Ep. 6 – Productivity Puzzles transcript

How can productivity create sustained growth in Northern Ireland?

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Guests: Dame Rotha Johnston, Professor John Turner, Dr. Esmond Birnie

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Professor Bart van Ark 2021 marks the centenary of Northern Ireland's creation, but what has it done for the economy and in particular for the productivity of its people and businesses? We are going to find out. Welcome to *Productivity Puzzles*.

Hello and welcome to the sixth episode of *Productivity Puzzles*, your podcast series on productivity brought to you by The Productivity Institute and sponsored by Capita. I'm Bart van Ark and I'm a Professor of Productivity Studies at The University of Manchester and the director of The Productivity Institute, a UK-wide research body on all things productivity in the United Kingdom and beyond.

Today, we're continuing our series of regional perspectives on productivity. Two episodes ago, we started the series with a discussion on productivity in the north of England. And in this episode, we'll stay with the north, but we'll move a bit west across the Irish Sea to Northern Ireland. And as I mentioned in the intro, it's now exactly a century since Northern Ireland was created as a separate administrative and political entity.

And this unique status as a part of the United Kingdom, its difficult years, especially during the Troubles and relative economic stability and open border with the Republic of Ireland since the Good Friday agreement has brought ups and downs in the economic fortunes for the region. The implementation of Brexit, and by the many-disliked Northern Ireland protocol creates new challenges for them.

How can we at least mitigate the risks of Brexit and the possible political turmoil to stay focused on Northern Ireland's economic fortunes, and what are the possible opportunities the region might grasp? Now, to discuss all this, we're going to meet with three panellists today who are all three from Northern Ireland and experts on the economy, the business and the political environment in the region - all crucial ingredients to the productivity story.

So, before I introduce my three guests, and as frequent listeners will have noticed, I always like to start our podcast with a personal question. And when I prepared for this podcast, I came across a unique feature of Northern Ireland that I didn't know about.

According to the [Office for National Statistics (ONS) Measuring National Well-being programme](), Northern Ireland consistently shows the highest level of life satisfaction, wellbeing, and happiness in the UK. And this matters for productivity because we've learned from previous podcasts as well, that well-being relates to motivating people, creates better work engagement and higher productivity, which in turn raises to opportunities for productivity growth even further.

So this at least could be a potential asset for Northern Ireland. Fascinating data. And this is my chance to ask three - admittedly, not randomly chosen - folks from Northern Ireland about what makes them happy living in Northern Ireland. So, first of all, we're going to be joined by Dane Rotha Johnston, who is an independent non-executive chair of the Board of Northern Ireland Electricity Networks, she is chairperson of Northern Ireland Screen, a member of KPMG's Northern Ireland advisory board. Previously, she was also Pro Chancellor at Queen's University Belfast, and last but not least, she is chair of our own Northern Ireland Productivity Forum. Rotha, welcome to this podcast. And how is your wellbeing score, living and working in Northern Ireland?

Dame Rotha Johnston: Well, I'm a bit of an optimist and I really do enjoy living in Northern Ireland. It's a lovely place to live. You're never far from the mountains or from the sea. And I don't know how we can break down the analysis that Northern Ireland, the people are the happiest. And I know that there are some skeptics, but I prefer to believe that it is true.

So some of the reasons for that I think are to do with a strong community spirit in Northern Ireland. I think we still have a large family sort of, approach. I think in the period that that survey was carried out, that there had been recent, significant increases in employment in Northern Ireland and some very significant FDI (foreign direct investments) investments.

I think that could contribute. I think, and as someone who's travelled and worked abroad and commuted, the travel to work distance in Northern Ireland is not generally great, so you don't have the commuter fatigue. So that could be a possible issue. But I think the last point probably is, more important even in the survey that you referred to Bart.

There is both a rural and urban split, and I think people in rural areas are generally happier and because of the geographic coverage we have in Northern Ireland, I think that could be a contributing factor.

Professor Bart van Ark Hmm. Yeah. You touched on all sorts of topics. We're going to talk a little bit more about in this podcast.

