



Northern Ireland  
Assembly

Committee for Enterprise, Trade and  
Investment

# OFFICIAL REPORT (Hansard)

Forecasts and Outlook Reports on the  
Economy: Professor Neil Gibson (Northern  
Ireland Centre for Economic Policy)

18 November 2014

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**Members present for all or part of the proceedings:**

Mr Steven Agnew  
Mr Sydney Anderson  
Mr Gordon Dunne  
Mr Paul Frew  
Mr William Humphrey  
Mr Danny Kinahan  
Mr Máirtín Ó Muilleoir

**Witnesses:**

Professor Neil Gibson

Northern Ireland Centre for Economic Policy (NICEP)

**The Acting Chairperson (Mr Dunne):** With us we have Professor Neil Gibson, whom, I think, we all know. We have met him a few times at the Committee over the years. We welcome you along, Neil, and look forward to your contribution. It is over to you to take us through your presentation. There will be time for questions afterwards.

**Professor Neil Gibson (Northern Ireland Centre for Economic Policy (NICEP)):** Thank you. Good morning, everyone, and it is nice to be here again. It is nice to be back this time because the centre has now done some work, as opposed to the last time I was here, when we were making promises about what we were going to do. I will not spend too long. Rather, I will tell you a little about what we have been doing, because you may want to call on some members of my team at a later stage to focus on particular pieces of work. I will also take you through our forecasts and some of the challenges that we see. I will, then, be happy to take questions.

As my little briefing document says, we thought it worth reminding members what the Northern Ireland Centre for Economic Policy (NICEP) is. It was set up last January as an independent research centre. Originally, it was funded by the Department of Enterprise, Trade and Investment (DETI), Belfast Harbour Commissioners (BHC) and First Trust, but, subsequently, the Department for Employment and Learning (DEL) and the Department of Finance and Personnel (DFP) have come on board with particular research asks: DFP, in particular, with work on small business rate relief; and DEL with work that we are just starting on a skills barometer. I will outline those in a moment. Our job is to work for the betterment of Northern Ireland. We try to do research projects that are on the agenda of those Departments and sponsor organisations as well as ones that we think important. So, we partly dictate the research agenda, and it is partly reactive. We also provide economic teaching — trying to change the way in which economics is taught to make it more practical and more applied, with a better understanding of Northern Ireland and how it functions. We are also doing commercial research for a number of organisations: I am Ernst and Young's (EY's) special adviser in Ireland, for example, and

we write a lot of global consultancy work for PwC in New York. We also do media commentary, which is where I am most known, I think. I would like to think that it was for all the clever models that I had built, but I am sure that I am better known for my appearances on the TV.

I will let you know where we are and what we have done since we met previously. We continue to build our forecast model for the Northern Ireland economy, so we have some views on the data availability and some things that members might want to pick up in questions. That model continues to be developed, and that is where the forecasts that you see in the document are produced from. It is our own model. We are not taking anyone else's, and it is a fully formed structural model of the economy, as opposed to forecasts that are just our views. We have also been updating our corporation tax modelling work. That report is with the Minister, so I cannot talk about the results. Great sensitivity remains around the costs, about which members raised points earlier. We will pick that up in questioning as well, I am sure. Our knowledge economy index work shows that Northern Ireland is the second-fastest growing region in that key area. That work was carried out by one of my colleagues, Richard Johnston, and you have a copy of that report, which is in the public domain.

We have just finished the small business rate relief work, and that report is also with the Minister of Finance and Personnel. We have just started a major piece of work for the Economic Advisory Group (EAG) committee looking at benchmarking Northern Ireland's competitiveness, trying to take some of the international metrics and tailoring them a bit more, in the way that forecast does, to really look at what matters for Northern Ireland's competitiveness — the areas that we have some control over. We have finished a study on air connectivity, which is also with the Minister, and it looked in particular at the impact of changing pricing and air passenger duty on air flows and the wider effects.

I turn now to an issue raised in the previous session. I was asked by Minister Hamilton to be on the steering group, along with a number of others, for a project with Carnegie, looking at well-being and how we might think differently about what should be at the centre of our economic outlook.

That was a run-through of what we have been doing, and I hope that you will agree that, in our 18 months of existence, that is a reasonably good slate of work that we now have near completion. I apologise that I cannot go into detail on the studies that are with Ministers, although I can talk in general.

I want to talk about where we see the economy going. There is no doubt that, no matter what indicators you look at — jobs, GDP, export values or, until the very last quarter, self-employment — the economy is growing. All indicators, including car registrations and house prices, are moving in a positive direction, so this will definitely be the second year of growth. Our forecasts suggest that the prospects for 2015 look relatively positive, too. A long pipeline of job announcements from Invest NI is coming through, and we continue to have a bit of confidence in the consumer and business sectors, but the waters get a bit choppier after that. It gets a bit more difficult, and that is really due to two effects: the more significant impact of austerity that will be felt after 2015; and the pressures that our model suggests that consumers will be under, whether from modestly rising interest rates or just the fact that they will have more leveraged positions than today, given the level of borrowing going on. So, we have a consumer and a government pressure coming in 2016 that leads our forecast to suggest not a further fall back into recession but a rather more difficult climb into stronger headwinds.

I am sure that we will come back to the merits or otherwise of austerity, and I certainly have views on that. However, from my economic perspective, if you are to have austerity, it is better to have it when the economy is growing. The pain such as Ireland endured — not only severe austerity but an economy that was losing jobs significantly — is particularly damaging. At least we can be thankful that we were spared the experience of having to cut drastically when the economy was losing jobs. The fact that the economy is growing means that, whilst there is never a pleasant environment in which to think about cuts and about doing more with less, now is a less painful time to have the conversation than 2008 or 2009 would have been.

When I look at the sectoral story, for me, it is the labour market that matters most in a regional sense. I am sure that we will talk about data quality at some point in this session. It is a question of who is working. For elected members, that is key from a voter perspective. When we talk about the measurement of things like profit levels, which go into the GDP calculations, there are always some difficulties in getting the precise information, whereas counting the number of people in work, where they work and in what sector they work should at least be doable.

