

The Economic Future of Northern Ireland

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In case this rather ambitious title should raise any false hopes, I must explain at once that I am not an economist or in any way qualified to deal with the subject in a professional manner. It is true that I took a Degree in Economics 46 years ago, but since then I have been far too busy to follow more than very superficially the immense developments which have taken place in economic thought. I have, however, been in fairly close contact with the practical consequences of economic events. I was for 16 years director of the Federation of British Industries, for over 12 years a member of the Council of the International Chamber of Commerce, and more recently Minister of Commerce in this country. Such ideas as there may be in this paper are, therefore, those of a complete amateur, but of one who has seen a good deal of economic history being made during the past 40 years.

Obviously, the subject is too large for thorough or balanced treatment in a short paper. I have, therefore, tried to pick out the points which seem to me of most importance, which, in practice, I am afraid, only means those which happen to interest me most. These are :

1. The influence which our position in respect to raw material and fuel has had, and will have in future, on our economic development.
2. The possibility that the growing scarcity of foodstuffs in relation to the growth of population throughout the world may gradually alter the balance between agricultural and industrial production in favour of the agricultural countries.
3. The effect on Northern Ireland of a probable slowing up in the expansion of world trade, and a possible overall contraction.
4. The importance of increased capital to Ulster, and the difficulties which the Welfare State and its accompanying high taxation may cause in the accumulation of new capital.

In the first place, we should, I think, take a look at the present position.

Northern Ireland is blessed with a climate well adapted for agriculture, particularly for grass culture and live-stock production. Apart from this, it is singularly destitute of natural resources; there are no significant deposits of either ferrous or non-ferrous metals; there is, as far as we have so far ascertained, no worthwhile deposits of coal, and no oil; there is little timber and no serious sources of waterpower.

It is true that the geological survey was for some reason which I have never been able to ascertain in abeyance for nearly 70 years until it was started again by myself a few years ago, and it may be that modern techniques may disclose sources of industrial raw materials which have hitherto escaped notice, but so far this has not happened.

The industrial development of the province is, therefore, not based on the existence of cheap and convenient raw material or plentiful supplies of fuel but has depended largely on the ability and initiative of a few remarkable men, such as the cotton spinners who took the bold decision to switch to flax early in the 19th century, or the young Edward Harland.

Thanks to these men, and to a good supply of intelligent and adaptable labour which, in the early days, owing to the relatively low cost of living in a country with an exportable agricultural surplus, was also cheaper than that in many competing countries, we enjoyed a development of industry which was remarkable, especially in comparison with southern Ireland, where the same basic conditions existed.

But our lack of native raw material and fuel governed the type of industry which was developed. Transport costs were of far greater importance than in the more normal industrial country. Consequently, the tendency was to develop those industries in which the transport costs of raw material, fuel and finished goods were low in proportion to the value of the product.

Further, if raw material is imported from foreign sources and the end product sold in foreign markets, the costs of transport tend to be less unfavourable and this has given a further impetus to our dependence on overseas trade.

But an abnormal dependence on overseas markets and sources of supply has made our economy unstable with higher peaks and lower troughs than that of the United Kingdom as a whole. A world trade recession always meant severe unemployment in Ulster. Up till the 'twenties of this century, however, there were no very marked signs of the chronic unemployment which appeared between the wars. This freedom from a hard core of unemployment was, no doubt, partly due to the continued expansion of world trade, but probably mainly due to the fact that up till 1891 the population was decreasing, owing to the very heavy emigration, and only increased very slowly for some time after 1891. The population seeking employment, therefore, only began to increase appreciably about 1914, and for some years after that its effect was masked by the war and the immediate post-war boom.

Broadly speaking, therefore, we have two problems, instability leading to heavy unemployment in periods of bad world trade due to our over-dependence on overseas markets, and, more recently, an increasing volume of chronic unemployment even in periods of average trade. The probable cause of this second problem seems to be that industry in the last 30 years has not expanded in proportion to the increase in population, and this,

or so it seems to me, is simply another way of saying that we have been short of capital.

As soon as it was realised that there was a continuing problem, and not merely the cyclical movement to which we were accustomed, the first response was a deliberate attempt to diversify industry by the methods embodied in the Industries Development Acts.

While these were mainly recommended to the public and Parliament on the ground that industry should be diversified, and employment placed on a broader basis, and while this was a sound and adequate reason for the steps taken, those at least who drafted the post-war Act and had to administer it were fully aware that it was also a means for attracting new capital by using a moderate amount of public funds as a pump priming.