So you got us going here. Next, we also have John Turner today with us. John is a Professor of Finance and Financial History at Queen's University Belfast, where he does research on the history of banking, banking crises, bubbles and financial markets. John has offered several important articles and books, most recently, his book titled *Boom and Bust - Global history of Financial Bubbles* is highly recommended. It's widely covered in national international media and one of The Financial Times' best economics books of the year. And John is the lead of our Productivity Forum in Northern Ireland and oversees the forum from the Queen's University Belfast.

So, John, again, same question to you. What drives your wellbeing in Northern Ireland?

Professor John Turner: I have to say Bart, I think it's the beautiful weather that we get in Northern Ireland – it hardly ever rains. I forgotten what rain looks like. And you know, 360 days of the year, the sun is shining.

More seriously, and I suppose putting on my hat as an economist, I think one of the major contributors to wellbeing is what economists call social capital. And that's the glue that holds society together and contributes to the wellbeing of society. And I think that glue, it consists of three things.

So, family that Rotha has already mentioned, civic organisations and organised religions. These are all relatively strong in Northern Ireland compared to the rest of the UK. And I think these three all contribute to the wellbeing of the province.

Professor Bart van Ark The weather is the one that I will definitely remember. And again, I learn something new every minute on this podcast.

So lot more interesting stuff to come I'm sure. Last, but not least, we are joined by Dr. Esmond Birnie. Esmond is senior economist in the Business School at Ulster University. He was chief economist for PWC in Northern Ireland and Scotland during 2010-2016 and has had various advisory positions for the government of Northern Ireland.

And Esmond is an expert on the Northern Ireland regional economy, devolution, and fiscal policy - all topics we're going to talk about today. And he's an expert on productivity and competitiveness in the region and the Republic since the 1990s, where our paths have crossed before. So the right person to talk to. Esmond, what does make your wellbeing score in Northern Ireland high, I hope.

Dr Esmond Birnie: Thank you very much Bart. And in terms of this question of wellbeing, and I agree with a lot of what Rotha and John have just said. And as somebody who actually wasn't born in Northern Ireland - I was born in Scotland - but I've lived here since I was almost two years old albeit with periods in England at university - you know, I can see both sides the quality of life here, which has got many attractions as indeed Rotha pointed out there. And, some of the difficulties of quality of life in other UK regions such as time spent on commuting and congestion and so on and so forth.

But I do honestly think, being serious about this, there's a puzzle here - we're talking about productivity puzzles. The puzzle here is reconciling the fact that a high percentage, a relatively high percentage of the Northern Ireland people surveyed by the Office for National Statistics said that their sense of wellbeing, including their sense of low levels of anxiety and mental health was better than people in England. Yet we know from the NHS positioned records, that there are many indicators that physical and mental health is actually, or at least perceived to be, worse here than in other parts of the UK and the prescription rates for antidepressants are extremely high compared to other UK regions.

So, I'm afraid. I take some of these qualitative surveys with a large pinch of metaphoric salt.

Professor Bart van Ark Yeah. Well, thank you for that honest answer and quite important for us to really understand the productivity puzzle. So, so let's dive a little bit into this and let's start John with a sort of broader economic context on Northern Ireland's long-term productivity challenges. Of course, we have no time to cover the full century of its rather unique history. But maybe you can sort of help us understand where are we today in terms of Northern Ireland'ss productivity performance relative to Great Britain, also relative to Ireland, perhaps.

And, and how did we get here? What are, what are the traits from the recent and perhaps more distant past that actually are determining today's productivity?

Professor John Turner: So, using output per hour worked, Northern Ireland is currently the worst performing region in the UK and has been for several decades. To put a number on that, over the past decade, Northern Ireland has been about 16% below the UK's level of productivity and the recent - just published a couple of weeks ago – the recent ONS figures for 2019 show that Northern Ireland's' productivity is 9.6% below the median region in the UK, which I believe is the West Midlands.

And then if we think of the gap with the Republic of Ireland, well, that's even more stark. You know, given that we, we inhabit the same island, even if we've stripped out the effect of non-resident owned firms on Ireland's output, those large multinationals that are headquartered in Dublin. Even if we strip those out, there is still a substantial productivity gap between Northern Ireland and the Republic of Ireland, of the order of magnitude from 20 to 25%.

