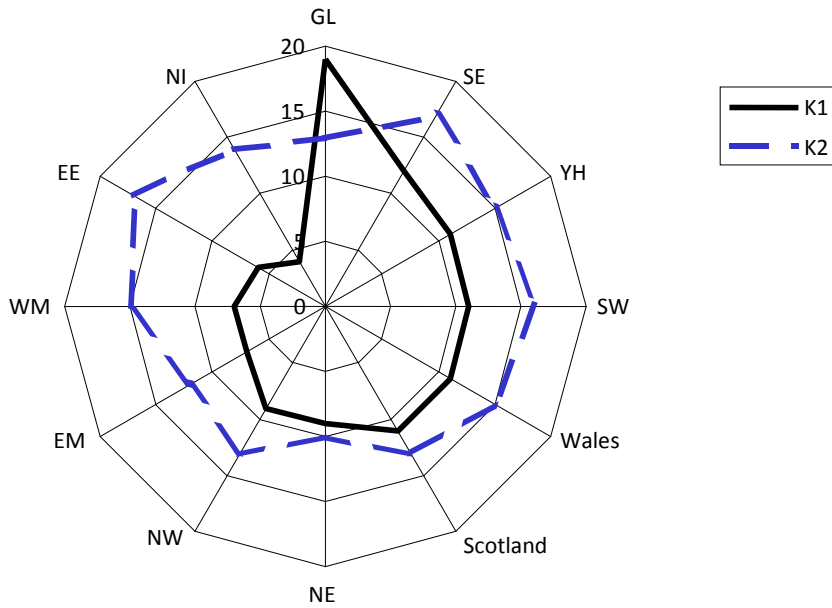
K1 Sectors	K2 Sectors
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45. The radar diagrams below show that Northern Ireland is the worst region in terms of the number of K1 sectors. Greater London (GL) clearly stands out as the most knowledge intensive region.

46. If Northern Ireland was to embark on the path to a more knowledge based economy and have the same sort of knowledge intensive sectors as in GB then over 23,000 more graduates (level 4+) would be required. This is only an illustrative ‘what if’ but it reveals the scale of effort required. It is important to note that the Public Sector would comprise about 84 per cent of this. Extending the illustration further, if Northern Ireland emulated the most knowledge intensive region of GB – Greater London – then 54,000 graduates would be needed, 23,000 of whom would be in the Private Sector. Even attaining the level of one of the worst knowledge intensive regions (East Midlands) requires nearly 11,000 extra graduates, albeit concentrated in the Public Sector.

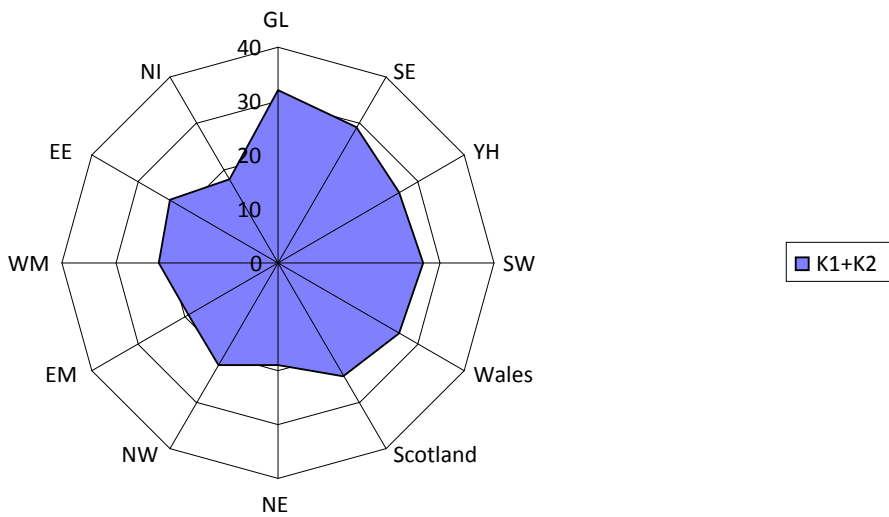
74: Other business activities	75: Public admin, defence, social security
85: Health, social work	92: Recreational, cultural, sporting activities
80: Education	65: Financial intermed (not insurance, pensions)
72: Computer, related activities	70: Real estate activities
73: Research, development	22: Printing, publishing, recorded media
30: Office mach, computer manufacture	67: Other financial (not insurance, pensions)
11: Oil, gas extraction etc (not surveying)	24: Chemicals, chemical products man.
	91: Activ. of membership organisations
	66: Insurance, pensions (not Social Sec)
	35: Other transport eqt manufacture
	33: Medical, precision, optical eqt man.
	40: Elec, gas, steam etc supply
	62: Air transport
	32: Radio, TV, communication eqt man.
	41: Water collection, purif, supply etc
	23: Coke, petrol prods, nuclear fuel man.
	16: Tobacco products manufacture

