
IRISH CONGRESS OF TRADE UNIONS**NORTHERN IRELAND COMMITTEE****Response to Report of Independent Review of Economic Policy
November 2009**

1. Congress is grateful to the Review Panel for the time and expertise, which it has put into analyzing the policies of the Department for Enterprise, Trade and Investment (DETI) and Invest Northern Ireland (INI). We are therefore somewhat disappointed that the terms of reference for the Review did not allow the Panel to bring its skills to bear on wider economic policy, particularly since it calls for the NI Executive to agree an economic strategy based on the Panel's findings. This point is explored further in paragraphs 30 to 32 below.
2. Congress endorses much of the Review Panel's analysis of existing policies and finds itself in agreement with many of the Panel's recommendations, but not all of them.
3. In the opinion of Congress priority should be given to the recommendations on policy development and, for reasons given later in this response, immediate priority should not be attached to recommendations relating to institutional arrangements.
4. According to the Review Panel a key challenge for the NI economy is a low standard of living compared with the UK average. The Panel goes on to say that this problem is mostly owing to low productivity rates and low employment rates. Therefore in this response we deal first with low productivity.
5. Understandably the Review Panel concentrates on the productivity gap in manufacturing and tradable services between NI and the UK, excluding the Greater South East of England. Congress shares the Review Panel's concern that the current policies have not made significant progress towards achieving the goal of improving productivity. For some time we have had doubts about the effectiveness of selective financial assistance (SFA) in NI and other regions.

6. Through INI the private sector in NI has received £750m of public funds since 2002. It is also noteworthy that subsidies to private enterprises in NI have been proportionately greater than for other UK regions. Despite these advantages and this investment by the public, NI has been unable to make progress on a convergence of living standards towards the UK average.
7. By drawing attention to the tendency for INI-assisted projects to be in lower value sectors, the Review Panel raises the age-old question of whether it is better to accept lower paid jobs than no jobs at all, because of our acute problem of the low level of jobs in the private sector. In other words is half a loaf better than no bread? However the more important and more difficult question is whether we should pay the same price for half a loaf as for a full loaf?
8. What is called for is a fresh approach, which takes account of the ineffectiveness of SFA and the strong likelihood that public subsidies to the private sector as provided in the past will no longer be permitted by rules agreed at European Union (EU) level. The £150m per annum budget currently given to invest NI would have to be used more effectively in our view.
We do therefore endorse the Review Panel's recommendation that this new approach should be focused on research, development and innovation (RDI).
9. As the Review Panel implies the RDI term should be interpreted widely and the funds available for projects having a valuable RDI content should be no less than those currently available to INI. Needless to say that full use should be made of the funds available under the EU 7th Framework for Research.
10. R & D must have a breadth, which is at least comparable to the 7th EU Framework Programme for Research. In particular it should provide incentives, which help to realize the aims of the Green New Deal and which enable us to enhance our capacity to undertake R & D.
11. In the case of innovation we welcome the Review Panel's view that the OECD (Organization for Economic Co-operation and Development) definition should be Adopted. This definition covers not only product and process innovation but also marketing and organizational innovation.
12. Congress takes the view that public subsidies should be given to private enterprise only in support of value added investment. This is most clearly evidenced by RDI, which is new to NI and which is part of a business plan detailing the additional benefits for NI of the project's supply chain. The level of subsidy should also be geared to the extent to which a project is committed to drawing its employees from disadvantaged areas.

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13. At all times we should ensure that our incentives are comparable with those available in the Irish Republic, especially its Border, Midlands and West Region. Equally measures should ensure that there should be no job displacement between Northern and the Republic of Ireland.
 14. The move to a situation where grants are aimed at RDI, supply chain consequences and skills enhancement, requires an entirely different type of delivery vehicle. To be successful such a vehicle will have to work across the whole range of RDI and into fields such as agriculture, the environment, health and transport, because productivity in these fields needs to be raised. In this new situation the interface with public sector RDI would have to be carefully managed.
 15. The current composition of the INI Board is narrowly focused. For example in its annual report for 2008/09 INI disclosed that 11 out of 12 people serving on the Board during that year were related to companies or organizations, which had received financial assistance packages in excess of £1,000 from INI. Collectively the Board reflects the status quo, which has not made the necessary impact on the productivity gap.
 16. For the reasons given in paragraphs 14 and 15 above Congress believes that we have to go further than the Review Panel's call for an internal reorganisation of INI. We are struck by the remark of Professor Richard Barnett in the foreword to the report of the Review Panel "that aspects of the current governance structures are serving to inhibit performance". Eschewing the failed policies of the past and providing for the wider dimension for the future requires an entirely different approach to the governance and composition of the managing body.
 17. To ensure that the new schemes are fulfilling the goal of closing the productivity gap, there should be independent and periodic scrutiny of any new framework.