My focus, in doing regional work throughout the UK and, indeed, when working for Oxford Economics, the world, was always on the labour market, so you will forgive me if my focus tends to be more on

that area. If we look at the total employment figures, including self-employment, the data on which is a bit patchy, we can see that Northern Ireland lost something in the order of 60,000 jobs between 2008 and 2012, and, between 2012 and 2014, got about 25,000 jobs back. Some of the data points look a little suspicious: for example, the scale of job growth in agriculture and self-employment looks a little higher than I might have expected. Nevertheless, the point that I want to draw attention to is the number of sectors that are in positive territory. This is not a recovery based on one or two areas that are growing. The portfolio of jobs that Invest NI has attracted has a particular sectoral focus, as can be expected. However, if we look at our recovery, we see jobs in agriculture; manufacturing; construction — at last; professional services; administrative support; and arts and entertainment. It is a very healthy — my staff shout at me for overusing this word — "tapestry" of recovery. That creates for us some challenges in policy because it means that it is much more difficult to pick winners. It is much more difficult to say that certain sectors are the only ones that will enjoy growth. There is growth in all sorts of sectors. That adds a further benefit for Northern Ireland because it is in contrast to what we might have feared, say, 18 months ago, when this table might have looked like it had a positive number but with almost all of the growth in professional services or maybe professional and administrative services, which would have had a very acute Belfast focus.

There is some encouragement to be taken from these numbers. We are getting jobs in the agri-sector, manufacturing and construction. That suggests, as you can see in the unemployment numbers, that, although the labour markets are performing differently, there is at least a little more comfort, in my mind at least, that there are areas of the economy that might enjoy growth, whereas, if you had had me here two years ago, my great fear would have been that we were heading into a period of recovery but that it would have been very narrow in its sectoral focus. So, the encouraging nature of this recovery is that it is broad-based and in a lot of sectors. That gives us some modest insulation from the challenges coming from austerity and cuts. As you will see from our forecast, for the next four years, we have only 20,000 jobs, compared with 25,000 in the last two. So, we see the high-water mark of the recovery being this year and possibly the early part of next year.

After that, it gets a little more difficult, which means that, in the era of austerity, which is difficult and painful no matter what way you look at it, that impact is potentially amplified by what it will do to public consciousness — how much coverage it will get in the media and the nature of the debate. I work in a university, and there is already a palpable feeling that everyone may or may not lose their job. That will have a demonstrable effect on the cars that people buy and the houses that they invest in. The public sector is a very large employer in Northern Ireland, so we have to be very careful about how we manage this process in order to provide certainty to workers where we can and provide clarity about the way that we will make the choices. Otherwise, not only will it be materially damaging but it will be more damaging than would have been the case. The warning is that consumer and austerity pressures will take the edge off recovery, but at least we have some sectoral comfort that there is more growth than I and many others expected when looking at the figures two years ago.

That is all I want to say by way of introduction. Our forecast report, our six-page coffee table briefing, comes out the week after next, and I will make sure that that is issued to all members. We will also hold an event at the end of January to fully update the wider public on the work that we have done. We will have all our reports available for discussion at that point and make sure that all the Committee members are invited to that event.

**The Acting Chairperson (Mr Dunne):** Thanks very much. That was very informative, and, towards the end, you became more enthusiastic and positive. We notice that the group is talking about changing its name. I understand that you are an independent organisation but are being renamed as the Ulster University Economic Policy Centre. So, we wonder about your independence from here on in. Is there any risk of that independence being compromised?

**Professor Gibson:** No, I do not think so. For clarity, the renaming is part of the university's full rebrand, and there were two elements of our name that the branding team felt were not entirely appropriate. One was the Northern Ireland moniker. We were publishing quite a lot of global work, but the Northern Ireland moniker gave us a bit of a local feel. PwC, Global and others felt that that made us look like a very local organisation, and we like to think that we produce international-quality research.

The second element was the acronym. The branding team advised that acronyms are not that helpful. Specifically, I was appearing quite a lot in the media as a NICEP representative, and there was no sense that people would associate that acronym with a university and that quality of research. So, they wanted to make sure that "university" was in the name and that "economics" was at the fore, as opposed to an acronym. It was purely for that reason. It was not a decision by us, nor was it anything

to do with our sponsors. It was presented to the sponsors last week. It was a decision made by the university as part of the rebrand that it has just undergone.

**Mr Dunne:** Is it a positive move?

**Professor Gibson:** Yes, one of the points that were made, which is a very fair one, is that you should do what it says on the tin. We are an economic policy centre, so economics should come before anything else. Providing economic advice is at the heart of what we do, and I was convinced by that part of the story.

**Mr Kinahan:** You talking about all the sectors having expanded. Is there any way of analysing that so that we can see how much of the growth is in technology and IT? I get the feeling that the manual side has been left behind. Are there any statistics to show us whether every part of every sector is experiencing a lift, or is it very much on the high-tech side?

**Professor Gibson:** That is a good question. The data is not great for that. You have to look at, for example, productivity within the sectors to be able to compare. If the data is to be believed, Northern Ireland fares relatively poorly in some areas, the headline agriculture number, for example, but quite well in others. We can look at average wages in and the data recorded from recent inward investment, but that will not cover every area of growth.

If we look at the subsectoral data, where we really can pick out what is growing, the high-end and high-tech elements are certainly the leading parts of that wedge, but I suggest that we have become a little fixated with that distinction. We all know that the economy functions only if we have taxi drivers, window cleaners et cetera. A surgeon, for example, is only as good as the hospital porter who brings the patient to him. We have created a slightly dangerous precedent in Northern Ireland by starting to stigmatise other jobs. Young people in education now think that, if they do not get employment in science, technology, engineering and mathematics (STEM) or a high-end job, their value is somewhat less. However, the economy will not function without a portfolio of opportunities. Although I have not done any detailed work on it, I think we will always need a portfolio of jobs. If we look at the inward investment data and pick out the sectors that have been growing and at the knowledge economy report, we see that there is no doubt that those subsectors are a key element of the growing economy. However, we have to remember that we have a portfolio of skills, and people will work in different sectors. The worst thing that we can do is make people in Northern Ireland feel that they have value only if they work in the high-end sectors. That would be very dangerous. Indeed, many developed economies have reaped the unfortunate consequences of that type of policy and simply cannot find people to do the other tasks still required. It is an important concept to state whom we are grasping and attracting, but there is a sense in which the overall volume of jobs would remain my priority. The quality of those jobs, whilst important, would be a second-tier issue.

