

# Let's not waste a good crisis

## Creating the conditions for economic growth

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### Background and context

The Programme for Government, with its focus on growing the economy and modernising the delivery of high quality public services, provided the backdrop to an ongoing series of meetings that represent a corporate partnership between the Chief Executives' Forum (CEF) and PricewaterhouseCoopers (PwC). Against the background of financial turbulence and recession and facing the prospect of tighter public finances, some 20 public sector leaders and experts, drawn together by the CEF and PwC, considered the implications for the Northern Ireland economy. This article summarises some of the key points arising. It raises a series of points of potential interest to readers of the Bulletin as well as the wider policy community,

The economy discussion will inform future CEF/ PwC joint events.

### What others are doing

Setting the scene for a wide-ranging discussion, Brendan Keenan, Group Business Editor for the Irish Independent, reviewed the Irish response to the international financial crisis and the impact on the Irish economy; Philip McDonagh, chief economist with PwC in Northern Ireland, then reflected on the UK response and the state of the public finances. Commenting on the nature and scale of the crisis in Republic of Ireland, Brendan Keenan pointed to a scenario of higher taxation and cuts in public expenditure in real terms, and to the policy framework for positive action encapsulated in the 'six steps to reboot the Irish economy' statement. He summarised these as a recipe for survival, stabilisation, rebuilding international confidence and growth. Philip McDonagh reflected on the local economy and noted as a constraint the more limited range of economic levers available to the Northern Ireland Executive. He explored where recovery might come from, how UK fiscal policy might impact upon regional expenditure and what the public sector might do to meet these challenges, supported by a study of best practice elsewhere.

## Themes

Following on from these presentations, discussions developed around a number of themes. These included the need to boost confidence and encourage a culture of self-belief and self-reliance within the region. Among points offered in this regard were:

- The sovereign Government in the Republic of Ireland must accept full responsibility for policing their economic crisis and drive political consensus to get the best outcome for the nation. As Northern Ireland is a region of the UK with less extensive fiscal and policymaking autonomy, the Executive uses the levers available to it but must also rely on economic policy and budgetary action by the UK Government.
- Partly because of the benefits of UK membership, it is often difficult for the Northern Ireland system to challenge UK policy effectively, while the Republic of Ireland has more scope to challenge established international convention.
- Scotland's Calman Commission is challenging Barnett, but offering the potential for fiscal flexibility. This could facilitate greater self-determination for Northern Ireland, but is there a political will/consensus to embrace the fiscal opportunity (and the fiscal threat) proposed by Calman?
- Northern Ireland needs to operate effectively, flexibly and shrewdly as a small region within the UK and Europe, taking advantage of niche opportunities;
- 'Moving Northern Ireland PLC beyond dependency,' is a theme that should underpin future policy, but opportunities to create a confident, competitive, externally-focused regional economy will only become reality if they are grasped.

## Addressing Challenges

Reflecting on the nature of Northern Ireland's devolved administration, it was noted that the way forward would depend in large part on the extent to which effective action could be determined locally or flexed within broader economic policy nationally. It was suggested that:

- The Northern Ireland system faces a number of constraints in its attempts to create consensus around radical thinking and policymaking, with an electorate where there is a tradition of voting for party, not policy. Moreover, the awareness that the powers

available to regional administrations are somewhat limited may reduce the propensity to exercise to the fullest extent the powers that exist.

- There are contrasts with the Republic of Ireland and even with Scotland and Wales where political and electoral pressures have moved politicians out of their comfort zone. The Northern Ireland system may be perceived by some as relying on Westminster to come through for Northern Ireland, despite warning signs of a marked deterioration in public finances;
- There are models of sub-regional/devolved behaviours that are challenging, radical and self-confident. The NI system should seek consensus for change.
- There is a need to identify and develop additional sources of funding to support infrastructure, through innovative/radical finance options.
- The priority in the Republic of Ireland is delivering more services with less money, with its electorate unforgiving in demanding no significant reduction in service delivery. The Northern Ireland electorate doesn't hold political parties to account in the same way. Some commentators have argued that it is difficult to build consensus around policy positions involving hard choices.
- Northern Ireland's status as a UK region may limit the scope for innovative approaches to fiscal policy; and this may be perceived as NI externalising the challenge (e.g. by postponing the introduction of water charges, holding down rates and retaining some state assets).
- Treasury/Chancellor will reframe public expenditure in the current economic/public borrowing situation and this will inevitably raise the issue of Barnett vs a 'needs-based' formula through which Treasury will seek to reduce the Northern Ireland block grant.
- An estimated 317,000 people of working age (29%) are economically inactive. The equivalent percentage for the UK as a whole is 21% (rounded) with the North East and Wales, each on 24%, being the next highest regions. A focus on converting an underclass of socially and educationally disadvantaged to become net contributors to the economy will encourage social inclusion and reduce expenditure on social and health services. Such an holistic approach, while requiring greater investment in literacy and

