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Northern Ireland Economic Council

PRESS RELEASE

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The Chairman, Sir George Quigley, and the Director, Paul Gorecki, will be available for interview at 9.30 am on Monday 8 December 1997 at the Economic Council Offices, Bulloch House, 2 Linenhall Street, Belfast

THE 1997 UK BUDGET: IMPLICATIONS FOR NORTHERN IRELAND

Economic Objectives

The broadening by the Government of the central economic objective, explicitly putting employment alongside growth, and the introduction of concepts such as a fairer society, equality and trust signifies a new point of departure and is consistent with recent Council focus on the need to promote economic development rather than simply growth.

The Government's emphasis on economic stability is also particularly important for a small regional economy such as Northern Ireland. Stable macroeconomic conditions are more likely to result in smaller economic fluctuations and thus assist the development of the local economy

Main Tax and Benefit Changes

Taxes

The changes to the tax system can be broadly welcomed in Northern Ireland. The changes to small companies corporation tax and the reduction in VAT on fuel and power are particularly welcome. There is a risk, however, that failure to curb consumer spending may lead to even higher interest rates and a stronger pound, which would have disadvantages for the local manufacturing sector. A higher pound also reduces the value of receipts from the Common Agricultural Policy and from the Structural Funds, both of which are fixed in terms of ECU. To the extent, however, that our largest market for sales outside Northern Ireland is Great Britain we are protected from the vagaries of Sterling.

Benefits

There have only been minor adjustments to the benefits system but the Government has set up a new Task Force which will explore ways of streamlining and modernising the tax and benefits

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systems, so as to assist the Government to meet its objectives of promoting work incentives, reducing poverty and welfare dependency, and strengthening community and family life. The Task Force will focus on two issues in particular - reductions in benefit tapers and a tax credit for low paid employees. The abolition of poverty and unemployment traps was the subject of an NIEC report and we welcome the establishment of this Task Force.

Distributional Impact

Despite the fact that households will lose an average £1.31 per week, the Budget is more progressive than recent Budgets, particularly when the redistributive effect of the Welfare to Work Programme is taken into account.

In contrast to the 1995 and 1996 Budgets, 'job-rich' couples are the biggest losers in cash terms with a two earner couple with children losing £2.57 per week. In percentage terms 'no-earner' couples will lose most from the tax changes but they will also benefit most from the Welfare to Work programme and hopefully from the programme of benefit reform on which the Government has embarked.

Public Expenditure

The Council has argued for some time that the best way of helping the poorest in society is not only through the tax system but through benefit reform and active labour market policies. The 1997 Budget takes an important step in that direction with the introduction of the New Deal.

The New Deal for the Young and Long-Term Unemployed

Northern Ireland will receive £140m from the windfall tax as part of the New Deal for the young and long-term unemployed. This is a substantially higher share than would have resulted from the application of the Comparability formula by which adjustments to Northern Ireland Public Expenditure are normally effected and reflects the fact that the incidence of long-term unemployment is much higher in Northern Ireland than in the rest of the UK. Many of the details of the New Deal still have to be ironed out before April 1998, when it comes into effect. For example, safeguards will have to be introduced to prevent the New Deal leading to displacement of unsubsidised by subsidised workers. Furthermore, the relationship between New Deal and existing schemes such as the Community Work Programme, Action for Community Employment and Jobskills still remains to be clarified. Achieving a satisfactory resolution of all these issues is likely to prove a major challenge to policy makers.

The New Deal for Schools

The Government have allocated £1.3bn in total, of which Northern Ireland will receive £2.6m in 1997-98 and £7.8m in 1998-99, to be spent on buildings and equipment to make sure that school leavers have the skills to secure real and lasting jobs. This investment will be particularly welcome in Northern Ireland where the problem of low achievement is well recognised. Nevertheless, while welcome, it is clear that in order to resolve underachievement considerably more will need to be done than improve the quality of school buildings. This is an area in which the Council is presently conducting extensive research which it expects will make a significant contribution to resolving this difficult problem.

The New Deal for Lone Parents

The Chancellor announced new measures to help lone parents find and take work. The programe is to be piloted in several areas, with the full programme including Northern Ireland beginning in October 1998. The Council would like to have seen Northern Ireland included in the first tranche, given the scale of the problem locally.

Extra Resources

The extra cash for health will assist the local health service out of an impending cash crisis and help reduce waiting lists. The additional resources for education will allow much needed capital expenditure on schools, while any extra money that is made available for housing through the Capital Receipts Initiative should be diverted to tackling the growing "urgent need" waiting list.

Despite these additional resources public expenditure in Northern Ireland in 1997-98 is still expected to decline by more than the previous plans forecast (2 per cent compared to 1.5 per cent), because the Government has also raised its estimates for inflation. This confirms the Council in its view that the appropriateness of the Comparability formula as a means of regulating public expenditure in Northern Ireland should be reviewed.

The Comprehensive Spending Review

In its assessment of the 1996 UK Budget the Council called for a fundamental review of priorities overall within the Northern Ireland Block and within individual programmes. We therefore fully support the Government's decision to undertake a CSR of public expenditure and welcome the opportunity afforded us to comment on public expenditure priorities. Our main points are:-

- There should be further consideration of alternative institutional arrangements for oversight and delivery of services that takes into account the size of Northern Ireland, with the opportunity cost of different institutional structures an important consideration in the future form of governance of Northern Ireland;

- A common practice in business and increasingly in the public service is the use of benchmarking to measure how well a service is being delivered. This should be extended;

- Here, as in the rest of the UK, the Treasury requirement that programmes be evaluated and the results published should be fully met;

- The Council would like to see greater openness and transparency with regard to decision taking;

- Some regard to the revenue side of the equation would be useful in discussing expenditure priorities. The expenditure and revenue documents which both the Scottish Office and the Welsh Office publish should be replicated;

- To move to a position of self-sustaining economic growth, public expenditure needs to be focused less on short-term measures which compensate for inadequate economic performance and more on building a strong economic base in the medium to longer term. The Council therefore recommends public investment in:

  - human resource development both in the education and training systems;
  - technological development and the promotion of R&D; and,
  - infrastructure development in areas such as transport, energy and advanced telecommunications.

- Lesser priority would be attached to capital assistance to business unless it is related to technological development and the promotion of R&D.

Note to Editors: ***Any queries on the report should be made to Paul Gorecki, Director of the Economic Council, on (01232) 232125.***