

OCCASIONAL PAPER
**THE NORTHERN IRELAND
LABOUR MARKET 1977-2007:
THEN, TODAY AND TOMORROW**
Mike Smyth, University of Ulster



Labour Relations

A G E N C Y

Improving Employment Relations

CONTENTS

	<i>Page</i>
1	
Introductory Comments	2
Economic Effects of Violence	3
Impact on Tourism	5
Impact on the Labour Market	7
2	
The Labour Market in 1976 and 2006	7
3	
The Labour Market in 2006: On the Right Trajectory?	8
4	
What kind of Labour Market in the Future?	10

1. Introductory Comments

I would like to thank the Labour Relations Agency and its Chairman, Pat McCartan in particular for the invitation to give this year's Brendan Harkin Memorial Lecture. I am honoured to be here this evening to celebrate more than 30 years of the Agency's contribution to economic and social cohesion in Northern Ireland. I have been given a brief for this lecture – namely to look back at the conditions in the labour market in 1976, to compare them with today's labour market; to survey the current state of our regional labour market; and to peer through the glass darkly to try to see where the labour market might be in ten years' time. Let me say at the outset that I see the labour market as being synonymous with the economy in the true Keynesian tradition. As a small peripheral region of the United Kingdom, Northern Ireland's economy *is* its labour market. Indeed most of our developmental public policies – education, economic development, employment and learning, housing, roads and transport – to feed and facilitate the more effective out workings of the labour market.

It follows from this assertion that the region's labour market will be influenced by the institutions and governance structures of the day. In the case of Northern Ireland it is also conditioned by the continued absence of political consensus, some 35 years or more since the onset of "The Troubles".

When I looked back at the mid-1970s in preparation for the first strand of tonight's lecture I felt that the conditions of the Northern Ireland labour market in 1976 had to be set in the context of the "events of the day".

1976 was a very difficult and turbulent year. Statistically it was the second worst year of the troubles, recording 297 deaths due to terrorism, 2,729 injuries, 1,908 shootings, 766 bomb explosions, 426 bombs being defused and nearly 10 tonnes of explosives being found.

It was also a turbulent year elsewhere, and I have been struck by the number of similarities and symmetries between events in 1976 and contemporary events. For example contrast last Saturday's events in Croke Park with the assassination of the British Ambassador in South Dublin in July 1976. 1976 saw the ending of Special Category Status for prisoners and the start of the so-called "Blanket Protest" that led to the Hunger Strike. Contrast these with the recent endorsement of policing and justice by Sinn Fein.

In April 1976, a serving Labour Prime Minister, Harold Wilson, resigned and handed over the reins to his deputy James Callaghan. What goes around comes around!

The then Secretary of State Merlyn Rees closed the Constitutional Convention which was an attempt to resurrect power-sharing in March 1976. Contrast this with the St Andrew's Agreement and the recent Assembly elections. 1976 also saw the publication of: "Economic and Industrial Strategy for Northern Ireland" also known as the Quigley Report. For many commentators this remains one of the best economic strategy documents ever produced in Northern Ireland. It has stood the test of time. Contrast the 1976 Quigley Report with the recently published "Regional Economic Strategy" and weep. I do not wish to be gratuitously unkind but the RES does, at times, border on the absurd; for instance the Ministerial endorsement states that this strategy will "help to transform NI into a high value-added, highly skilled, innovative and enterprising economy", but the forecasts accompanying the strategy show that by 2015 Northern Ireland will still be at only 80.5% of average UK GVA per head!

1976 was also a big year for the current Secretary of State, Peter Hain, because during that year he stood trial at the Old Bailey on charges of bank robbery.

Against this unsettled background it is hardly surprising that the Northern Ireland labour market in 1976 was in profound disequilibrium. Recorded unemployment had reached 10% and was rising. The number of people in paid employment in mid-1976 was below 500,000 and falling. The only buoyancy in the labour market was in the public sector where employment was rising rapidly and stood at 179,000 or 36% of employment. The effects of a prolonged period of political instability were predictably in evidence – a lack of private sector investment, both indigenous and especially foreign direct investment (FDI). Comparisons are odious and it is pretty meaningless to compare the region's economic performance in 1976 with any other region because of the violence. The economics profession has been accused of many things by its detractors and it is probably fair to conclude that economists failed to factor in the deliberating effects of a divided society and the associated civil unrest in Northern Ireland. It is recognised that, as normal private sector investment activity dried up, the state became the default surrogate promoter of economic activity.