And, Northern Ireland's productivity gap with the rest of UK, it's a bit of a puzzle because it was present before the Troubles. And it was there when Northern Ireland was founded 100 years ago.

And so that, to me, points to some very deep-seated explanations for Northern Ireland's productivity gap with the rest of the UK and simply blaming the gap on say the Troubles or the legacy of the Troubles for me, doesn't really hold up.

So, what then might contribute to Northern Ireland's productivity gap?

And there's three things I think contribute largely to it - there may be others that we could throw into the mix, but these three things in particular. First is peripherality. What do I mean by that? Well, I mean, the Northern Ireland's remote geographically from the rest of the UK and because Northern Ireland's an island, we face higher transportation costs.

So this may mean lower productivity firms established in Northern Ireland and the existing firms receive less investment because it's really costly to, to grow their market. However, the evidence, the best evidence we have suggests that transport costs, although they're high - peripherality in this geographic sense is not a major contributor to productivity on its own.

And indeed, if we looked at the Republic of Ireland's high productivity, that would tend to suggest to me that, you know, geographic peripherality has not held it back as an economy. But as well as this, this geographic peripherality, there's also this soft I mean, what economists call soft peripherality.

And that's the fact that Northern Ireland is remote from where the research and development and innovation action is taking place in the UK. And the fact that Northern Ireland has failed to attract its fair share of research and development you know, creates this problem, this ideas gap, if you like. And I think this ideas gap contributes to the productivity gap with the rest of the UK. So that's peripherality.

Second thing and that's related to the peripherality point is really research and development. So again, looking at Northern Ireland and comparing it to other regions for the UK, Northern Ireland sees some of the lowest levels of R&D investment and has the lowest proportion of innovative firms and that just acts as a drag on productivity.

Indeed, study after study has pointed to that failure to invest in research and development is one of the main weaknesses of the Northern Ireland economy. And the third thing, and the thing that I think is possibly the most important in terms of contributing to the productivity gap is what economists call human capital - or education and skills, if you like.

And I think this is the major contributor. So, let's think about the skill set of the population of Northern Ireland. So, if we look at those aged 16 to 64, and we look at the qualifications they have, we see in Northern Ireland that 16.3% of the population aged 16 to 64, have no NVQ level qualifications. They have no qualifications whatsoever.

And this makes Northern Ireland by far the worst performing region in the UK. The UK average is at 8.8% still relatively high, but at 16.3% Northern Ireland is really far behind. Another statistic will illustrate this point of Northern Ireland's education and skills gap - 66% of Northern Ireland's population, the working age population, do not have a tertiary education. So we're thinking higher education, further education. That compares to 51% in the rest of the UK and 48% in the Republic of Ireland. So again, a major gap there and finally, although there's not as much evidence on this to date, there is evidence of a managerial skills gap that Northern Ireland doesn't have - the managerial skillset that the rest of the UK actually has. I think those are the three things – peripherality, resource development, human capital - that contribute to gap in Northern Ireland, Bart.

Professor Bart van Ark: Yeah, that's a really helpful start.

Let's bring in Esmond for a moment. Esmond, I was thinking of some other explanations, like for example, economic structure of the region. Is that not playing a big role in your point of view and any other comments that you have on John's introduction?

Dr Esmond Birnie: Well, thanks Bart. And thanks to John as well.

Yes, undoubtedly what you're calling the economic structure is a factor. So we know that certain sectors which generally have low productivity, such as agriculture, farming and certain very basic services, which again, have low value added per worker generally across the world or across the UK are disproportionate - they're larger in Northern Ireland.

Now, of course, that doesn't then mean that you resort to the obvious policy conclusion that you try to make those sectors smaller but that does have a mathematical effect and contributes to some of the gap. Now there are various ways of estimating this and it's been done many times over the decades going back even to the 1920s as John was referring to there. And it seems that at most half of the overall or aggregate shortfall and GDP per worker of Northern Ireland can be explained by having more of lower productivity sectors, but that means another half is lower productivity at the match level.