From both points of view the Acts were a success: a considerable variety was introduced into our industrial structure, and a substantial amount of new capital attracted.

But at an early stage in the administration of the Act we came, as was inevitable, against the same difficulties that have always limited our industrial development; only those industries in which transport costs are low in proportion to the value of the final product could be persuaded to come here, even by very generous assistance.

These industries tend to be "light" industries, and in the main to require a high proportion of female labour, and the supply of female labour is limited. A careful analysis was made of the potential labour reserves in each area, and every effort was made to steer industries requiring female labour to the areas where such reserves existed; and considerable reliance was placed in the case of small firms on what we came to call the "hidden reserve" which exists in most agricultural areas, the farmers' daughters who will not normally take up industrial employment, but who will do so if the work is attractive and within a short distance of their homes.

While these and similar methods achieved very considerable success, and we were fortunate in also securing some light industries which employed almost exclusively skilled male labour, there is no doubt that the shortage of suitable young females was and is a serious limiting factor.

More serious in the long run is, I think, the fact that while the Development Acts have been successful in introducing a considerable degree of additional variety and a substantial measure of new employment the tendency is still towards the industries which are abnormally sensitive to fluctuations in world trade, so that while the "hard core" is substantially smaller than it would have been if the Acts had not been passed, we are still not in a strong position to face a world slump.

We must now take a look at the future.

First as regards agriculture; here we are, I think, in a fairly strong position—the efficiency of Ulster farming has undoubtedly improved out of all knowledge in the past 30 years. It is still improving, and the organisation is there for that improvement to

continue. We have a good and energetic Ministry of Agriculture, a first-class research organisation in Queen's University closely linked to the Ministry, and a very good advisory service through the country.

As we have an exportable surplus in almost all agricultural products, the general world position is of importance to us. All the authorities seem to be agreed that the abnormal conditions of the last 100 years or so are changing rapidly and that the world's population has begun to outgrow the food supply. This is, of course, the normal state of affairs; the conditions since 1850 with a food supply expanding more rapidly than the population was, of course, the product of a series of coincidences, which have never occurred before in the history of the world, and are not likely to do so again. If the experts are right we shall presumably see a slow but significant change in the relative position of agricultural and industrial producers, as agricultural products become more valuable in relation to industrial. This does not, of course, mean that all agricultural countries are going to become immensely rich, but it should mean that the down-hill slide for the farmer may soon stop (or indeed have already stopped) and a slow rise have begun which might eventually see agriculture back in the position of relative importance it possessed in the early days of the 19th century. This is by no means certain; the world might decide to reduce its population drastically with bacteriological warfare and the hydrogen bomb, or scientists might invent some synthetic food stuff. But there does seem at least a fair chance that the agricultural countries may find themselves in a better position than they have enjoyed for a century.

Meanwhile, there seems every reason to intensify our efforts to improve our own agriculture, and this involves a steadily increasing drive to bring the results of research into practical use on the farm, and the provision of some means of placing more capital at the disposal of the farmer. More intensive production requires heavy doses of additional capital.

Apart from the possibilities of increasing our direct production of foodstuffs, I should myself like to see more research devoted to the possibility of developing agriculture as a source of raw material for industry. I doubt whether there is much more to be done than is already being done in the direct development of the present products of agriculture as industrial raw material. There has been ample research into flax, and we know fairly accurately what are the limits of possible development. Food processing has already the most sympathetic consideration from the Ministry of Agriculture. Home slaughter of cattle and sheep has its attractions, but there are great difficulties as long as the present system of distribution is in force in Great Britain, and even if this were changed home slaughter would only provide a very modest increase of employment.

The research I want to see is into the possibility of developing new products as industrial raw material, or the possibility of using existing by-products, straw, chaff, potato haulms and so forth. In this connection the development of micro-biological research by the

University, which was originally recommended by the Scientific Development Council, and has, I believe, been approved by the Ministry of Finance, seems to me to be of very great importance.

Turning to industry, it seems probable to me that two main factors will govern our future. What will be the future development of world trade, and what will be the effect of the Welfare State and its high taxation on a community already short of capital which must expand its industrial equipment *pari passu* with its population?

As regards world trade, anyone's guess is as good as another's at the moment. My own view is that we have seen the close of a golden age, which is unlikely to be repeated.

A succession of immense steps forward in technical accomplishment, steam power, the railway, the steel ship and later electricity and the internal combustion engine gave mankind from the middle of the 19th century onward, for the first time in history, the power to develop the latent material resources of the world with great rapidity. At the same time the finance which made this possible was provided by the invention of the joint stock company and the joint stock bank. These great advances in technical power, all incidentally British in their origin, coincided with the political predominance of Great Britain—a country, naturally non-aggressive, with a talent for the administration of backward races, increasingly dependent for its own prosperity on the prosperity of the world as a whole, and consequently devoting every effort to promote it.