Economic Effects of Violence

To date there has been little, if any, research undertaken to analyse the effects of almost 30 years of political instability and terrorist violence on industrial development in Northern Ireland and in particular on foreign direct investment. Most of the published analysis of the economy of Northern Ireland by academic researchers, economic analysts and other commentators has eschewed formal analysis of the direct effects of terrorism on economic development. Economic development policy has implicitly acknowledged the impact of terrorism over the years by means of the relatively more generous investment incentives on offer in Northern Ireland compared to other parts of the United Kingdom. This is particularly so in terms of the attractive package of financial assistance offered to inward investors over the years. Comparisons of regional packages published by both PricewaterhouseCoopers and Andersen have

commented on the relatively more generous investment package offered in Northern Ireland¹. The Northern Ireland Economic Council (NIEC) also compared a number of European incentives packages and concluded that the range of incentives in Northern Ireland were generous compared with most other European regions². However, judged in terms of the levels of inward investment achieved in Northern Ireland over the past 30 years, this has still been inadequate to counterbalance the perceived risk profile of an investment in Northern Ireland.

Northern Ireland has experienced a range of different industrial development strategies over the past 30 years which have implicitly factored in consideration of civil unrest. With the onset of the troubles the private sector weakened, inward investment ebbed away and gradually the public sector became a surrogate for the private sector.

As has already been stated, the level of public financial support for industrial development is higher in Northern Ireland than in the other regions of the UK. The latest data from HM Treasury for the period from 1990 to 2005 are set out in Table 1:

Table 1: Expenditure on Enterprise and Economic Development

	Average Identifiable Public Expenditure per head (1990-2005) (UK identifiable expenditure = 100)			
	England	Scotland	Wales	Northern Ireland
Enterprise & Economic Development	87	116	187	291

Source: Public Expenditure Statistical Analysis, 2004-05
HM Treasury (the Grey Book)

Northern Ireland spent nearly three times as much per capita on industrial development than the UK average over the period. It can be argued that Northern Ireland firms received larger amounts of public financial assistance than those in other regions and that they therefore tended to be less dependent on private sector risk capital and more dependent on state support.

¹ "Sources of Grants and Aid for Businesses in Northern Ireland". PricewaterhouseCoopers, Belfast 1996.

² NIEC (1990) *The Industrial Development Board for Northern Ireland: Selective Financial Assistance and Industrial Development Policy*, Report 79, February.

It is probably fair to suggest that the relatively more generous support package for indigenous industrial development in Northern Ireland compensated effectively for the negative impact of terrorism and societal division.

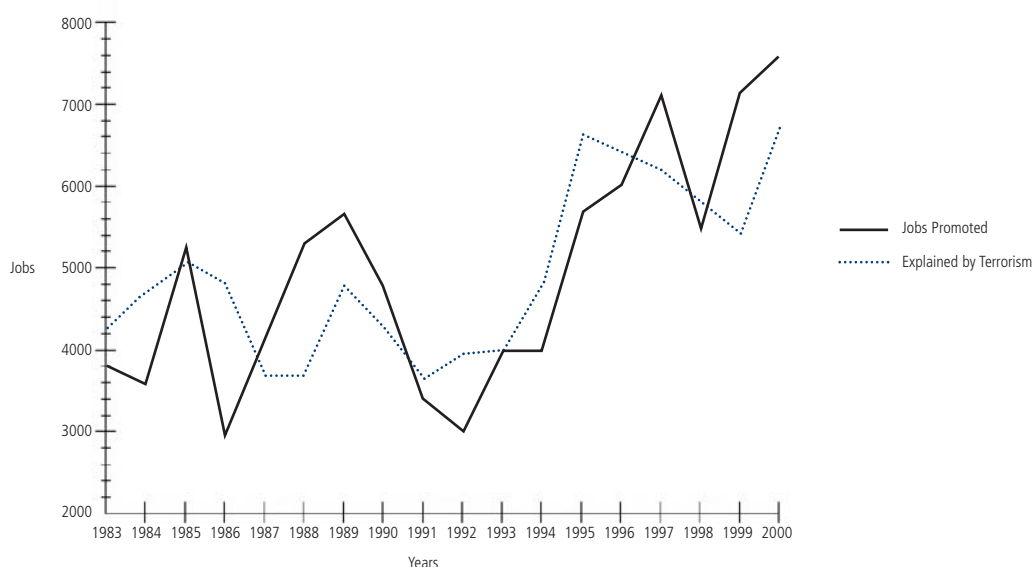
In terms of direct impact on Northern Ireland employment, terrorist violence aimed at the disruption of business rarely led to the permanent closure of enterprises and a loss of jobs³. Its indirect effects however were much more insidious. It was possible to formulate an analytical model that explains variation in the level of industrial development employment creation in Northern Ireland in terms of variation in the level of terrorist violence. The extent of terrorism can be measured in a number of ways such as by the number of shooting incidents, deaths due to terrorism, bombings and other terrorism-related injuries. Various formulations of the model were estimated using these alternative metrics of terrorist activity. Given the seriousness of terrorist incidents resulting in deaths and their relatively larger impact on press and other media coverage of the troubles, it is not surprising that the most effective explanatory variable was deaths due to terrorism. Using annual data from 1983 to 2000 on job promotion and the number of deaths due