I concur entirely with John's point about the major significance of human capital. So there's the much talked about so-called brain drain, but we do need to be careful there because Northern Ireland is not really all that unique. I think almost all UK regions bar possibly Scotland, certainly London and parts of the South East tend to be regions where there's a net export of 18 year olds as people up sticks when they come to the stage in their life and they want to become a student, they want to move to a different area and region. So Northern Ireland is not that unique in having an outflow or although maybe the proportionate size of it is significant and we don't get all that many people coming back, bringing the benefit of their outside study and wider working experience.

Professor Bart van Ark: Great. So thanks. That's very helpful comments. So Rotha, I want to dive with you a little bit to the business perspective, but before we do that, I want to pick up on one thing that John said that he said he wasn't quite convinced that the Troubles and the legacy was playing a big role in this.

On the other hand, we know from literature and so on that political uncertainty, you know, to some extent drive this brain drain that Esmond was just talking about, but also generally lead to a lack of appetite for making long-term investments and things like that. So have you sensed as a business person that, you know, that this uncertain environment has been a negative in terms of long-term investments in the region.

Dame Rotha Johnston: When there's no question that businesses will actually look at their investments in the long run, and if there's uncertainty and we see it at the moment, I know we're going to talk about that this possibly later, about the implications of Brexit and in terms of the protocol. But certainly having been in business during part of the Troubles, one did always have to think about the, sort of the scale and the level of investment and the risks associated with it. So I know that John makes the point and I think it is true. In the long run, I think that there is a correction in terms of productivity associated with the Troubles. In the long run, you know, we have seen over the last three decades or so, you know, an improvement in terms of the political stability in terms of the impact of the Troubles, but now we're dealing with different sets, different types of instability in terms of trading relationships. And of course that has impact not just for local businesses – and we are primarily an SME economy - but also in terms of FDI. In terms of - if companies are looking at 10, 20 year, 30 year outlooks on investment plans, that has impact.

Dr Esmond Birnie: Just a very quick point. I do agree with John, I think the direct measurable consequence of the period of particularly strong political instability and indeed, sadly also violence and loss of life, the direct effect of that on GDP or economic growth is probably quite small. But I think, I think there is a lingering, more subtle negative of effect in terms of it encouraged the switch in the Northern Ireland economy towards very high levels of public spending and indeed, especially in the 1970s and 80s, extremely heavy rates of subsidisation, particularly of the manufacturing sector.

And I agree with the argument, which was, for example, summarised in an article by Professor Nick Crafts about why did Northern Ireland miss out on the post-war golden age? Part of it, I think was because of the effect of the subsidies, which in turn, were related to the impact of the Troubles and keeping people in jobs became a massive priority, regardless of the impact on productivity and efficiency.

Professor Bart van Ark: Rotha, I want to zoom in a little bit on, on the business context now. You know, the business landscape in Northern Ireland, it's quite peculiar as well. Lots of small businesses, SMEs. There are some large businesses that you may want to talk about very briefly, that don't seem to be very much integrated. So we don't have very strong supply chains it seems in Northern Ireland. So, so how would you characterise Northern Ireland's landscape today, both from a perspective of the challenges, but maybe also from the opportunities that we have ahead

Dame Rotha Johnston: John and Esmond have both said something about the structure of the Northern Ireland economy and it's without doubt that we are primarily an SME economy and we do have, and we have had significant success in FDI over the last, I would say, probably two decades. But we still have a very high dependency in terms of public sector employment in Northern Ireland, and that remains. The fact that we don't have necessarily as many large scale businesses means that we don't get the spillover, I think, of skills from FDI into the SME economy that we might otherwise have got. But there's been a lot of success in recent years. I mean, just stepping through some of those, we've had significant success – and outperformed other parts of the UK - in terms of cybersecurity, in terms of software engineering and artificial intelligence, robotics, advanced composites, a lot of work in terms of zero carbon, in terms of digital. And I've got an interest, obviously in the creative industries in Northern Ireland Screen, we out perform the rest of the UK in terms of the screen sector. And also in terms of agrifood and virtual production.