The result was 80 years of rapidly expanding trade. The newly opened lands provided food and raw material. On this basis populations and particularly those of the western countries expanded rapidly; on this expansion further developments of markets and industrial techniques were based so that world trade and world prosperity snowballed up.

Looking backwards there were signs even before 1914 that this expansion was slowing up. The more easily developed land had been developed, and indeed often worked out, new development tended to be even more difficult and more costly.

The 1914-1918 war broke the whole pattern which had depended largely on the Pax Britannica, the pound sterling, and Great Britain's necessity for world trade and exceptional skill and experience in promoting it.

Much of the financial and industrial power of the world passed to the U.S.A., which had not the financial organisation, the knowledge or the trained personnel to exercise this power effectively. Nor had they the wish or the necessity to use that power for the promotion of world trade. They were economically isolationist, as well as politically, and most important of all they did not need to be anything else; foreign trade was for them a luxury and still is.

The catastrophe of the 1930's was largely the result of America's reluctance and inability to play its new rôle as a leading financial and industrial power.

The second world war has completed the destruction of the old pattern. We have already noted that the pressure of population against the ceiling of food supplies is showing signs of reappearing. There is now no nation, able and willing, to play Great Britain's old rôle as the promoter of trade expansion all over the world. America, for all her generosity, and her willingness to spend immense sums to strengthen allies, is doing so from political motives, not, as we were, because her own life depends on it. If the political necessity disappears, or even seems to lessen, America's aid will dry up.

In addition to this, the brave new world has been handing over the conduct of their own affairs to a large number of politically immature people. This is not a political paper, but I think without entering into political or ethical judgments, that the present set up, in say Indonesia or Burma, is not, whatever its other merits, likely within any foreseeable future to be as efficient economically as that which it has replaced.

In addition, the "Iron Curtain" countries, including China, are now outside the general world trade structure, while many of the countries which remain are busily developing their own industries and are no longer content to remain suppliers of food and raw material and consumers of European industrial products.

It is possible, of course, that a new pattern, not dissimilar from that which was growing in Europe between the wars will gradually replace the old, and industrial countries will trade with each other in industrial products. Germany and Great Britain, for instance, were each increasingly valuable markets for the other very often in the same products but each supplying different qualities or specialities inside the general classification of the product.

But after making every allowance for the favourable factors, it seems extremely doubtful whether the old steady expansion of world trade can be resumed; the conditions which made it possible have ceased to exist.

This must add to the difficulties of a country which is as dependent on world markets as we are, and these difficulties can only be met by an increase in relative efficiency which will enable us to get an increasing share of a static, possibly even a contracting market.

Before turning to this rather grim prospect, however, the remedy which would have appeared obvious to the old-fashioned economist should be considered.

Could we, and should we, try to solve our problem not by increasing the means of employment to keep pace with a growing population, but in part at least by reducing that population by emigration? In a way it seems mere commonsense that instead of bringing raw material and fuel to the worker and then exporting the product, the worker should go, to say Canada, where there is ample raw material and fuel, and to all appearance a market with almost unlimited possibilities of expansion, and where he would find many compatriots already established. No one nowadays supposes that a growing population pressing upon the means of

support and employment is necessarily the best recipe for happiness and a high standard of living. Except for old-fashioned people who still think in terms of cannon fodder, and of pools of reserve labour, there is a general realisation that a static population can live, very comfortably.

It might well be, therefore, that a carefully organised system of emigration, mainly to the Commonwealth, might prove the least expensive and least painful solution of our difficulties.

The subject is very complex and emotional, and political considerations must be taken into account as well as economic. These considerations cannot be dealt with in detail in a paper of this character, but I do not think that this solution can be dismissed without further thought.

Assuming, however, that emigration is impossible or at best only a partial solution, we shall have to consider an expansion of industry.

This brings us immediately to the question of capital and so to the probable effect of the Welfare State on the development of production, and especially of its effect in a part of the United Kingdom which is so largely dependent on small and medium-sized family businesses and small family farms. Obviously a system of very high taxation, deliberately devised to transfer wealth from a comparatively small class of well-to-do persons, whose savings have hitherto produced the bulk of the risk capital of the country to a large class mainly of urban wage earners, will tend to destroy the old pattern of capital formation, and unless something is developed to supply its place will even in England produce a progressive fall in the efficiency of industry and eventually a contraction in its volume.