to terrorist activity in Northern Ireland this analytical model was estimated econometrically. The results are statistically robust and suggest that fluctuations in terrorist violence explain 53% of the variation in job promotion. Figure 1 sets out the level of jobs promoted as explained by the model.

On its own, this provides empirical evidence that headline-grabbing terrorist incidents (associated with deaths) seem to have a systematic dampening effect on Northern Ireland's industrial development performance. Furthermore over time periodic bouts of terrorist violence and political instability also have cumulative effects on economic development in Northern Ireland. One of these cumulative effects has been the requirement for Government intervention to support industrial investment activity, supplanting more traditional market-provided forms of finance. This has, in turn, created a relative dependence by Northern Ireland businesses on grant assistance from the public purse.

The implications of the estimated model are that on average each death that resulted from terrorist activity was associated with a reduction of 35.6 in industrial development jobs promoted. On an historical basis

Figure 1: Relationship between Job Promotion and Terrorism



³ Fothergill and Guy (1990) studied the number of branch factory closures in Northern Ireland during the 1980s and concluded that the troubles did not cause a substantial number of plant closures.

approximately 75% of job promotions convert into jobs on the ground in Northern Ireland. Jobs promoted were converted using this factor and over the 1983 to 2000 period this represented a job loss of 27,600 equivalent to a loss in GVA of £173.25 million. When the full indirect and induced effects of these job losses on the NI economy are taken into account, the total GVA loss rises to just over £225 million.

Impact on Tourism

Political instability and civil unrest also took a severe toll on tourism activity. In most developed economies tourism may be seen as an indicator of confidence and the ability of the region or nation to market itself externally to foreign visitors and also to appeal to a proportion of the indigenous population as an attractive source of cultural, sporting and leisure activities. This description applied to Northern Ireland in the decade or so before the outbreak of the Troubles and can be seen in Figure 2 below. The volume of tourist visits to Northern Ireland exceeded one million per annum during the latter years of the 1960s. By 1972, however, tourist visits had fallen by over 60% and the one million mark was not breached for another 17 years.

The sharp decline in tourism activity in Northern Ireland during the 1970s and 1980s can be explained to a large extent by the

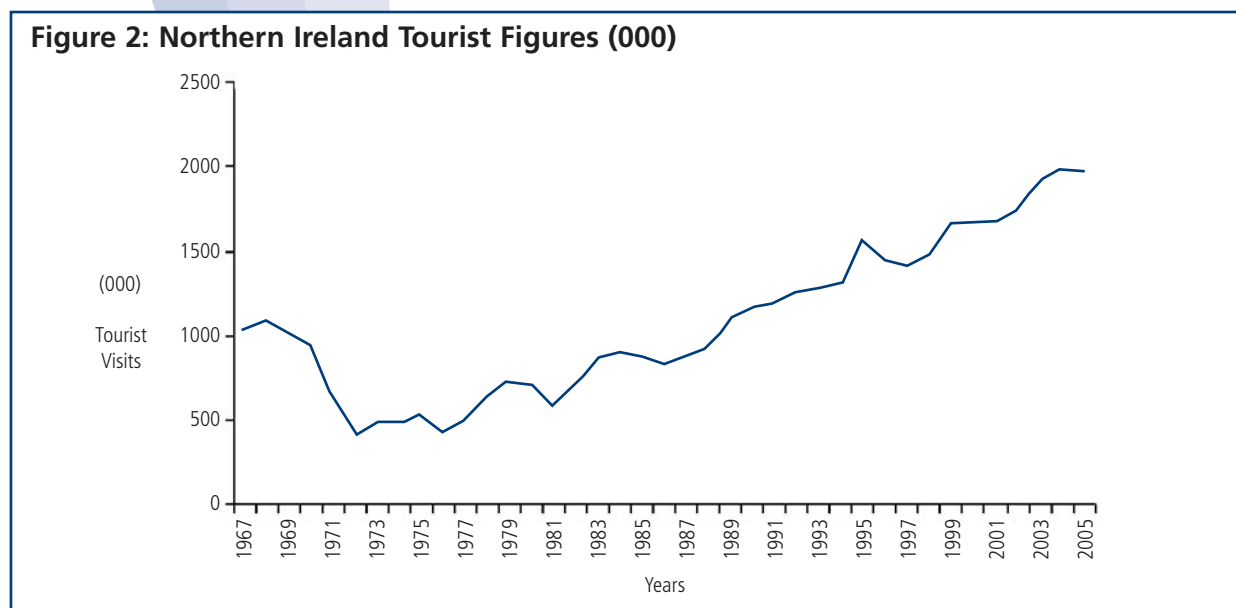
ongoing effects of terrorist violence, political instability and the associated societal divisions. The linkage between terrorism and tourism has been observed elsewhere. For example the Bali bombing in Indonesia, the sporadic targeting of tourists in Egypt and Israel have undermined confidence in these regions that are, to varying degrees, dependent on tourism revenues.