**Regional Knowledge Economy
(Number of sectors with 40%+ (K1) and 25%-40% (K2) graduate employment)**



Source: ERINI, Local Futures Group

**Regional Knowledge Economy
(Number of sectors with 25% or more graduate employment)**



Source: ERINI, Local Futures Group

Number of additional graduates required if NI had same sectoral knowledge intensity (graduate employment – level 4 and 5 – of 25%+) as benchmark regions		
Benchmarks		Of which private sector
Greater London	54,075	23,234
East Midlands	10,654	-822
GB	23,097	3,652

47. The second challenge is one emphasised by the review team and that is the relative paucity of R&D expenditure (BERD) as a proportion of output by the private sector in Northern Ireland. This is less than half the UK average or the RoI figure and below a sixth of best practice in the EU. Although there has been an encouraging increase in BERD in small companies (though a fall in large ones) and applications for R&D tax credits are well up since the creation of a Northern Ireland Corporation Tax Office in Belfast there have to be serious doubts about the capacity of the existing arrangements to absorb a substantial increase in expenditure except over an extended timeframe.

48. The review team’s proposal for tackling this issue through the possible creation of a local version of the Technical Research Institute of Finland (VTT) which is a state-sponsored body that undertakes commercially relevant research in co-operation with universities. This is an interesting proposal but it would mean setting up essentially from scratch a new freestanding research institute that would take many years to establish itself. There may be other ways in which collaboration between research and industry can be encouraged over a much shorter time span and without the need for a new body (see box).

STIMULATING R&D AND INNOVATION

ERINI has been working on a new and novel approach to stimulating productive co-operation on research between companies and universities. The basic idea is that a manageable range of research institutes within the local universities would be grant aided on condition that they produce a prospectus to support the international auction of one or more partnership shares in their research. The business partner would buy these shares at auction and in return receive exclusive rights for a given period to commercially exploit the research (or a part thereof) of the institute. A fuller description of this proposal will be published in the near future.

Conclusions

49. As we noted at the outset the IREP report contains many recommendations including a large number concerning administrative and organisational reform. We have not at this stage commented on these proposals, preferring instead to focus on what might be considered the core policy issues raised by the report. If these policy recommendations are flawed then no amount of tinkering with the administrative structures of support for economic development will produce the desired result.

50. On policy the heart of the IREP argument is that the thrust of existing policies is unsustainable, because the policy instruments (primarily SFA) are ill-targeted and increasingly ineffective and have under EU regulations a limited shelf life. The review team wish to see a shift in emphasis of assistance from the support of business expansion among existing Invest NI clients to the encouragement of high skills and high value added activity through new inward investment and the promotion of such activity in the wider indigenous business community. Encouragement would take the form of enhanced support for Innovation and R&D at the expense primarily of repeat assistance for business expansion projects in local companies and already established multinationals.

51. There is much to praise in this argument and it is indisputable that the future of the economy must lie in a shift from competitiveness based on relatively low labour costs to a

situation where competitiveness is based on the quality of products and high levels of productivity.

52. However, while the vision of the report is commendable there is surely a serious debate to be had about the practicality and indeed wisdom of its key recommendations. As we have suggested the scale of the task to shift Northern Ireland into a knowledge rather than cost driven growth path is very large. The transition from one to the other will be difficult and will entail substantial losses as well as eventual gains. Safeguarding jobs which is one of the principle features of supporting business expansion projects protects not only the jobs of workers but the prosperity of entire communities. It is also, like it or not, the main means of embedding multinationals in the local economy. If we are to walk away from supporting this sort of activity then the community and its representatives must be prepared for the possible loss of a substantial part of the industrial and export base, at least in the short term. In the longer-term, of course, it could be argued that this support has merely been delaying the inevitable transformation that globalisation is driving in the world economy and it is better to accept this reality and work with it rather than putting off the inevitable and thus finding we have even more ground to make up. These are the sort of issues that need a serious debate to raise awareness of what is at stake before we take definitive decisions on the recommendations of the IREP report.