**Mr Kinahan:** Following that, and moving to a slightly different area, I see that the social economy is expanding. Is there another way of looking at that as a sector?

**Professor Gibson:** That is difficult because we tend to get the data sectorally rather than from an ownership perspective. A number of studies have been done to try to value the sector. It is also becoming a more complex sector to look at because a number of private enterprises are creating social entities within the company structure. There is some merit in looking at it as a specific sector, but it is fair to say that many elements of that sector are very nervous because they still depend, directly or indirectly, on public finance, so the austerity pressures could be particularly damaging. It is important that we give cognisance to what the sector does, but, equally, we should recognise that it is now a much more difficult sector to put a fence round than it was historically. Remember that, when we record employment, we record the primary activity of the firm. That is how the survey is done. You can think of many firms — mine included — that do a whole range of things, including very significant social enterprise functions, even within the firm, but that is not what they are classified as; they are classified under their primary activity. Recent reports have said that it is an important part of Northern Ireland, but I have some nervousness about what public cuts might do to that element of the economy.

**Mr Kinahan:** My last question is about the relationship between NICEP and the economic advisory group. I think that EAG has met only once. Are they very much part of each other, or are they separate?

**Professor Gibson:** That is an interesting tale. I had the interesting experience of being on EAG. I have just been asked to join as a member to give some insight. Our firm produced some research for it on competitiveness. It was an odd experience having my team presenting to me in the audience, so, obviously, I had to declare an interest and stay quiet on that. I think it fair to say that EAG — this is not breaching any confidentiality — had a number of early issues that it had to deal with. Finance was a particularly key focus for it, and it made some pronouncements on corporate tax. However, it is now in a new phase. The meeting I attended was to discuss what EAG would now focus its attention on. Its direction of travel is now to look at wider competitiveness and see where the business insights could feature in that and tell us where we are performing on competitiveness. It is updating finance work, but it is also doing that. There is no formal relationship; NICEP does not deliver to EAG, except in the extent to which DETI wants us to do a competitiveness project. There are no such formal linkages.

**Mr Anderson:** Thank you, Neil, for coming along and presenting to us today. You said that the report on the small business rate relief scheme has been completed and is with the Finance Minister. Will you give us an update on that today?

**Professor Gibson:** I cannot provide any of the final details; I can tell you about only the research. We will be more than happy to come back when the research is published. Just so that members are aware, the study included looking at the recipients of the relief through the rates database, looking at how much money had been spent by the public purse on that incentive and looking at who got it. We surveyed them to ask what they felt the money had been used for, how important it was to their business, and, crucially, who they thought should pay for the continued existence of that subsidy. We also widely consulted stakeholders. Indeed, all parties very kindly met my team, which I very much appreciate. Unfortunately, I cannot tell you what the results of that survey are. They should be out in the next couple of weeks, and we will be more than happy to come back to brief you on that when the results are available.

**Mr Anderson:** It is an issue that businesses find very difficult, particularly for profit margins. They find the rates burden very difficult, especially at this time. We have all been lobbied about it greatly over the last number of years. Some of the rate relief has been very beneficial.

**Professor Gibson:** Yes. If you look at the economic conditions when it was set up, they were extremely difficult for the private sector. That is not to say that they are not challenging now, but they are definitely more positive than they were at that time. No one would expect anyone who gets an incentive or tax relief to say that it is not helpful and they would rather not have it. The question is whether it is the most appropriate benefit to offer at this point in the cycle and whether, taking it in tandem with all of the other benefits and reliefs that we offer, that is the highest priority. I am sure that we will come to corporation tax, but, if you are going to offer a number of incentives through the public purse, you have to ask which has the highest priority.

I am sure that this is a challenge for members as well. When someone is lobbying you for something, you need to ask them whether, if they ranked everything that they got, this would be the most important one. Every time that they are lobbying you, it will for the most important one, and they tell you that you cannot take it away because it would be damaging to them. That will always be the case, so it is a question of trying to look through all of the evidence and ask what its purpose was, whether it served that and whether that purpose exists today. A real challenge for us as researchers is that we are always focused on a particular question, and, sometimes, you have to look a bit more widely and ask whether, in tandem with everything else, this is the best thing that you could do with public money. Undoubtedly, it will help, because giving money to anyone will help. It is a question of whether that help can be demonstrably shown to have been better than the other things that you could have done.

**Mr Anderson:** I take your point, but set that alongside what you are telling us about our two years of positive results and 2015 not being too bad but that, going forward, there will be austerity and possible interest rate rises. When you tie that into what businesses are suffering here, how do you see that going forward over the next few years?

**Professor Gibson:** I think that Northern Ireland plc will have a very, very challenging conversation, but the sort of mature conversation that we need to have, about what sort of supportive environment you want to provide. From both the business and domestic perspective, we have kept tax rates lower than other places have been able to do. Think, for example, of industrial derating and the other rate reliefs in the system. We have a very attractive tax position compared with many competitors. We are also thinking of potentially adding some more tax incentives into that mix, maybe, potentially, with

corporate tax. We also have a very generous, very supportive and very successful grant-and-support regime. In a tighter environment, it is probably unlikely that every one of those is fundable, and removing any one of them will not be pleasant for the recipients.

As Northern Ireland plc, one of our great challenges is to be able to articulate that message clearly and ask the question: in the volume of support that we give, which ranks as more important than others? It will be for Northern Ireland to decide. If you are a corporate tax advocate, you think that it provides lots of benefits, but one of its primary objectives is to attract new firms to Northern Ireland. If your key requisite in economic development were to get existing businesses to grow faster, you might choose a different policy. I think that that is the kind of mature conversation that we will have because we will not be able to do all of it. In the debates that I have had, whether about small business rate relief or corporation tax, we almost always, whether as businesses or from a political or a research point of view, compartmentalise and say, "This bit is quite helpful to me because it does x, y and z".