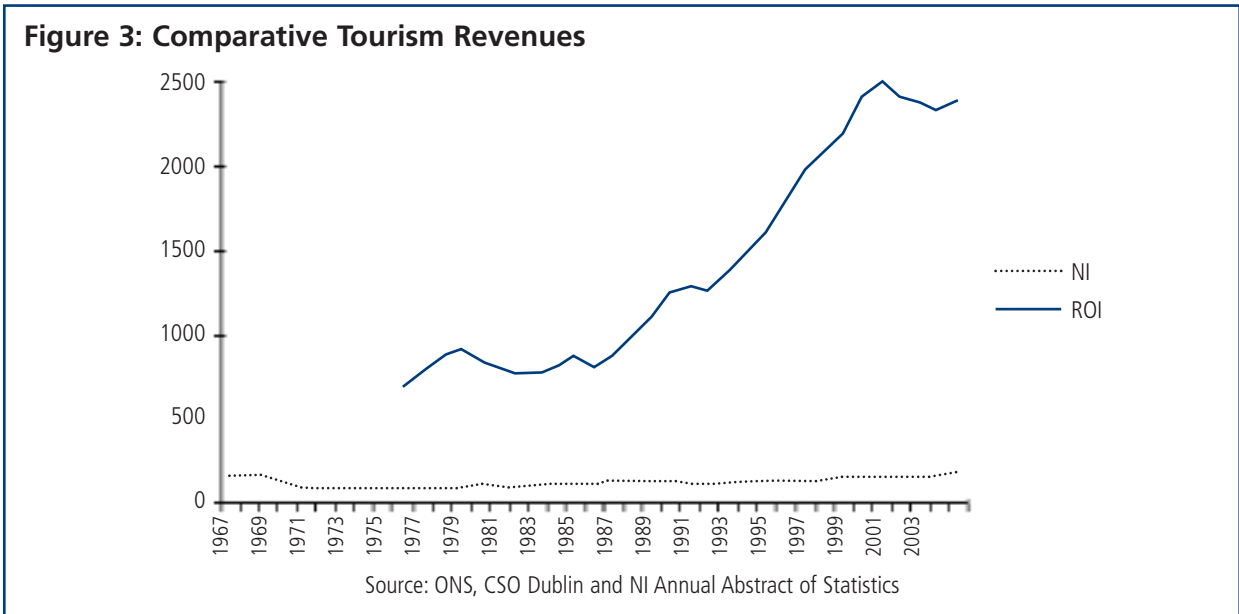
Figure 3 shows the comparative trends in tourism expenditures between Northern Ireland and the Republic of Ireland over the past 40 years and the divergence in performance is striking.

In the aftermath of the mid-1990s terrorist ceasefires which led to the negotiation of the Belfast Agreement, a revival of Northern Ireland tourism was anticipated as part of the so-called peace dividend. The CBI in Northern Ireland ventured to suggest that if the Northern Ireland tourism industry could be grown to a comparable level with tourism in the Republic of Ireland up to 50,000 additional jobs could be created. This was an explicit affirmation that the troubles had seriously retarded tourism activity.