The effects are likely to be more rapid and more drastic in Ulster which is already short of capital.

For the purposes of this paper I am assuming that the full Socialist solution, State ownership of all means of production, State provision of the necessary capital, and the creation of that capital through manipulation of prices and wages by the State is unlikely to be adopted in any near future in Ulster. I may be wrong, of course, anything can happen in politics, but it seems improbable that a country of small businesses and small farms with a very high proportion of small property owners and self-employed persons will turn to socialism of its own free will.

In "Welfare" theory, if we may take Mr. Jay's contribution to a recent correspondence in the *Economist* as authoritative (which presumably we should), the place of private saving is to be taken by compulsory saving operated through an annual Budget surplus returned to the market by the repayment of Government debt. Apart from the fact that Budget surpluses of several hundred million a year will be difficult to produce and still more difficult to maintain at a time when the normal expenditure of the State requires taxation at more than 40% of the national income, surely the bulk of such "savings," even if realised, will find their way to the habitual gilt-edged investor, whether an individual or an institution, who is not in the least likely to use his money as

risk capital, and even less likely to invest it in a small business in Ulster.

It must also be remembered that our Ulster surplus is drained off into the Imperial Exchequer as the Imperial contribution, and while it is true that in normal times this contribution barely pays our share of the Imperial services we enjoy, if it became a practice to budget in Great Britain for a large annual surplus, we should be contributing to that surplus with little or no hope of seeing our money back again.

Our problem is somehow or other, in spite of these adverse conditions, to devise means of supplying sufficient capital for a substantial development of agriculture and industry.

Let us first consider an extension of the principle embodied in the Industries Development Acts: the provision of public capital, to attract a further investment of private capital either from the United Kingdom or from the U.S.A.

Here it seems to me that it might be worth considering a really substantial investment in the hope of establishing a new basic industry.

I have not the knowledge to select an industry, and in any case the selection could only be possible after a very thorough examination by experts, but I will give two illustrations, to explain my idea though it must be realised that both these might very likely prove out of the question on further examination.

Firstly steel; there is a fair home market for steel, and it might be that a modern, well-balanced plant, sited on a harbour, with its own quay, and all the best modern devices for the mechanical handling of fuel and ore, and possibly its own colliers and specialised ore ships, might, if it was not carrying too heavy a capital load, be able to produce our home requirements at a competitive price. After all most existing steel works, even the most modern, have fairly heavy transport costs either for their coal or their ore. In this case the best assistance might be in the form of providing a substantial portion of the initial capital at a low rate of interest.

Again the light alloys are of increasing importance. We already have considerable reserves of low-grade bauxite, and of brine at Carrickfergus: here the best assistance might be a subsidy or similar arrangement to allow of providing electricity at low cost. The attraction of this is that the subsidisation of the electricity would serve a double purpose—the direct one of helping the new industry and the secondary object of strengthening our general reserve of power, whilst there is a possibility if our wind power experiments fulfil their early promise that the subsidy need not be of long duration.

Generally speaking, Government assistance of this type should be given where possible to enterprises on which further subsidiary enterprises can be built, and from this point of view a light metal industry is one of the most attractive.

Before we leave the subject of direct Government subsidy we must, I think, glance for a moment at the more general types of subsidy which are occasionally advocated. Of these the most

popular at the moment is a subsidy to transport. I think the difficulty here is that we have a very limited amount of money to spend: only at best that portion of the Imperial contribution which the Treasury can be persuaded to let us spend on strengthening our own economy in the hope that it will eventually put us in a position to produce a larger revenue.

There seem to me to be two objections to a transport subsidy: firstly it is very wasteful, a great deal of money will go to reduce the cost of types of transport which there is no economic reason to encourage. Secondly, it tends to be very inequitable, it penalises the business which has been at great expense and trouble to site itself in the most economic location, for the benefit of the firm which has spent less money and shown less forethought. Any form of general subsidy to transport is just helping the inefficient at the expense of the efficient.

This does not mean that a sufficiently skilful administration by subsidising particular freight rates cannot obtain very valuable results at a relatively low cost, but this is a very skilled game, only possible for an administration which is relatively free from political interference. The Germans got considerable advantage by their special rates for export goods, and this was one of the really valuable weapons used by the German Government before 1914 in building up the German export trade. But I doubt whether a democratic Government would be allowed by Parliament to develop or not such a system; and in any case freight rates from factory to port are not of the same importance in Ulster as they were in Germany, while the Government of Ireland Act prevents us from following them up with subsidised shipping rates.

