Northern Ireland Assembly

Committee for Enterprise, Trade and Investment

OFFICIAL REPORT (Hansard)

Economic Forecast Report: Northern Ireland Centre for Economic Policy

17 October 2013

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:
Mr Patsy McGlone (Chairperson)
Mr Steven Agnew
Mr Sydney Anderson
Mr Sammy Douglas
Mr Gordon Dunne
Mr Paul Frew
Ms Maeve McLaughlin
Mrs Sandra Overend

Witnesses:

Professor Neil Gibson	Northern Ireland Centre for Economic Policy

The Chairperson: Briefing us is Professor Neil Gibson, director of the Northern Ireland Centre for Economic Policy (NICEP). You are very welcome; it is good to see you again. The Committee — I am not pointing in any particular direction — may wish to raise issues such as the rise in business costs, measuring export levels and measuring the success of economic strategies by Invest NI. Those matters may come up today to help contextualise our meeting with the chief executive of Invest NI next month.

As I am sure you have been told on previous occasions, you have 10 minutes to set out your stall. You might give us some ideas of where we are economically and the potential for the future, as you see it. We will then have a question-and-answer session with members.

Professor Neil Gibson (Northern Ireland Centre for Economic Policy): Thank you. Good morning, everyone. It is nice to be here. I want to leave most of the time for questions. NICEP is at the beginning of its journey, so, at this point, I am not here to present a huge body of work. I will focus more on the agenda for what we are there to do. I will spend a few minutes telling you about the centre, its aims and ambitions, and how it might be of help to the Committee, and Northern Ireland in general. I will then talk a little bit about what is in our report, what we will be doing over the next 12 months, and our view of the economy as it stands today.

The Northern Ireland Centre for Economic Policy was established at the beginning of this year. It recruited staff during the summer. We are now fully operational, and we had a very successful launch last week. The centre is made up of three core sponsor organisations, namely the Department of Enterprise, Trade and Investment (DETI), which is our primary sponsor, the Belfast Harbour Commissioners, and First Trust Bank. They have signed up for three-year sponsorship arrangements that allowed the centre to be set up. That provided the centre the seed funding to enable us to become established. The University of Ulster provides funding in the form of covering all the centre's overheads. We are also generating commercial income. Therefore, it is a multi-funding model.

The centre is being run like a business. It has to be cost neutral. We have to generate the money to pay the salaries of our staff. In that sense, it is a functioning business; at least, that is the way that I intend to run it. We have appointed as our two associate directors Richard Johnston, who was previously an economist in Invest NI, and Gareth Hetherington, who was previously a consultant and economist at PricewaterhouseCoopers. That is our team as it stands at the moment, along with some administrative support and a student on placement, Jordan Buchanan.

The centre has spent a little bit of time liaising with its funding organisations, talking with the business organisations and, among ourselves, trying to look at what we think is an appropriate programme of work for the centre. Those who saw the launch material will have seen that the centre's strapline is:

> *"Helping Northern Ireland achieve its economic ambitions."*

That is what we are here to do. The key word is "helping". We are trying to listen to people. We hope to be available to this Committee, government in general and the Executive to be supportive and, where we can, to give you independent views on any particular issues that come before you. I will make myself and my team available. If there are any questions that we do not get through today and if you ever want to pick up on anything, please get in touch with us. The launch pack should have all our contact details.

What is the research programme that we have set up? That is outlined in the document, but at its heart sits our attempt to build a new macroeconomic model of the Northern Ireland economy. You might ask, "Why do we need another model; there are plenty?" In my previous role in Oxford Economics, I was involved with one of those. However, if we think about it, there is no macro model for Northern Ireland; they are all regional models. That is an important distinction. Regional models can tell you only about certain parts of the economy. They tell you about sectors, employment or gross value added (GVA), but they do not tell you about the key things that actually drive the economy.

Economic growth is a function of what consumers, government and businesses spend, and of the trade picture. We do not know any of those things accurately for Northern Ireland, or, at least, we have never put them together into one collective whole. That is important because, if you are starting to look at a policy issue such as corporation tax, air passenger duty (APD) or stamp duty, there is not actually an empirical framework for looking at the impacts of those on consumer behaviour, export performance, and so on. In my past, when I was doing the economic modelling for corporation tax, the answer to those questions had to be built from the ground up.

If we are going to go forward to have negotiations with the Treasury or other debates at that level, we need a model that is recognised by organisations at that level. Therefore, we are going to try to put together a Northern Ireland macroeconomic model as a framework for all the other types of policy research that we do so that, if we are looking at air connectivity, which involves modelling the impact of price changes on air traffic flows, we have a framework into which we can feed to produce consistent overall economic impacts of that policy. It might seem that another model is not required, but this is a very different one. As you will see in one of our research agendas, a very particular reason for establishing this model is that, although we are aware of the focus on exports and on growing our export base in Northern Ireland, as we sit here today we do not know what exports levels are from Northern Ireland. We have no measure of exports. We have some surveys of the manufacturing sector, and a little bit on services. However, Scotland or anywhere else that looks at this issue will have a full picture of their agriculture, tourism, manufacturing and services exports.

It is a bit difficult to measure effectively the policy success of export growth if we do not actually know what export levels are. That seems a very obvious point, but we need that type of holistic picture of what is that is driving the economy so that, when we come back to Committees such as this one and present evidence to you and colleagues, it is done in a consistent way. It will be a case of being able to say, "Here is the policy, and this is the impact that it will have on consumers, business, government and trade." That will give us the type of macro framework that will be recognised by Treasury and at international level, and it will enable us to say that we have approached policy in a very consistent and empirical way. That model is at the heart of what we do. It is not all of what we do, but it is at its heart. Putting that model together is how we have been spending our time.