Tourism is significant with regard to being an engine of economic growth for two reasons. First of all in a region such as Northern Ireland, tourism revenues that derive from visitors from outside the region constitute a tradable service

Figure 2: Northern Ireland Tourist Figures (000)



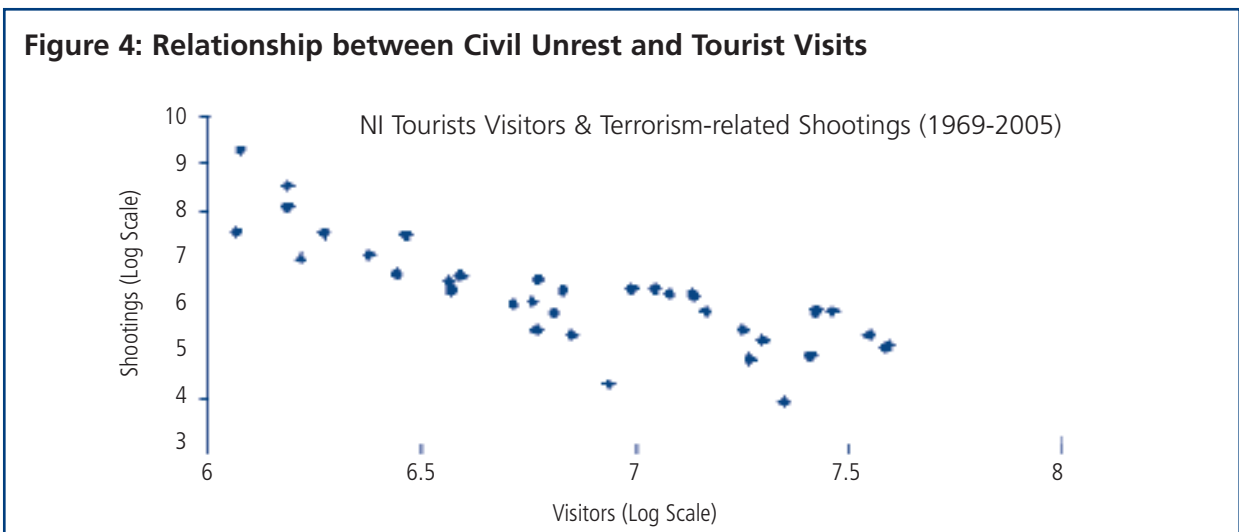


and are logically the same as manufactured exports. For Northern Ireland the only sustainable economic development strategy in the longer term is growth that is export led. Tourism can play a major role in such export-led growth. In addition, tourism employment tends to be better spatially distributed than many other types of employment. Areas of Outstanding Natural Beauty, inland and coastal waterways, sporting activities such as angling, golf and other cultural and leisure tourism offerings tend to be relatively evenly distributed spatially.

As in other public policy areas, the tourism policy response to ongoing terrorist violence in Northern Ireland and lack of private sector

tourism investment was prompted by market failure arguments. Successive EU Structural Fund Programmes from 1989-93 and 1994-99 justified public investment in tourism accommodation, tourism venues and tourism training on the grounds of market failure.

The relationship between civil unrest, as proxied by the number of shooting incidents, and tourist visits to Northern Ireland is depicted in Figure 4. There is a clear inverse relationship between terrorism resulting from societal divisions and tourist activity over the last 37 years. This relationship is systematically depicted causally in Figure 4 which shows how variation in terrorist-related shootings links to variation in tourist visits in Northern Ireland.



Impact on the Labour Market

Over the past 40 years in Northern Ireland labour market outcomes have been viewed variously as accurate indicators of societal division, as evidence of religious discrimination and of the abuse of political hegemony. Differences in sectarian economic activity and unemployment rates have been used by politicians, political activists, community and voluntary organisations to support their respective claims for differential treatment. The introduction of fair employment legislation, institutions and policies represent a conscious effort to address perceived and actual inequalities within the labour market.

A review of the relevant empirical research on the impact of fair employment in Northern Ireland reveals a number of important findings. In particular the comprehensive study by Osborne and Shuttleworth (2004) makes four evidence-based assertions:

Since the early 1990s:

- there has been significant progress towards the equalisation of employment and employment opportunities across the communities. This equalisation has occurred quite evenly across both the public and private sectors;
- religious differences in Northern Ireland are having less and less effect on the social progress of individuals;
- levels of educational qualifications in the two communities have almost converged; and
- there is increasing evidence of normalisation in labour market outcomes and of recruitment on the basis of merit.

These findings are supported by other research which also uncovered a relative decline in social disadvantage between the two communities.

Insofar as unequal labour market outcomes in the past contributed to civil unrest and

political violence then their political and economic impacts have been considerable. There is little evidence that labour market segmentation contributed directly to relatively slower economic growth in Northern Ireland; rather its effect has been indirect and linked to the causes of political instability and terrorist violence. The economic effects of terrorist violence have already been estimated in terms of deterred tourism and industrial development.