The parameters for such a scrutiny would be the Review Team's conclusions that the single most important measure is to raise living standards and its recommendation that one performance target should be investments new to NI (expressed as a share of equivalent jobs coming into the UK). The case for such scrutiny would become unanswerable if Invest NI were to attain more autonomy because it would be essential for effective public accountability
 18. The Review Panel concluded that companies should be allowed scope to locate where they can operate most profitably. This conclusion is based on a view that cities offer higher growth and higher productivity. We question the validity of this view in all sectors and in all circumstances. In any event it runs counter to the Regional Development Strategy, entitled "Shaping Our Future". A key aim of this strategy is balanced opportunities between the east and west of NI.

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19. Furthermore it would be unfair to place the burden of balancing opportunities between sub-regions of NI wholly on the public sector. This issue does however highlight the need for more urgent action on the Bain Report on the location of public service jobs.
 20. The Review Panel makes the point that achieving the productivity target would require productivity gains in a wide range of sectors outside the remit of DETI. They instance low productivity in agriculture, environment, transport, construction and distribution. Consequently there is a case for addressing means of driving up the productivity of these sectors, which were outside the terms of reference of the Review Panel.
 21. While the Review Panel commends the NI Executive for making the economy the top priority in the PfG, it does not mention that the PfG declared that “a successful economy” is characterised not only by “high productivity”, but also by “a highly skilled and flexible workforce and employment growth”. Consequently we are disappointed that the Panel did not bring its undoubted expertise to bear on the issues of up grading skills and raising employment rates, presumably because this broader dimension was not within the remit of DETI. In saying that they were not tasked with addressing job creation, the Panel express the belief that many of their recommendations will assist job creation in the longer term. We are reminded of the remark of Lord Keynes, “In the long run we are all dead.”!
 22. On subsidies for training, Congress takes the view the they should be given to the private sector only for skills, which are new to NI, which are of benefit to the wider economy and are not firm specific. Obviously there should be an emphasis on skills needed for RDI. Of particular relevance are schemes related to the Green New Deal. Among other things they should provide professional development for architects, engineers, etc. in the use of eco-efficient components and the design and construction of eco-efficient buildings, plant and machinery.
 23. Our stubbornly high rate of economic inactivity is a major drag on our productivity. The effectiveness of DEL’s policies aimed at alleviating this problem is in need of fresh independent assessment. Congress welcomes the initiative taken by DEL in establishing “ the Advisory Task Group on Recognising the Unemployed and Inactive into the Economy” as a positive contribution to solving the issue of low Productivity.

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24. The Review Panel express the belief that increased prosperity for NI, particularly in rural areas, could be significantly addressed by building a more vibrant tourism sector. Congress does not share the Panel's belief in the contribution that tourism can make to economic prosperity, primarily because it is low in productivity.
 25. Furthermore the length of the tourist season is too limited to offer a meaningful solution for disadvantaged areas. Additionally over exploitation of natural tourist attractions can cause irreversible environmental damage. The development of tourism is therefore constrained by the sustainable development strategy.
 26. Given the considerable sums of public expenditure allocated to tourism there is a case for examining how effective this expenditure is in fulfilling the economic aims of the PfG.
 27. As the cost of energy and its supply is critical to the competitiveness of NI, it is also a policy area that should be exposed to wider and deeper scrutiny. Congress agrees with the remarks of the Review Panel on the 2009 Strategic Energy Framework and particular its references to the Green New Deal. Quite properly the Green New Deal places emphasis on renewable energy. However the Strategic Energy Framework doe not pay sufficient attention to the barriers to renewables, such as access to the grid, high connection charges, differential charging and the dominance of incumbent providers.
 28. Congress does not share the confidence of the Review Panel that the Single Electricity Market (SEM) will deliver lower electricity prices. The SEM needs to be significantly revised if it is to realise its ambitions.
 29. Congress has made a separate submission to DETI covering all aspects of the Strategic Energy Framework.