I want to pick up on a point there that John has raised and you've just, you've pointedly asked me the question in terms of the issue of collaboration and working together. We do have great universities in Northern Ireland, but I feel that sometimes the universities, although there are a lot of good work has been done in terms of engaging with innovation and R&D, that more needs to be done in terms of correcting those relationships and making sure that we're mining into businesses, to actually get the new generation businesses coming, you know, for the future of the economy.

Professor Bart van Ark: It's a very broad range of issues across the human capital skill. Just to at one point, John, you mentioned issue of management skills. I want to pick that up briefly because you've raised this in an earlier conversation that we've had about being an important concern that you're having even though we have a little bit of lack of evidence here, what's your concern around management skills in the region?

John Turner: So I think there's several issues here. First off, so a lot of these SMEs are small family businesses, and there's the ‘BMW in the driveway syndrome’, as it's called in Belfast, that as soon as someone gets to a certain level, they don't want to drive on their business anymore. They don't want to grow their business.

So that's one thing. Second thing is digital skills. So a lot of our managers do not have the digital skills to be able to deliver their business. Now, some of our businesses have really had a challenge because of COVID. Indeed, COVID may actually prove to be a blessing in disguise for some business, because it's forced managers to take their businesses down the digital route.

And there's a bit of catch up there with the rest of the UK. I think also there is the whole idea of how to manage people because we have lived in a divided society, people go to different school systems. How do you actually manage people coming from diverse, different backgrounds? And so I think that's also a skillset that's, that's missing from our managers.

So those are just three very brief things, Bart.

Professor Bart van Ark: Yeah. And, and indeed at The Productivity Institute, our intention is to actually do some more work on this to really get our arms around this issue of management skills, which seems to be a critical part of the story. Look, we can, of course not avoid to discuss one of the most pressing issues for Northern Ireland politics and economy at the moment.

And that's the future of the Northern Ireland protocol. But before that, we are going to take a short break. Where you can hear about more what's going on The Productivity Institute.

regular updates on what productivity means for business, workers and communities, as well as reflections on how productivity is measured and how it truly contributes to increased living standards and wellbeing.

The Productivity Institute is a UK-wide research organisation funded by the Economic and Social Research Council.

Professor Bart van Ark: Welcome back to my discussion with Dame Rotha Johnston, Professor John Turner and Dr. Esmond Burnie to discuss the productivity pearls and perils of Northern Ireland. As mentioned just before the break, Brexit has created the peculiar situation for Northern Ireland's economy as the UK's desire to leave the European Union and the widely agreed need to keep an open border with the Republic of Ireland are two objectives which are very difficult to align. And the UK's latest request to renege the Northern Ireland protocol means this thorny issue is not going to be off the table yet.

So Esmond, we've read of course, a lot about empty supermarket shelves and delays in sourcing materials to challenges for supply chains and all that. First of all, how bad is it really? And then secondly, are those temporary adjustment costs or is that really a long-term threat to Northern Ireland economy and productivity?

Dr Esmond Birnie: Well, thanks Bart. I think the situation is bad. And I think also whilst undoubtedly, there are some transitional things which will fade, some of the impacts will be negative. Let me try to explain it this way, particularly in terms of the impact of the Brexit protocol on the Northern Ireland economy.

If we imagined that the cost of raw materials or fuel being imported into Northern Ireland was raised, or if indeed transport costs, which we were talking about earlier, were raised, other things being equal that would squeeze the value added of it being produced by businesses and it would in turn, reduce productivity.

And I think there's a sense in which the protocol's practical impact on businesses works like that. Every year, based on what's the most up-to-date data we have, which admittedly relates back to 2018, about 10 billion pounds worth of goods are imported into Northern Ireland from Great Britain, from the rest of the UK.

I think it's reasonable to estimate that the protocol, in terms of the checks, the extra bureaucracy, the delay of transport times has added up to 6% on those costs. We have had certain cost impacts of the protocol reported on by one major retailer, Marks and Spencers, in their annual accounts published a month or so ago.

And based on that, I'd estimate that their costs relative to their imports from GB have gone up by 6%. And also the BBC have reported cost impacts for one major Northern Ireland logistics company. Now admittedly, I'm therefore basing this all on two observations. I'd love to have more, but we don't have official data.