We will have to line up all of the support and reliefs and ask whether this type of regime is better than that one. Be under no illusion: that will be a tough conversation and you will be lobbied hard, rightly, by businesses. Some will say that grant support is better for them because they are capital, not profit, businesses and need capital support. Small businesses will say that they need costs to come down, so energy prices and rate relief are what matter to them. Big corporates and big inward investors will say, as Dr Budd said, that the headline tax and the effective tax rate are what matters to them. So, you will have all of these competing interests, and it will be one of Northern Ireland's most challenging conversations because, to date, I have never seen us asking all of them, in a line-up. Everyone will say that what they get from you is very important to them. The questions that you have to ask are these: "Would you take it instead of something else? If I am to take any of these away, which is it to be? Which one matters more?"

My last point is that we must remember that some of the people whose opinions we need are those who are not here. We often talk to our own businesses — quite rightly, they are our most important constituent — but, if you believe that the one problem in Northern Ireland is that its private sector is smaller than you might hope and you would like to have more international business, the fact that they are not here means that you have to speak to them to see what would matter to them. That can be difficult because they are not voters and not in the constituencies, but we have to try to bring that perspective on whether Northern Ireland would be benefited by an influx of additional business. I know that that is not an entirely satisfactory answer, but I think that, when you see the results of the work, that is what you have to keep in mind. We are not only doing the evaluation to ask whether the relief was helpful and beneficial, which you will see in many evaluations. The recipients will say yes. The question is this: what did you do with it and who should pay for it? That is the question that has to be asked of pretty much every business, society, members of the public and Northern Ireland plc. Too often, we ask the question: is this helpful? We never ask how we might resource it. That has to be part of every evaluation from now on, or at least be brought to the fore. When members see the results, please come back to us, and we will be happy to send the member of the team who carried out the research to brief you. We have to do the same for the Committee for Finance and Personnel.

**Mr Anderson:** You highlighted a lot of issues there, and I certainly look forward to that report.

**Mr Humphrey:** Thanks very much for your time today, Neil. In your presentation, you talked about the fears and difficulties beyond 2015. Many of us will be aware of those from briefings in various guises across our responsibilities here. How can we ease and best navigate through the coming headwinds that you talked about?

**Professor Gibson:** First, it will not be easy. Taking money out at any time is always challenging unless other money comes in to replace it. The analogy that I always use is this: how do we approach this exercise as one of pruning as opposed to cutting? How do we make sure that we do it in such a way that encourages better growth in the future and does not have a swathing, damaging effect? First, we are fortunate that we have already had some warning. Unlike the private sector, where the recession in 2008 just hit when it was completely unprepared, we have time to line up. One expects that a lot is going on behind the scenes. The universities, for example, have been written to and warned about the scale of the cuts that might come. That exercise is exactly what we should be doing. An Bord Snip was Ireland's approach. What will our approach be to the different ranges and scenarios of cuts so that we know what we can do in the worst-case scenario? Let us not be taken by surprise in any sense.

The more important point that I want to make is this: let us make sure that we have the right information to make the right choices, and I know that that is very difficult. At the moment, the public debate is on budgets under pressure, and the Assembly had a very challenging time in agreeing a Budget. I put on record that I am delighted that one was reached. Nobody expects it to be easy, and we expect rows and disagreements, but it was a must that we got something. However, the public and, indeed, even we as advisers are still a bit in the dark about some of the choices, in the sense that it is not easy to know what the pressures actually are. I am taking the Health budget as an example only because it was the most emotive and appeared most in the press. Despite all of that debate, I still could not tell why we had gone over budget. We had some stories about an ageing population or more people going to A&E. When you talk around the dinner table, people ask, "Have you seen how much GPs are paid?" When I lived in Crossgar, people said, "We have a beautiful hospital, even though I can reach another three". Everybody has their own view on what they think the money is going on.

We need to be very clear that we know what we spend our money on and what we think that we get for it. The first question that I wanted to know was this: given that we were £140 million over budget, what did we spend the money on five years ago, and what do we spend it on now? I could not easily get that information. That is a dangerous place to be when thinking about how to make cuts. We go straight to thinking about voluntary redundancy schemes. We talk about inflation being the big pressure. Obviously, the key part of inflation in the public sector is wages. Nobody wants to talk about that. I do not know whether any members were surprised, but I found it curious that, in all of the conversations about budget pressures — we talked about having fewer police on the streets, being able to educate fewer kids and having to have fewer teachers — at no point was it said that everybody in the system is critical, so the alternative is that we will all take 4% less pay. Obviously, that would exclude economics professors, I may add. That is a subject that nobody wants to talk about, and it is certainly not popular in university circles.

Let us be clear: if we were really hitting a financial crisis and we were a business, that is what we would do. First, we would look at whether there was any waste, and to do that we would need to know what we are spending our money on and what we are getting for it. Secondly, if we were all critical to the task, you might think of asking whether we can put up our prices on anything. If the services were really important, could we charge for some of them? Or, if we were all critical to front-line services, maybe we would have to look at our pay. That is what the private sector did. I am not advocating that; I am just saying that the mantra has to be that everything needs to be on the table. That includes how we deliver services. Are we getting statistics in the most efficient way that we can? Is service delivered the best way that it can be? If I were in a government position, I would make sure that I had these cheat sheets, if you like: this is what is going in, this is what we are getting for it and that is what is coming out. The well-being work that we are doing looking at a different measure from GDP is all about that. It is about measuring outcomes: are we treating more people; are we educating more kids; are we doing it better; what are the input costs; what has gone up, is it capital, is it financing, is it labour? We can make a sensible pruning approach only if we have that information. At the minute, my fear is that we are going very quickly into headcounts, voluntary redundancies and talking about it wholesale, when I am still not sure — maybe members have more information than I ever see — that we know exactly what we spend all our money on and what we get for it, so that is where I would start. To limit the damage as best as we possibly can, we need to look innovatively at the way in which we deliver services and at the ways that we may save costs or raise revenues if we really think that the particular service is precious and that we cannot change it. Then we might do it in such a way that would be rather more strategic than it might otherwise be if we just fixate on headcounts and headline budget numbers.

**Mr Humphrey:** You will have heard Leslie answer the question that I asked about corporation tax. In your brief, you give some forecasts for gross value added income and employment. What are they based on?