2. The Labour Market in 1976 and 2006

The bare facts of the labour market in 1976 and 2006 are these:

(i) Employment. Between 1976 and 2006, total employees in employment have risen from 496,000 to 704,000 and the share of female employment has jumped from 40.5% to 51.5%. This rise in female employment reflects a similar shift across the UK over the same 30-year period. Manufacturing employment has shrunk from 147,000 to 85,000 whereas service sector employment has almost doubled from 295,000 to 562,000. Manufacturing jobs have fallen by 42% in Northern Ireland compared with a 54% decline across the UK.

Table 3: Employment Then and Now (000s)

	1976	(%)	2006	(%)
Males	294.7	59.5	341.3	48.5
Females	201.0	40.5	363.1	51.5
Total Employment	495.7		704.4	

Source: DETI, NI Digest of Statistics.

Table 4: Sectoral Employment Then and Now (000s)

	1976	%	2006	%
Manufacturing	147.2	29.7	85.3	12.1
Agriculture & Extraction	13.3	2.7	14.5	2.1
Construction	39.9	8.0	39.5	5.6
Total Services	295.3	59.6	562.4	79.8
Public Services	179.0	36.1	220.2	31.3
Private Services	116.3	23.5	342.2	48.5

Source: DETI, NI Digest of Statistics.

(ii) Unemployment. It is difficult to compare unemployment between 1976 and 2006 because of the myriad definitional changes that have taken place. An approximate comparison can be made using the International Labour Office definition figures for 2006 and this is set out in Table 5. Given that the ILO definition is almost certainly an underestimate of the true number of people available for employment and that so-called active labour market policies such as New Deal have taken thousands off the unemployed register, the comparison is rendered almost useless. It is fair to say, however, that, at 4.2% the Northern Ireland labour market is very light at present and I shall return to this point later.

Table 5: Unemployment Then and Now (000s)

	1976	%	2006	%
Males	37.1	11.2	21.0	4.7
Females	16.9	7.8	13.0	3.6
Total	54.0	9.8	34.0	4.2

Source: DETI, NI Digest of Statistics.

(iii) Earnings and Hours. Average nominal earnings for both males and females have risen substantially since 1976. In real terms, male average earnings rose by 27% between 1976 and 2006 but average female real earnings rose by 70.9% over the period. While female earnings have remained close to the national average, male earnings have declined from 95.5% to 87% of the UK average. The gradual displacement of (mainly) male unskilled and semi-skilled workers continues. In terms of average hours worked, for males hours declined by 10.7% from 43.7 hours to 39 hours per week and for females there has been a 15.2% decline from 38.2 hours to 32.4 hours per week, roughly in line with the national trend.

Table 6: Average Weekly Earnings: Then and Now

	1976			2006		
	Current Prices	Constant 1985 prices	NI/UK	Current Prices	Constant 1985 prices	NI/UK
Males	£66.92	£158.95	95.5	£422.90	£202.05	87.0
Females	£44.55	£105.82	99.4	£378.50	£180.84	98.0

Source: New Earnings Survey, Annual Survey of Hours and Earnings

Table 7: Average Weekly Hours Worked Then and Now

	1976	2006
Males	43.7	39.0
Females	38.2	32.4

Source: New Earnings Survey, Annual Survey of Hours and Earnings

(iv) Self Employment. The number of self-employed persons has grown steadily from 74,400 in 1976 to 123,700 in 2006. Within this total the proportion of female self-employed has more than doubled from 7.8% to 17.3%. The comparison between 1976 and 2006 suggests that in overall terms, labour market active participants are better paid and work less hours on average. The comparison also underlines the profound changes that have taken place in the industrial structure here over the past 30 years.

Table 8: Self Employment Then and Now (000s)

	1976	%	2006	%
Males	68.6	92.2	99.5	80.9
Females	5.8	7.8	23.5	19.1
Total	74.4		123.0	

Source: DETI, NI Digest of Statistics.

3. The Labour Market in 2006: On the Right Trajectory?

By comparison with 1976, one may conclude that the local labour market is in much better shape over all in 2006. There are, however, several countervailing factors. Chief among these is the relatively high level of economically inactive in Northern Ireland. The rate of economic inactivity in Northern Ireland is over 27% compared with a national rate of 21%. This higher rate is explained by higher numbers of economically inactive students, people with family or domestic commitments and those who are inactive due to sickness or disability:

- The inactive student numbers are higher here because a smaller proportion have casual jobs than in GB (21% v 38%);
- The higher proportion of inactive due to family or domestic commitments has been falling slowly and is one of the targets of

proposed reforms to the welfare system. For instance NI has a higher share of lone parent households than the UK average (15.4% v 13.5%);

- The higher proportion of inactive due to sickness or disability in NI is not the highest in the UK. At 9.1% of the working age population it is lower than the North East (10.3%) and Wales (9.4%). The proportion on Incapacity Benefit in NI in 2005 was 10.7%, compared with 10.8% in Wales, 10.2% in the North East and 6.9% for the whole of GB. Reforms of the rules surrounding IB and other benefits were piloted in Peter Hain's constituency in 2006 and are currently being piloted in NI. Early indications are that they have been effective in some locations but not in others.