It's the best we've got. Now if costs have gone up by 6% - and I do stress this is a rough figure, a ballpark figure - 6% of 10.4 billion is about 600 million. So that's a 600 million pound per annum, equivalent to about one half percent Northern Ireland GDP increase in costs, therefore other things being equal - of course other things won't be equal - value added goes down. Productivity goes down.

Now of course, businesses already are adjusting and that complicates the position. They could be moving their supply chains from reliance on goods imported from Great Britain to goods imported from the Republic of Ireland or indeed the rest of the EU 27. But it does have to be borne in mind, kept in mind, that probably these supply chain adjustments will themselves impose extra costs and may indeed be more costly on average in terms of running the operation than the status quo pre the protocol.

Professor Bart van Ark: But let me query you on that a little more, right? Because the rising cost of course, could just be passed on to the consumer or to the customer more in general, you know, longer term, you might say that's negative for productivity, but it doesn't have to be in the short term.

So I think the question is, are firms going to eat those costs? So they'll see it in lower profits and therefore may invest less and things like that or are they likely to just to pass it on to the consumers and the customers.

Dr Esmond Birnie: Well, that's a very good point Bart. And of course this is the whole problem, always in economics and economic analysis, that in a lot of things dynamic can shift. Businesses could pass it on, but then of course that's got negative consequences for the consumer and then you still have a negative effect on Northern Ireland GDP.

If they pass the costs on in terms of charging more for process products, which have been sold back into Great Britain, and Northern Ireland's trade flow in terms of selling over to Great Britain is much bigger than the trade flow selling from Northern Ireland into the Republic of Ireland than the EU market, then presumably they've become less competitive.

There will be less activity and less employment. So the adjustment processes are uncertain. They're certainly complex, but there's a lot of potential in the medium to longer run harmful effects.

Professor Bart van Ark: So Rotha, we can't go through all the elements of what a UK government is proposing, but, some of them sound to me like sensible proposals to smooth this process a little bit. For example, this idea that, you know, goods that are destined for Northern Ireland can get a label that is for Northern Ireland only and therefore you reduce the check. So there are some elements that I think might actually be workable from a productivity point of view and making things a bit more efficient.

Dame Rotha Johnston: Absolutely. I mean, there's no, there's no question that there is disruption in terms of both organisations and to consumers in Northern Ireland, in terms of goods - you can see it in the supermarket shelves.

You can see the products that are not coming in. And the full range of goods is not available to the same extent in the large supermarkets here. So there does need to be a solution. I think that's the first issue. Whether or not it can be labelled Northern Ireland only, I mean, that's a matter, I guess, for the UK government and the EU to discuss, but there does need to be an arrangement.

I know the EU's preferred solution is the so-called dynamic alignment. And that has been rejected, I think, in terms of the UK's position. Obviously they want to have a risk-based approach and that hasn't been accepted by the EU. And there's been other proposals in terms of a Swiss-style veterinary agreement and that isn't acceptable. And the Northern Ireland Food and Drink Association are proposing something that's a bit like dynamic alignment, but restricted to agrifood. So I think it's really the on the agrifood side is the biggest and most noticeable issue I think for consumers. But I do think that it has impact across other sectors that just aren't as, as recognised by consumers, but they are, it is definitely affecting other sectors of the economy besides the retail market.

Professor Bart van Ark: So John, one of the things we shouldn't forget is that services are actually not part of this at all. I mean, you know, services are just not part of any deal that was made between the UK and the EU. So are we too much focused on, you know, this thing that we're seeing every day in the supermarkets and are we forgetting about the critical role that services has in the economy and how that might play out in the Brexit environment for Northern Ireland?

John Turner: Yeah, I think it's rather, from Northern Ireland's perspective, it's rather unfortunate that services aren't included because I think that's where I, could have seen a lot of major banks, major financial institutions locating in Belfast and taking advantage of Belfast or Northern Ireland's unique location.

I think the more, the more worrying thing here about the protocol is – and I think Rotha alluded to this earlier in our conversation – it's injected political instability and uncertainty into the country. And we do not need political instability and uncertainty. And that's one of the big, big problems for me with, with the whole Brexit Northern Ireland protocol.