I think personally that all forms of general subsidy, shooting money at the economy through a scattergun as it were, are unsound. Subsidy can be a valuable weapon, but it is a very dangerous one, and should only be used where there are clearly defined and limited objectives. The ideal, of course, is to limit subsidies to enterprises, which offer a reasonable prospect of becoming self-supporting within a relatively short time.

But at the best subsidy is a clumsy tool, and it would be better, if we could, to make it possible for the individual to save and invest.

A Welfare State unfortunately must always be a high taxation State, unless and until there is a great increase in the national income, but it seems to me that methods of taxation which were satisfactory enough as long as taxation only took a small portion of the national income, may easily be unnecessarily harmful when it reaches higher levels, for instance a steeply progressive income tax, when the total level of taxation is high becomes about the most effective instrument ever devised by man for discouraging initiative and hard work. At the same time such an income tax, accompanied by high and progressive estate duties, effectually removes any incentive to saving by the well-to-do and, indeed, any real possibility of their doing so, while the benefits supplied to the lower income classes of the community sensibly diminishes their former incentives to save, such as provision for old age or sickness.

I cannot believe that it is beyond human ingenuity to devise methods of taxation which will be equally productive, but less harmful to the virtues whose practice is essential to continued economic progress.

These are, however, matters which are the concern of the Imperial Parliament. The problem is serious for the United Kingdom as a whole, but it is not yet acute. Until actual disaster threatens, the Imperial Government will, I think, be reluctant to embark upon any ambitious scheme of altering the basis of taxation, with all the political and administrative problems which this involves.

Unfortunately in Ulster the problem is already acute; we must have more capital and have it reasonably soon unless, of course, we decide to turn to emigration. I believe a method somewhat on the following lines is worth consideration. Again I would emphasise that I am an amateur: an expert on taxation problems and national finance might well be able to demolish my ideas at a glance.

If we agree that a substantial amount of annual saving and investment is desirable, it seems foolish, by taxation to make such saving impossible. To do so is merely to sacrifice future revenue for the sake of maintaining present revenue at an uneconomic level.

High taxation is inevitable, and an all-round reduction of taxation of the order required to permit adequate savings to be made even after allowing for a reasonable reduction in defence expenditure, would involve a reduction of expenditure on welfare which would be politically very difficult, especially as such a reduction would encourage not only the saver but many people who would use their taxation relief for unnecessary and even ostentatious expenditure.

I think it should be possible to devise a system by which savings actually made and invested in a suitable manner could be relieved from income tax, while leaving the remaining income subject to full taxation. The basic principle of the method would be that already applied to covenants in favour of a charity.

The taxpayer should be allowed to set aside every year a portion of income up to a specified maximum. This would be paid to a Government board, which would add back the tax paid and allot the taxpayer shares in a trust company. There could be one trust company covering all objects, or a series of trusts, one dealing with investment in agriculture on the lines of an Agricultural Credit Bank, another perhaps helping family firms hit by death duties on the lines of the new Estates Duties Investment Trust Company, another helping firms which desired to expand, and so on. Probably in a small area such as Ulster one, or at most two, such trusts would suffice. The trusts should have business boards who would be left entirely free to manage the trust with the only limit that the trusts investments should be confined to enterprises wholly or mainly in Ulster, or directly serving Ulster interests. Dividends on shares in the trust would, of course, be liable to taxation in the

ordinary way, but it would be very helpful if the trusts themselves could be freed from profits taxes, excess profits levy and the like.

There would have to be a limit on the amount invested by any one taxpayer in any year, say 25% of the income assessed for tax in the previous year, and it would probably be desirable that he should not be permitted to sell his shares till say 20 years after they had been acquired. Once free the shares could be dealt with on the market in the normal way. Alternatively there could be no sale of shares, but they could be used in payment of death and succession duties at their par values.

However, these are all details, and I am only concerned here to set out the general idea for purposes of discussion.

Such a system would, of course, reduce immediate revenue, but it should provide at least the possibility of a substantial increase of revenue in future years, together with a reduction of expenditure on unemployment relief. It could also have valuable by-products. There are, for instance, a good many professions in which under present conditions it is impossible by saving to make provision for old age; this system would restore the possibility.

It would be possible to elaborate almost indefinitely on the theme of saving and capital in a State with very high taxation, but one must stop somewhere.

I feel I must apologise for the rather scrappy and unbalanced nature of this paper. My excuse must be that I have not been trying to instruct you—I do not know enough to do that—I have been trying to suggest points which might provoke argument and discussion. I hope I have been sufficiently controversial to achieve this object.