What can be said about Northern Ireland's position in 2006? Where are we within the monetary and fiscal union of the United Kingdom and where are we relative to our neighbouring labour market/economy on this island?

For much of the late 1980s and early to mid-1990s Northern Ireland was either the fastest or one of the fastest growing regions of the UK, closing the income per head gap from 76.6% in 1989 to 81% by 1995. Since 1995 we have slipped backwards to just over 80% of average UK income per head. Our lower average living standard is attributable to lower wages and lower productivity. Northern Ireland has the lowest average level of productivity as measured by GVA per capita of any UK region. Average household incomes here are 14% lower than the UK average and 30% lower than the level of London and the South East.

Northern Ireland has a dearth of businesses in the higher productivity sectors, especially in financial and business services. The private sector economy is dominated by small or very small businesses – in agriculture, construction, retailing and business services and these tend to be associated with lower productivity. Financial and business services play a prominent role in determining productivity

and wage levels in developed economies. Within the UK, these regions with large financial and business service sectors tend to have the highest productivity (as measured by GVA per head). Northern Ireland has the lowest proportion of employment in these sectors (8%) compared with the UK average (15%) and with London (26%) and the South East (18%).

On the positive side, the arrival of Citygroup is very welcome and may be the vanguard of further financial services investment in the Province. Let us hope so.

Without significant further growth in sectors such as financial and business services, Northern Ireland will struggle to close the productivity, wage and living standard gaps with GB.

If the phenomenon termed the Celtic Tiger had not happened then Northern Ireland's relative position within the British Isles would be less problematical. At around 80% of average UK GVA per head, it might be possible to make progress towards closing this gap. The Republic's economy has been transformed over the past 20 years or so into a mature, wealthy, advanced economy. The debate still rages about the exact causes or success factors in the Celtic Tiger transformation. Foreign direct investment (FDI) lies at the core of this transformation although other factors such as EU membership and Structural Funds, the performance of the education and vocational training systems that are highly integrated with an FDI-oriented development strategy, the telecoms infrastructure, an effective framework of national pay agreements based upon the social partnership model were also crucial. On the question of the relative importance of a low rate of corporation tax, an interesting counterfactual is to ask what levels of FDI the Republic would have attracted *without* its low corporate tax regime.

Northern Ireland is in a uniquely asymmetrical position within the UK. It has no land frontier with the rest of the kingdom but it does have

a land border with the eurozone. The Republic is one of the wealthiest, fastest-growing economies in the developed world. We suffer a number of tax distortions because of this. Lower fuel duties in the Republic of Ireland contribute a loss of £120m+ per annum. Northern Ireland has had to fight tooth and nail against the absurdity that is the aggregates tax and of course we labour with our lack of competitiveness in terms of corporation tax. How bad is this? To some extent it could be argued that the opportunity cost to Northern Ireland of political instability and lack of FDI competitiveness over the past 30 years can be seen in the remarkable industrial development performance of the Republic of Ireland.

To illustrate, at least 23 of the Fortune 100 top North American companies have major investments and operations in the Republic of Ireland. There are just 3 represented to any significant degree in Northern Ireland (Allstate, DuPont and Citigroup). It is difficult to envisage this situation changing in our favour any time soon, without some serious structural changes to our FDI "offering". In the meantime, according to the latest research from the Economist Intelligence Unit and the Columbia Programme on International Investment, the Republic is forecast to receive (over the 2006-2010 period) around \$20 billion per annum of FDI making it the 15th most important recipient of FDI (on a par with Russia). The UK is forecast to average \$90 billion per annum over the same period and is the second largest FDI beneficiary.

4. What Kind of Labour Market in the Future?

Hitherto, much of the buoyancy in the Northern Ireland economy has derived from healthy annual growth in real public expenditure. Public spending growth underpins employment right across the public and private sectors; it maintains living standards, whether we like it or not. The days of significant growth in real public expenditure are over.