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- 30.** Our analyses in the preceding paragraphs underline the importance of the Review Panel's recommendation that the NI Executive should, as a matter of urgency, agree an economic strategy. In addition to building on the findings of the Panel this strategy should encompass: -
- low productivity in agriculture, environment, construction, transport and distribution,
 - the high rate of economic inactivity,
 - the Green New Deal,
 - relating subsidies for training to new skills benefiting the wider community,
 - the cost and supply of energy and
 - the contribution of tourism to economic a goals.
- 31.** In short if we are to bring about a step change in economic performance Congress is calling for a new economic vision, which learns the lessons of the past and which strikes out boldly in a fresh direction.
- 32.** To hammer out a new economic vision a new process is necessary. The example given by the Review Panel's assessment of the effectiveness of DETI/INI policies has much to commend it. Therefore this methodology should be explored in relation to the issues identified in paragraph 30 above.
- 33.** As we indicated earlier in this response Congress believes we should concentrate on the implications of the Review Panel's recommendations for policy. We should not be diverted into an extensive debate about the recommendation for the merger of the economic functions of DETI and the Department for Employment and Learning (DEL) for the reasons detailed in the following paragraphs.
- 34.** The number and remit of Departments under the NI Executive lies at the heart of the Belfast/ Good Friday Agreement. Consequently it is a highly political issue and ultimately it is for the political parties to judge what format of departmental organization is likely to deliver a stable political solution.
- 35.** The economic functions of DETI and DEL were formerly brigaded together in the Department of Economic Development. There is no evidence that the former model or the current model, of themselves, made a significant impact in furthering economic development. We take a similar position on the proposal for a small business unit. Previously we had the Local Enterprise Development Unit, which was dedicated to the interests of small business. Only 7 years ago it was concluded that such a unit was no longer the best way to promote small businesses.

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36. If there were to be some merger of DETI and DEL, Congress would be concerned about the signal that its title would send out. In our opinion it should be known as the Department of the Economy and Employment, because from the perspective of public policy economic growth is the means to the end of more and better quality jobs.
 37. Moreover a departmental title embracing both the economy and employment would be more in line with PfG, which, while stressing productivity, also refers to skills and employment growth.
 38. There is also a need to harness the contribution that local councils can make to economic development.
 39. The Review Team recommends that the 3rd Investment Strategy for NI (ISNI) should take a much greater economic focus. In the shorter term there is a need to use not only ISNI, but also all public sector capital programmes to ease the problems of the construction industry and in particular the construction skills that are under-utilised. Therefore the re-profiling of ISNI should be more geared to labour intensive projects and especially those matching more closely the skills of unemployed construction employees.
 40. The proposal to abolish the Economic Development Forum should be considered in the context of roles of other bodies offering economic analysis and advice to the NI Executive, such as the Cross Sector Advisory Forum and Economic Research Institute for NI. Moreover if the NI Executive were to accept the Review Team's recommendation to set up a permanent sub-committee on the development and implementation of economic strategy, it would be crucial that there should be a body, representative of the social partners, to proffer advice to the sub-committee. Bilaterals with the Minister for Enterprise, Trade and Investment would be unequal to this task.
 41. Congress is concerned about the Review Team's proposal for a small advisory body comprised of experts from business and economics. In a small community such as Northern Ireland most experts have connections with companies and organizations so as to undermine the independence of such a body. This is well illustrated in the case of INI Board (see paragraph 15 above). Many in the economic community have links with financial institutions that have not served us well. The members of such a body should be selected not only for internationally recognized expertise, but also for their independence from government and commercial interests. As indicated in paragraph 32 above an alternative would be to have expert panels such as the Barnett Review Panel assess the effectiveness of various elements of economic policy.

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