**Professor Gibson:** The report that we have with Government at the minute remains an update of work — a slightly updated methodology — but essentially the work that was done originally for EAG a number of years ago, which, effectively, is an econometric study of the sensitivity of tax rates to inward investment flows. It also models the behaviour of existing firms. Effectively, if you are going to transfer an amount of money from public service into private service pockets, you need to know what those sectors will do with the money. They will spend some, they will invest some, and some will leak out elsewhere, so we model that. We also model the behaviour at the second-round effects, as you would think of them, as in, when there is more inward investment and more firms, what they will buy from and what the supply chain will be. However, we also model the costs on the flip side, so, for example, what jobs would need to be lost technically or where the money would come from to pay for

it, and what the effects of that would be. As you rightly identified earlier, that is the big challenge, because that is up front and certain, and the returns are longer. You have to be persuaded. We have done econometric work, and you can look at those results. Plenty of others have done it, and you can look at the published literature, and the EAG did a review of it. If you believe that lower corporate tax will attract higher levels of inward investment, you need to be convinced of that to believe that there would be any sense in pursuing the policy.

**Mr Humphrey:** Are you guys convinced of that, and is it part of your consideration?

**Professor Gibson:** Yes. I am certainly convinced and the econometrics suggest to me that there is a sensitivity to the tax rate. I take Dr Budd's points about a race to the bottom, but even if that were to be true, which it probably is, I am not sure that you would help yourself by not being in it. But, am I convinced by the work? Yes, I would be. I would be convinced that it would increase the flow. We have already seen changes to legislation to prevent some of the moneys that Invest can give out under capital grants. It cannot fund the same activity in the same way. Well, a tax cut would do that in a way. I would be convinced by that, but I would say two things to support that. Even if you do not really want to delve into the econometrics of it, it is hard to explain Ireland in any other way. You might think of the skills and the investment elsewhere, but it seems curious; if you hit the biggest financial crisis that you have ever had and you have a budget deficit, the first thing that you would do, particularly if you believed that corporate tax was a second-order issue, is to put it up. But they did not do that. I find it impossible to explain the Irish experience without doing that.

The UK has exceeded all expectations in job creation in the last four years. It is way back above peak employment, unlike many of its European competitors, and it has reduced its corporate tax by seven percentage points. That might be coincidental, but it is another little bit of evidence that supports what I think about inward investment. Inward investors do not want to say, "I came here because you gave me low tax". That is not very corporately responsible and does not sound very good. They will tell you that it was because of the work/life balance, the quality of life, the staff and the skills. Let me be clear on all of that: corporate tax on its own will not solve it, and Dr Budd said that very clearly. If there are no buildings for people to go to and if there are no skills to work for them, it will not solve all of Northern Ireland's economic ills. But am I convinced that it will attract more businesses? Yes. The critical conversation is about the price you have to pay for that policy, and that remains the key. That is why you do not have the results today, as those negotiations continue.

**Mr Humphrey:** We talked about renegotiations in the United Kingdom and the potential of federalism. Obviously, those negotiations and outcomes will be different in the various nations because of, for example, the particular strength of Scottish nationalists and so on. Arrangements will be different. Given the choppy waters that you see on the horizon, is it too much of a risk to go for the devolution of corporation tax to Northern Ireland in that context, or, indeed, do you think that it is the perfect context for it? We should not be missing out on a crisis, as they say.

**Professor Gibson:** The first thing I would say in answer to that is that the crisis that sits before us is part of the reason why we even have the opportunity to get the power. I have tried to decouple the three stages. The first thing is to get the power. Even if you are not an advocate of corporate tax, I do not know why you are not lobbying to get the power anyway and raise the tax. Surely you would think that the last four years of 7% reductions in the UK has been devastating; so, if the level of tax does not matter, why do you not get the power, raise the tax, and there will be more public money? So I cannot see any circumstance in which Northern Ireland would think that it would be better not to get that power. The first thing is to get the power.

The second question is this: "What price can you get it for?" Those negotiations, between DFP and the Treasury, are now going on hard. Experts from London have been brought in to help advise, as far as I understand, on the tax complications. That is not an area that I am expert in. That is the second question: how much are you paying for it?

When you have the two of those, then you have a big decision to make: is this something that we can do? At that point, we need to have a big conversation in Northern Ireland and ask, "If we are going to do this, where is it going to come from?" That might mean talking about the things that nobody wants to talk about, like looking at some of the other incentives that we currently offer that we may not need to in a corporate tax environment. At the moment, the business community is assuming that the cost will come from somewhere else, but not from them. We might also look at pay restraint in the public sector or increased rates at the domestic level. It is a cheque that has to be written.

A number of political members have said to me in the past that the worst thing that Northern Ireland could do is to get the power and not use it. I disagree with that fundamentally. Get it; negotiate for the best price that you can; and then let us have a conversation. Personally, I would do it, because I am committed to the fact that I think that Northern Ireland is short on businesses. When I look at some of the brilliant businesses that we have, I think that we need more big, global, international businesses. If we spend all our moneys on building up our existing stock, too many of them, at least on the data I see, are domestically focused; and that means that they are only going to move the money around. We need somebody exporting and, for me, that means attracting more multinationals.

Not everyone is committed to that. I put that on the table. If you do not believe that that is what you want to do, do something else. But what I want to put firmly on the record is that we should take this in stages. Let us not make the mistake of getting fixated on what the cost might be before we get the power. We have to find a way, in a way that we have never done before, of really engaging, say, on the front of the 'Belfast Telegraph'. We need TV programmes to really say to the public and the business community, "You get this. Here is another potential; it is going to cost that; and here are the options." I am not worried that that conversation has not been fully played out, because I am an advocate of getting the power while the opportunity presents itself. I hate the term, but this is a "big conversation" for Northern Ireland, and that is a new place for us. We will have to think carefully about how we actually engage people. As with every policy, a lot of people can see all the benefits and not see the costs; others can see only the costs and not the benefits. We will have to have a very wide conversation. When our report comes out, it will show the long-term benefits, and I am pretty comfortable about the econometrics of that. The key short-term cost is the challenge.

**Mr Ó Muilleoir:** Thank you, Neil. Good to see you again. Congratulations on your name change, which is always the first step towards greatness, so I am sure that that will go well for you.