Spending on health and education has been lifted, as promised by New Labour, up close to average EU levels per head of population. The public finances demand a period of public expenditure growth restraint at least to below the overall economic growth rate. In July of this year the Comprehensive Spending Review will set the pattern of public expenditure growth for the next 5 years and it will make grim reading for Northern Ireland. The Programme for Government Committee was told unofficially that we can expect perhaps an annual average rate of growth of about 1% above inflation – far lower than for 2 decades.

It is possible, of course, that this is just what our economy needs but this is difficult to envisage. Coming on top of water charges, higher domestic rates and the ending of industrial de-rating, the CSR will be devastating. In the absence of some additional structural policy charges resulting from a final political settlement and the complete restoration of devolved government, our local politicians will be confronted with unambiguously bad economic news and gut-wrenchingly difficult decisions about spending priorities.

Over the past six months I have been privileged to act along with Graham Gudgin as economic adviser to the Preparation/ Programme for Government Committee. Our politicians developed something of a consensus view on the challenges facing the Northern Ireland economy/labour market. They recognise the need for a step change in our economic performance and they agreed that the policy status quo is simply not, "Fit for Purpose". Furthermore all parties recognise that, without significant strengthening of the economic policy armoury, there is little likelihood of achieving an improvement in living standards over the medium term. As the Director of ERINI put it in his written and oral evidence to the Committee: "Continuing to do what we have always done will by and large produce the results that we have always achieved". It is clear that on present

performance there is no prospect of the Northern Ireland economy making significant progress in converging with the average in the UK, never mind with the Republic of Ireland in the lifetime of anyone present.

How might Northern Ireland's labour market be transformed over a politically acceptable time period? I am firmly of the view that this can be greatly assisted by a competitive corporation regime. I have already referred to the huge economic distortions on this island due to tax differences and the biggest by far is the corporation tax distortion. I will happily argue the case for a competitive corporation tax regime with anyone present, having already debated it extensively within the Programme for Government Committee and with officials from HM Treasury. The intellectual argument for a competitive rate has been won; likewise the research report published by ERINI has proved the business case (using very conservative assumptions). Opponents of lower corporation tax play down its role in the success of the Republic of Ireland economy preferring to emphasise the roles played by effective wage concordats between employers, unions and government and a responsive labour supply/ education and training systems. I recognise these arguments but for reasons already discussed. I believe that they were necessary but not sufficient conditions to explain the Celtic Tiger.

The Programme for Government came to the collective view that a competitive corporate tax regime for Northern Ireland has the potential to contribute to a more rapid closing of the wealth and productivity gaps with Great Britain. But the Committee also underlined the need for a more effective vocational training and skills response if more high value added FDI was attracted.

The original advocate of a competitive corporate tax strategy, Sir George Quigley, has called it just about correctly all along. He believes that Northern Ireland now has a once in a lifetime chance to bring about a levelling of the FDI playing field on this island. Over the next weeks (and perhaps months) a final political settlement will be negotiated. On the one hand we have a Prime Minister exiting office and anxious to establish a political legacy. Foreign policy success is not achievable (unless you categorise an NI settlement as "foreign policy"!!). Northern Ireland is his best chance of a major policy success. Having argued with the Treasury about this issue, I do not believe that this is fundamentally an economic (and therefore a Treasury) decision. Tony Blair can concede the tax derogation to Northern Ireland. Is he prepared to negotiate on this? Time will tell. Are our political leaders prepared to make a competitive corporate tax regime a "deal breaker"? Some parties – Alliance, UUP and Sinn Fein, while recognising its importance – are not prepared to go to the limit to achieve it. There is hope that enough of the senior cadre of the DUP will go into battle on this issue. There is really nothing to lose. The Treasury's offer on the table is pathetic, inadequate for our needs and ultimately a further proof of just how inflexible the Treasury can be and how bereft of policy ideas this Government has become.

Northern Ireland's economy and labour market are in a very real sense at a developmental crossroads. We can either go sideways and remain stuck at a structured distance from the rest of the UK and even further from our neighbours to the south or we can move forwards, taking greater responsibility for our economic future and begin to improve the life chances of everyone in the labour market. We may never get an opportunity like this again.

HEAD OFFICE

Labour Relations Agency
2-8 Gordon Street
Belfast, BT1 2LG

Tel: 028 9032 1442

Fax: 028 9033 0827

TDD (Textphone): 028 9023 8411

Email: info@lra.org.uk

Website: www.lra.org.uk

REGIONAL OFFICE

Labour Relations Agency
1-3 Guildhall Street
Londonderry, BT48 6BB

Tel: 028 7126 9639

Fax: 028 7126 7729

Email: info@lra.org.uk

Website: www.lra.org.uk

ISBN 1-904401-21-X