That's going to take government's attention away from the skills agenda, and it's going to make it more difficult for businesses to invest and to figure out, you know, what, what their long-term investments are. So I think there is that larger spillover effect that's going to really hit productivity essentially.

Professor Bart van Ark: Let's spend the last couple of minutes by broadening the topic a little bit to sort of policy more in general and policy priorities. We already talked obviously about some critical policy areas, but let's try to bring it together, how we can create an environment in which businesses can innovate and we say, can adapt new technologies. Because we know that's sort of going to be the driver of productivity, where, where workers and business leaders can develop and apply their skills, where governments create an environment where businesses and society can then thrive and create what we economists sometimes called the spillovers to drive the growth forward.

So, John, let me start with you sort of, from a broad perspective on industrial policy. I mean, there's an, I think Esmond has referred to it earlier, there has been no shortage of government intervention and industrial policy initiatives, and a lot of it has failed overall, the governance sector is actually quite large in Northern Ireland.

That's a bit of a common denominator. What, from an industrial policy point of view, are the priorities for the Northern Ireland government. And how does that relate to the UK wide government?

John Turner: Yeah, so I think in terms of priorities, first priority would be in terms of FDI and this certainly has been the priority of governments in Northern Ireland over the past couple of decades to attract in the businesses into Northern Ireland.

They've seen what's happened south of the border. They've seen the Celtic Tiger and you know, Republic of Ireland's success with bringing in all these multinationals and then the spillover effects from those multinationals. Northern Ireland's problem however, is when it tries to bring in these multinationals, it doesn't have the skilled workforce. It doesn't have a depth of managerial talent to be able to facilitate these. And so as well as attracting in the FDI, it has to think about upscaling its workforce. And that starts, as Rotha has already said, from preschool all the way through to university and post university upskilling.

And so there's a need for a, a holistic skills package and education package to go alongside the FDI. So I think those were the two major policy interventions I think.

Professor Bart van Ark: Esmond clearly, as all of you said, Northern Ireland needs more investment and obviously the Republic of Ireland's route of very low taxes is probably not going to be the solution for Northern Ireland or that easily. So what are the sort of fiscal and structural policy instruments that Northern Ireland's government has and also sort of more broadly, do you think that the current degree of devolution policy to Northern Ireland's government is sufficient or should be changed.

Dr Esmond Birnie: Those are big questions. So just to put it into context, I think it's very important that the Northern Ireland Executive, in other words, the regional devolved government, makes productivity a priority because arguably it isn't at the moment. It's not mentioned in the most recent draft of our programme for government, the one that dates back to 2016. A related point is that it's very important to avoid what we've had in the past, which is a sort of stop-go system of government. We have devolution on, and it goes off and that breaks up continuity in policymaking. During the period 2000 to 2017, according to Professors John Fitzgerald and Edgar Morgenroth in Dublin, they calculated that Northern Ireland's productivity growth was only 0.2% per annum compared to 0.9% per annum.

Now, most of that period, we did have devolved government inauguration, not all of it, but for some or most of that period, nevertheless, we still had low productivity growth. So to get to your actual question, Bart, I would, my instinct is it's more a question of using the powers both in terms of policymaking and indeed in terms of tax variation that the Stormont regional government already has as opposed to extending their powers into further realms or domains. Now, it is true that earlier that this year in March, I think the Northern Ireland Minister of Finance created a Fiscal Commission, which is headed by Paul Johnson, director of the Institute for Fiscal studies in London and they'll be recommending later this year or early next year if there could be extra tax varying powers in Northern Ireland. So we'll wait and see, of course what they say, but my instinct is Stormont could use the revenue raising power that it already has in terms of rates, in terms of the much the much-vexed question of, should we have domestic water charges in the same way that people in England, Scotland and Wales have, rather than extending into what might be very difficult policy areas like a regional income tax.

Professor Bart van Ark: Yeah. So Rotha, from a business perspective, you already mentioned a couple of policy areas and we know there's no one silver bullet to solve this problem. But, you know, business leaders quite often want to say, you know, you got to focus, so if you would have to focus, what do you think is the most needed shot in the arm for business from a policy perspective, in order to get us back on a more healthy productivity path in the nation.