I want to make a point to capture some of the thoughts around corporation tax, but I really want to address the knowledge economy and your work on that. I did not hear Dr Budd mention "a race to the bottom", but certainly, those of us who are interested in having corporate tax powers are not interested in any race to the bottom. Our goal is to provide more well-paid jobs, and that is why, in particular, I want to talk about the knowledge economy. Our goal is also to level the playing field, and the figure that I picked up from Leslie Budd is that £16 billion is being spent on Crossrail in London, which, some of us might think, is an indirect subsidy to the London economy. How do those of us who have not got that central power fight back? One way seems to be that we should get corporate tax powers and use those to create more jobs and attract more companies. So, it should be anything but a race to the bottom; but we are very aware of those dangers as well.

As to the knowledge economy, it is a bit like tourism figures, Neil. There are as many tourism stats in this part of the world as there are figures for how many people are in the knowledge economy; so, talk me through those. I was with the person who is probably our leading advocate for science, development, innovation and start-ups here yesterday. Over breakfast, he mentioned the figure of 48,000 and went for a multiplier of almost two, saying that there was a wider effect on the economy. Yours is slightly lower, but you have given me a nicer graph than he did. Talk me through those sectors.

You say that aerospace is growing: are you putting all 6,000 Bombardier staff there, for example? The other figure that I am interested in is that you see communications falling. I presume that you are talking about traditional communications, but it seems to me that communications brings in marketing. So many people have businesses now, and even if it is a tourism business, 50% of it is knowledge economy and digital economy. Can you talk us through how you came to this figure and how confident you are in saying that, today, we have 35,000 people in the knowledge economy?

**Professor Gibson:** Thank you, and, in the interests of fairness, my colleague Richard Johnston should take the credit for both the nice pictures and the excellent research. I would not like to claim his brilliance.

**Mr Ó Muilleoir:** But you are not denying it, are you?

**Professor Gibson:** I appointed him, so I am trying to reflect his glory.

As to the figures, yes, it is a fairly crude measure. It always is. You are absolutely right to draw attention to the fact that almost no businesses do not have some knowledge inherent in them. In fact, even our most traditional of businesses are beginning to change in the way that they do things. It

could be the agri sector. I see it even in administrative support in a university, which is embracing new, online techniques to deliver, say, invitations to meetings. The smallest things are all forms of improved knowledge. It is always quite a crude measure. The measure that we have used includes taking businesses with their overall designation; so, if you are a riveter in Bombardier, you will be counted. That measure was pioneered in San Diego. It is fairly crude, but I am less fixated with the number of, say, 35,000. You will always struggle to get the precise number. Momentum in the ICT sector will tell you that it is very hard to measure the numbers in that sector because there is an ICT component to pretty much every business.

I am more interested in the graphs of the direction of travel. It is clear that, if we measure it on a consistent basis, Northern Ireland, which started from an admittedly low base, is growing rather rapidly in the sector. In particular, again, I draw attention to the fact that it has quite a broad mix of knowledge activity. It is not limited to perhaps just aerospace: you start to see growth in sectors in the knowledge economy that are complementary to that but also have nothing to do with that heavy industry side. Take elements of the financial or legal services side, or take elements of the media and entertainment industry: we can see that the most encouraging part of the data, if you look through the report, is in the indicators. Whether they are on R&D activity, innovation or skills, they show that we are improving. That is a feather in Northern Ireland's cap. We have a long way to go, and it is fair to say that we get a lot of criticism for policy around many parts, but we have a number of things that are supportive of that growth, be that from our regimes of support and encouragement or from many of our knowledge transfer programmes. I think that that is an encouraging and positive part of the report's story.

There is one wee thing that I would flag. There was an early indication that the wages may be at least levelling out in some elements of the knowledge economy sector. Although the data is not sufficiently compelling for us to be alarmed about that yet, it is certainly something that is on our watch list for things to monitor going forward, because it might be that we are attracting different elements of the value chain. It is something to keep an eye on, but, overall, it is very positive.

The direction of travel is more important than the precise number. I think that any number will always miss people. Education is not counted. Maybe it is just my ego talking, but I would like to count myself in the knowledge economy. Parts of my sector are not considered, and it is the same with the health service. It is a crude measure, but it is done consistently, and we can see that Northern Ireland's growth is very impressive.

**Mr Ó Muilleoir:** I will just go back, because, for me, much of the issue relates to what you touched on earlier when you spoke about the mood out there among people: do they spend; do they not spend; do they build; do they invest; or do they create new jobs? You talked about the new debate around cutbacks and how that affects people's confidence. I think that confidence is the big word. I have been heard to say that Belfast has the fastest growing knowledge economy in Europe. I did not have the data behind it to prove that, but one of the reasons for saying those things is that it creates an image and a perception of an economy and a society that is really on the move.

I want to finish on two points. We need some sort of comparison with our colleagues south of the border, because, for me, they seem to do well in entrepreneurship and the knowledge economy, to use that broad term. I would love to find out whether we are keeping track with them. They are very good at PR as well, as you know. I am keen that we compete on tax and talent. So, we need to have that power, but, ultimately, if we cannot compete on talent, we will end up with lower-value jobs.

My last point is around the wages levelling off. The knowledge economy is such a broad church that, if you are designing a website, you are not going to earn the same money as you would for designing the new Intel Galileo chip down in the docks. I like the emphasis on the knowledge economy, and I am delighted to hear that you think that the momentum is moving forward and that the trajectory is up. We need to know how we can keep that going. What are the new sectors? Maybe that will come in the time ahead.

**Professor Gibson:** The point about Ireland is important. One of the things under consideration for next year is whether the study could, within its resources, look at wider European and other comparators to see where we sit internationally.