numeracy at an earlier stage, will reduced later-life dependency and contribute to building a skill base for the future of the Northern Ireland economy.

- There is a belief that others (such as the Republic of Ireland, Singapore, Oregon, and Scotland) are solving their problems innovatively, through models that bear close examination in the Northern Ireland context.

#### Building on strengths

Building political consensus, involving the electorate, engaging with the community, creating a civic debate, building confidence in ourselves, engaging excluded groups, reviewing the Barnett formula are important. There needs to be a series of 'big conversations' with stakeholders about how we are going to live in the new landscape with less public money. There is a need to build on the Programme for Government, perhaps to develop something like Scotland's six targets, around which each public agency and the economic sector can align itself. What is required is an holistic, robust and cross-cutting economic strategy based on a careful analysis of our strengths and a breaking down of the barriers that inhibit cross-sectoral working. We also need to find ways of looking outside ourselves and connecting with key people around the world.

#### The Way Ahead

The task for policymakers and everyone else in Northern Ireland is to continue, intensify and develop new policies and programmes aimed at growth and investment. Public and consumer spending are unlikely to drive future growth. We need to continue and intensify our efforts to promoting growth based on investment and export: investment in infrastructure and in brainpower and skills; exports fuelled by research and development and the value added by creative minds and innovative technologies.

We need to recognise that Northern Ireland plc has significant scope to improve its economic performance. Government as a key actor must demonstrate a willingness to change - to take difficult decisions and bring people together in a coherent way to reach a consensus on the real cuts in public expenditure that seem to lie just around the corner. The public sector can lay the foundations, the infrastructure for growing the economy, but questions posed by Varney II; water and rates charges; the continuing application of the Barnett Formula; and the efficiency of the machinery of government require early action. In the end however it is to a confident, vibrant, entrepreneurial private sector to which we must look to create wealth and a more prosperous Northern Ireland.

We need to focus our resources and efforts on what we as a region are good at - identify what to invest in. Northern Ireland can support a quality of life that could be and perhaps in some respects is the envy of the world. The Green economy could contribute to economic growth, cost reduction and investment, but new ideas will require cross-party support. Incentives for foreign direct investors to use Northern Ireland as a base for green R&D could stimulate investment and attract foreign investment in a declining market. As with funding the future, the Green Economy has great attractions, but hard policy analysis and appraisal is needed that will persuade both politicians and investors.

#### Summary and conclusions

Difficult times lie ahead and there are no easy policy choices or fiscal choices. Nevertheless there are choices to be made about how best we can rebalance our economy and thereby look to leverage growth. The Republic of Ireland has, by force of economic circumstances, come up with a radical fiscal agenda that it is working its way through in face of acute political difficulties. The spectre of real cuts in public expenditure challenges policymakers here to reframe the agenda and provide policy options that the Executive can determine locally or look to influence nationally. Such policy and political imperatives could include:

- Driving Public Sector Efficiency—delivering more for less in meeting rising citizen expectations with innovative affordable and sustainable service delivery solutions;
- Sweating the Assets—asset management, inside and outside government;
- The Green Economy—defining the economic and social benefits of a greener economy;
- Integrating Educational, Economic and Social Policy—can early interventions eliminate later-life disadvantage?

Addressing questions such as these will require the building of a political consensus—a consensus and that stretches the boundaries of the powers available to the Northern Ireland Executive. The debate should be about how we can invest in our strengths, our infrastructure, in research, development, brainpower and skills; engage the marginalised and disadvantaged and look to create the conditions where people believe it can happen and have the confidence it will.

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Editorial Note:

*This article draws together some of the key points arising from an ongoing series of meetings that represent a corporate partnership between the Chief Executives' Forum and PricewaterhouseCoopers.*

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