Dame Rotha Johnston: I'll make a couple of comments. I think the first issue is that the foundation has to be stability. There has to be a stability, a stable, economy, stable politics as foundations for growth. We know that the Department for Economy recently released a 10X document looking at a significant growth across very focused sectors, where we've got strength, but actually the challenge there is going to be implementation.

So stability is important in that regard. You mentioned, someone mentioned earlier the issue that we've got lots of economic strategies and some of those strategies being very good, the failure has been in implementation. So that takes me to the next point, which I think is important in public policy, which is scale and longevity of public policy interventions.

We know that the Northern Ireland Executive are usually awarded either three or four year agreements with the Treasury. But very often that translates to annual budgets to organisations such as universities and Invest Northern Ireland etc and I think that can be changed - people then can just get on with delivering and implementing.

The secondary I want to mention then is the issue of R&D and innovation. I think we really need to rethink how we're funding R&D and innovation in Northern Ireland. And the last area is the area that John opened up in terms of his contribution and that's about human capital and that's human capital from preschool right through to post-primary, further education and higher education. I think there are some issues that we need to address and in Northern Ireland that link back to productivity.

There's no easy answer, but the first thing is actually the scale and longevity of investment. From a public policy intervention perspective, we very often are running in one-year programmes and one-year budgets. And that's just simply not good enough in terms of being able to plan both, either for universities are indeed for business.

If you're looking at longer term R&D and innovation programmes, we definitely need more collaboration. I mean, John's talked about innovation and R&D. Northern Ireland, you know, we don't have a catapult centre as such in Northern Ireland, so we need more collaboration at a national UK level, a regional and at a local level in terms of local government.

We need, I believe, some further work in terms of making Northern Ireland an attractive place to live in terms of getting more FDI coming into the country. Universities and innovation, more hubs I think would be an important issue. And John talked about the issue of an ideas gap, that to me is one of the biggest areas that we can actually change in terms of our economy.

And I think the private sector has a significant railroad there. So, public policy intervention in terms of innovation, whether that's further tax credits or some alliances for organisations and businesses to take risks in terms of future innovation and development, I think's important.

One area we haven't touched on at the moment is in terms of transport infrastructure and actually the movement of goods and people in Northern Ireland. And indeed, not just people, but also data. So digital infrastructure is an area that I think we certainly need to do more on, and I guess the last area I want to talk on talk about is the area that John finished up on which was on human capital.

We need to make sure we've got the appropriate skills, not just for today's economy, but for the future economy. We know that zero carbon is coming down the track at a very fast rate. And we don't have a skills strategy at the moment to prepare for that and either the FE colleges or the higher education colleges. And just in sort of finishing this section Bart, I like to just make a call for another area that I think is important to Northern Ireland.

And we haven't mentioned it yet. And that is preschool and primary education, which are the foundations for secondary school, further education and higher education. And as a region, we don't perform particularly well in that area. And I think that some further support, I mean, this, the same areas in Northern Ireland and that continue to have the highest levels of underperformance.

And I think that having a long run, long term strategy to deal with those issues, not over a one-year period, but perhaps over a 10-year period where it's possible to get cross party support would be something that would be really beneficial.

Professor Bart van Ark: Yeah, it's a big agenda. It's, hard to summarize, but you summarize it actually very well yourself in this last segment.

One important takeaway. I think John, you said that literally we don't need more uncertainty and we are getting it at the moment, it looks like. So that's perhaps the most thing, you know, you mentioned scale and longevity, Rotha, which I think is so important here. And these things are not only important for Northern Ireland with all its unique characteristics.

You know, if you think about net zero, which was mentioned by one of you, but also aging populations, I mean, we need, long-term focus on some of these issues and that's perhaps one of the most important messages coming out of this for anyone listening to this and can influence this, that will be a very important takeaway.

It was a great discussion. Thank you. Rotha Johnston, John Turner and Esmond Birnie for a great day. Our next episode of *Productivity Puzzles* will be on one of the questions we get most asked at The Productivity Institute. How do you actually measure productivity?

I will have the pleasure to speak with some of the key experts on productivity measurement who can explain to you in plain English what we can measure, what we should measure and what it all means.

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