With regard to continuing to impress, you raised the point about talent. That will allow me a little plug, if you will forgive me, for the skills barometer work we are doing to try to start to capture the skills needs more coherently than we have in the past. The tag line for that work will be something along the lines of, "Every job matters". It will try to get people to understand the composite nature of the jobs

we are going to need to drive Northern Ireland forward. I raise that because your point on the knowledge economy is very well made. This is a small place, and talent pressures will come to the fore very, very quickly — more quickly than we will be able to respond to in education. Obviously, given the financial environment, we need to think innovatively about how to respond to that. We need to get the pipeline of people. We are terrific on broadband; we are world leaders in technology infrastructure. We can deliver that better than almost anyone else. It is crucial to video editing and big data. It is a brilliant strength; it is a global strength. A key requirement is office buildings, but the market will build if the demand is there. Talent is the one area that I raise to the fore at all times. It is a finite pool of talent. We can train more, but there are also some for whom we will have to compete. We need to get them here and let them see this as a place where they would want to live. So, you are right to raise the issue of talent. Hopefully, we will be back at some point to give a sense of what quantum of people will need to be coming out of our education system to enable us to deliver, if that sector is going to grow. We will need people in not only that sector but the supporting sectors. We will need construction workers, taxi drivers and window cleaners, for instance, to make that sector function properly. I am glad you raised the issue of talent.

**The Acting Chairperson (Mr Dunne):** OK. Thanks, Máirtín; that is grand. Steven, I am sure you have got all your answers in relation to corporation tax.

**Mr Agnew:** Far from it, Chair.

**The Acting Chairperson (Mr Dunne):** You will not overdo it.

**Mr Agnew:** I will try not to. I begin, Neil, by thanking you. I always enjoy your analysis. I do not tend to do the flattery thing —

**The Acting Chairperson (Mr Dunne):** But you agree with it.

**Mr Agnew:** I do not always agree with it, but I think that you are the closest that Northern Ireland has to a public economist who does the front-facing thing and is honest about the fact that economics is as political as politics. You come quite close to *[Inaudible.]* when you say that we are going to have to make a decision: are we going to be a big-state, big-tax economy or a low-tax, low-state economy? It is a conversation that politicians, unfortunately, are not mature enough to have. I am glad you are introducing it. It is key, when we come to the issues of corporation tax, cuts to budgets and everything else that we have at the minute. You are introducing into the conversation a bit of realism that is absent certainly from the political debate and often from that of the economists who come out publicly and are certainly telling the truth, but often are not telling us the whole truth. I think that you are doing that. Thank you for that.

On the specific issues, I will start where you finished. You talked about talent. At one of my first Committee meetings, we had DETI officials in front of us talking about a corporation tax cut and why it would be wonderful. I said that, yes, we could look at the Republic of Ireland and Singapore, but that we could also look at places like Sweden, where they chose to invest in talent. They have quite a high corporation tax of around 25%, but they spend on talent. I am interested in your thoughts, but I would argue that they have a strong economy.

If we want talent, we have to invest in it, as you also point out. We do not do that if we cut our universities. On the other hand, if we choose to cut our tax and fund our universities well, where do we get the money from? I am not sure what question I am asking you. Those are the types of conversations that we need to have. On your point about low tax versus talent, can you do both?

**Professor Gibson:** Thank you for the kind words. We have tried to raise that, and it is really important to decide what you want. We have a bit of an identity crisis in all sorts of ways — political as well as economic. At least on the face of it, Scotland under Alex Salmond could see the merits in a Swedish or Scandinavian approach of a fairly generous public state, with free childcare and lots of investment in education, and a fairly large tax base to pay for that. That is a choice. There is nothing wrong with that. You do not have to have a small public sector, but you have to have the tax base to pay for that. A mistake would be to hope that somebody else would pay that tax bill for you.

If we want to keep things like water charging away and to keep more money in people's pockets, which is absolutely a fine choice to make, we have to realise that we are making an inherent commentary on what size of a public sector we will be able to have unless we raise taxes in some other way. I have never been in a conversation in which there is an advocacy for some form of tax

rise — I have just never been in that environment. That is not unsurprising — who likes bringing that in — but we have to get into that conversation about choices. If there is one thing that frustrates me, it is the number of reports that end with, "Well, I would not do that". They do not tell you what they would do, and, as Richard Ramsey said, it is like a Meat Loaf song. They will say, "I do not think that that is a good idea". I have always remained agnostic, even on corporate tax, in the sense that I would take any research. I am pretty convinced by corporate tax, but give me something else to model as an alternative.

You raised the important point about education. Fortunately, as someone who is part of an independent research centre, I can speak freely on that matter, although some of my colleagues in the university might be cross. Personally, I feel that you have to be open to every conversation, and that includes the fees that you charge people. If you are to give people a great opportunity to have a successful job that will pay fairly well, the idea that we would choose to educate fewer people rather than charge people slightly more seems a little bit odd to me. What will those people do? If we do not educate them, they will go somewhere else, and that will just lose the money from Northern Ireland. You might not be an advocate of higher fees, but it cannot be off the table. I do not think that that would be wise.

Should we invest in education? Absolutely. We spend quite heavily on it. To be honest, we are still not getting the outcomes we should, and we have a number of schools that do not perform at the rate they should. That is a worry, and that is on us, nobody else. If our education system does not deliver, we cannot blame anyone else. Are we getting the maximum for the money? I am not convinced that we are. That includes changing the way that we deliver courses, teach and engage with the private sector. We need to get apprenticeships and work placements with business, and business has to be willing to invest. A lot of businesses tell me that they are sent kids who are not business-ready. It is kind of their job to do that. We can do some of it, but we cannot fully simulate the work environment.

You will stop placements, and the Government will probably go through the cuts. Will they go for voluntary redundancies and protect the workforce, or will they continue to embrace placements, bring in new talent and give young people jobs? You are the biggest employer, and if the Government cannot make the right decisions about Northern Ireland plc, I do not know why they would expect the private sector to do it.

So, yes, we can invest in talent, but it is not necessarily the same as just providing more money for the talent quantum. We have to ask ourselves what talent we need, and that may mean stopping training in certain areas that we are delivering it in at the moment and tailoring it. The percentage of on-job training in Northern Ireland is the lowest of any region. Why is that, given the level of subsidies we provide? Collectively, we all have to take some responsibility for that.

Education is a sensitive area, and university budgets are also very sensitive. However, I go back to my earlier statement that everything must be on the table. That includes what we charge people to study, what contribution businesses might make to training, and the conversation about how we fund our education system.

Talent is critical, but it should be varied and mixed. I go back to the point that the most dangerous thing we could do is to tell every kid in the school that they need to study STEM. We need STEM, and it is at the forefront of our knowledge economy, but we need a lot more than that. How many people are we training to learn Portuguese to deal with Latin America or Mandarin to deal with the Chinese economy? Those are the kinds of trends that we need to be looking at in the area of training.

We need talent, but that is not a carte blanche to put more money in talent. It is about thinking more innovatively about who should invest in their own talent.

**Mr Agnew:** That ties in with a point that I made to the Minister when she was before the Committee. As you said, low-skilled jobs have got a bad press, but we rely on them. My problem is not so much with low-skilled jobs, because we will always need those. My problem is with how much those people are being paid. You will have heard my question about the living wage. Is that something we should be looking at? It is not that we do not want low-skilled jobs. However, we do not want low-value jobs that mean that people have to be further subsidised as they are living in poverty despite working full time.

**Professor Gibson:** Yes, I think that the living wage is a very good point, and I would follow Dr Budd's comments on that. The evidence is out there to suggest that, with better levels of wage, people on lower incomes will spend a higher proportion of that. They will not have the money to invest, and it will

not leak out. It is a good thing, absent of anything else. However, there is a difficulty, which you see if you look at InterTradelreland's survey, for example. InterTradelreland's quarterly survey of 500 businesses North and South is a terrific all-island survey that allows you to benchmark — you should always look at that, and I would point members towards it. What does that tell us? It tells us that, particularly among small businesses, cash flow is still an issue. That means that we need to be sure that we have the evidence that any transition to the living wage would not see many of our small businesses struggle to stay in business.

Would the living wage be beneficial to Northern Ireland, and is it something that we should aspire to? Yes, as a modern society, we want to have a living wage. It also helps with the aspiration of getting a job. Young people coming through school, who perhaps are not going to get to university or college, can aspire to a manual trade or some other job, like cleaning windows or taxi driving, and think that it will give them an income that will be much better than being out of work. It will add to their aspiration and motivation, as opposed to making them feel that they will not be a valued member of society.

I would be very positive about a living wage, but I would also be conscious that Northern Ireland businesses are already under cash flow pressures. From a research perspective — I would say that — I would want to know the wage component of our businesses and the possibility that exists for them to put up prices. Let us not forget that, if we were to pay a better wage to workers in certain sectors and the employers put up the price for their product to keep their margins, that will mean a higher price. That would be OK for those in work, but it would also be a higher price for those who have no work, which would put certain pressures on, for example, the welfare state. You would want to know what the mechanisms of a higher wage would be on both the cost of output and the viability of those businesses, before making that decision.

If I was setting a Programme for Government, a living wage would be an aspiration. I think that any modern, wealthy society should have that as one of its priorities in how it cares for what is — as you have identified, and I have said many times — the core part of our economy. When I got my Eisenhower award, Colin Powell said something to me that has stuck with me to this day. He said, "You are all leaders around the table" and pointed to us all. I did not have the heart to correct him. He asked whether we knew the name of our cleaner and said that, if you did not, you were not a very good leader. That stuck with me, and I thought that we need the people who are coming through school to be just as motivated to get the job as the teacher as they are to be the Colin Powell. That is a great challenge for us. We are not in that place, and living wages and caring about the fact that every job matters would be a good objective. However, as Dr Budd said, we need to think very carefully about the transition of that, because it could be quite difficult for many firms in the short term.

**Mr Agnew:** The answer is Glenda, by the way — in here.

**The Acting Chairperson (Mr Dunne):** Is that you?

**Mr Agnew:** No, Chair, I will squeeze it out a bit more.

You mentioned that all the indicators are heading in a positive direction. One that you did not mention was poverty levels and the use of food banks. You will have heard my question to Dr Budd about how we have a more holistic view of economy and well-being. Are things heading in the right direction in that regard?

**Professor Gibson:** No, there are worrying statistics on that. There are also worrying statistics that you see if you look at the 2011 census compared to the 2001 census, in that, despite an era of quite generous public money in interactions at a very local level, we still have over 50% of people in some wards with no formal skills. There are things that are still not where we want them to be.

We are doing work with Carnegie. I take no credit for that work; I am just on the steering group. Like Leslie, I am conscious of always mentioning Scotland. They have problems too, but one thing that they do well is articulating what they are trying to achieve. That articulation is done on two sides of an A4 page. There is a laminated poster on the wall that says, "These are the things that we aspire to deliver, and, if you are not delivering towards them, we will not fund it". The challenge is, and this is relevant to members, when you come to craft a Programme for Government, would you really be brave enough to say, "If we're putting money into something that's not achieving the things we want for Northern Ireland, we're going to stop funding it"? That is a brave place to be, but that is where we need to be.

The aims for Northern Ireland should be more holistic than an improvement in the GDP level. There should be mention of crime levels, health levels and what sort of fairness we want in society. Let us see if we can come round. Those issues are mostly in the Programme for Government, but what is not there is the feed-through from that to actually stopping the funding. For example, if you cannot demonstrate that something is contributing, you will not get the incentive any more. That is a brave place to be, but, in my opinion, that is what should be at the heart of the new Programme for Government. There should be five aims for the Government, and it should be stated that we will only fund government programmes if we can demonstrate that they are adding value to any of those aims.

**Mr Agnew:** This is a yes-or-no question. I take your point that we can move the rate of corporation tax in different ways if we have the tax-varying power, but the assumption is that it will be reduced to 12.5%. Is there a level of cost for that at which that becomes a bad idea?

**Professor Gibson:** Yes.

**The Acting Chairperson (Mr Dunne):** That was a short answer for you.

**Professor Gibson:** That was about 20 minutes shorter than my usual response.

**The Acting Chairperson (Mr Dunne):** I did not want to say that. Thanks very much for your presentation and your answers, which were very informative. I have written down the words, "positive and enthusiastic", so it has been very good. We appreciate the work that you do, including that on behalf of the Assembly and the Executive.

**Professor Gibson:** We have provided the contact details, at the back of the paper, of all the members and have told you what they are working on. Please get in touch with any of my team if you want a bit more detail.

**The Acting Chairperson (Mr Dunne):** That is great. I take it that you are happy to follow up on any other questions that we put to you in writing.

**Professor Gibson:** Yes, please send them. Come to the team: we want to have good engagement, otherwise we cannot help Northern Ireland.

**The Acting Chairperson (Mr Dunne):** Well done. Thanks very much. Keep up the good work.