The other elements that tie into that model are specific bespoke research that we have picked up as being important for the Northern Ireland economy. Two were identified very early in the process. One is the cost of doing business. Every survey that we have seen over the past four or five years cites the cost of business as the number one issue, very often above things like access to finance. The one that you will see in the report is the Perceptive Insight survey commissioned by InterTradeIreland, which is good because it enables us to compare whether factors are being experienced in other parts of the island. That can be important when we are formulating policy solutions.

However, there is not a good body of work on the cost of doing business. An original study was carried out by the Economic Research Institute of Northern Ireland (ERINI) some years ago, but there is not a great evidence base in respect of things such as energy costs, rates or insurance. We do not really know yet which sectors those impinge on and how much they impact on those sectors' ability to grow, expand and take on more labour.

We have set out on a body of work. Fortunately, that was actually an item on DETI's agenda for research that it hoped to take forward. I have to admit that I did not actually know that it was on DETI's agenda when we put it up as one of our key actions, so we have decided to do that research collaboratively with DETI. That is important because it is a new type of working that I want the centre to be able to do. That will not always be the case. We will do discrete pieces of research that are completely independent and not worked on in collaboration with government officials in any way. Our air connectivity study, which I will speak about in a moment, is an example of that. However, the cost of business is one area in which we will work collaboratively. We will work with some of the statisticians, analysts and economists in the DETI team to help with their own training and development, and they will work with us, perhaps coming to the university and helping to complete the project collaboratively. I hope that that is an example of a new type of almost public-private working. Obviously, being based in the university, we are public too. However, it is a different type of working model, rather than simply coming in every six months with our final report.

We are doing a number of pieces of research. It is probably beyond the scope of the time that we have to run through all of those. However, just to be clear, we have discrete research that is not in any way scrutinised or overseen by any of our sponsors, government or the private sector. The air connectivity study is an example of such research. That is of relevance to DETI and Northern Ireland, but we are not doing that one collaboratively. We are working independently with a set of aviation specialists, who are being procured at the moment; I do not think that that procurement exercise is complete. That report will stand under NICEP's banner.

We will be doing a couple of other discrete pieces of work. For example, we are looking at building some performance-monitoring tools. The Government are doing a lot of work to build what are called input-output tables to help better understand the links between firms. We hope to devise some policy tools that could be used to carry out impact assessments, for example. Of course, our core model and the forecasts that are produced by it are entirely independent. That is a very important point to make; indeed, it came up in questions from the press at the launch. Minister Foster made a joke at the launch when she said that she was seeing the briefing for the first time on the day. Obviously, that involves a level of trust. She referred to NICEP and to me as "critical friends" of the Northern Ireland economy, and that is what we should be. It is very important that the briefings we provide and the forecasts we produce are not, in any way, overseen or influenced by anybody outside the research institute. Our core model is independent, and our connectivity study is independent. However, issues such as the cost of doing business or export studies are done collaboratively with government.

We are also doing a little bit of research for our individual sponsors. We are presenting to key clients for First Trust Bank, we are doing a little bit of work on cruise ships for the Harbour Commissioners, and we presented to its board. We might also do some impact modelling for the harbour estate, looking at the value of its estate. We will be doing bits of work that are relevant to our sponsors, plus independent work.

Finally, on the centre's operation, we have commercial work. I sit on PricewaterhouseCoopers Global Cities team, so I do a lot of work on its international city comparisons. Hopefully, that will be relevant to Northern Ireland in what it might tell us about Belfast and the Northern Ireland economy. That is what the centre is there to do. It is there, hopefully, to help. We have a full programme of work for this year. Hopefully, we will bring back evidence on what we see as the key issues for the economy via the forecasts; what we think on the issues of air connectivity; the costs of doing business; and the creation of export data. Those are our goals for the first year of operation.

Before the question and answer session, it is important to say what our forecasts are for the Northern Ireland economy and what the initial results from our model suggest. The modelling presents a number of challenges, which you might expect. However, it is important to start with the fact that the forecasts suggest that Northern Ireland is beginning its road to recovery. It is a very long road. I have often likened it to falling off a cliff and climbing back up the stairs; it takes a long time to get back to where you started. Therefore, it will be a very slow recovery — very fragile and tentative. I will not go through the detail; we can pick that up during questions. However, the key policy message in the document is that it is a very dangerous time for policymakers because, once you start a recovery, it is very easy to say, "Our job is done. Things are now taking their natural course." You can see a little bit of that elsewhere in the UK, where there is a little bit of backslapping and people saying, "We have done our job and things are now mending."

Our forecast suggests that the long-term prognosis for Northern Ireland is still something that the people of Northern Ireland, and we as a group, should not be happy with. There are still significant challenges to meet. Our view is that the austerity plans of the UK Government after the next election that is currently scheduled will continue to have a dampening effect here in Northern Ireland. We are asking a lot of the private sector to offset those austerity cuts, particularly in a region such as this where the private sector is quite small. The austerity challenge has not gone. It may be a little quiet at the moment, but the plans post the next UK election suggest that there is still more to come. That sets a quite challenging forward look for the economy. If you look at our forecast, we say that there will be a modest recovery, below the UK rate, finally creating some jobs, and a return to growth in the housing market, which is obviously an area of great interest at the moment, because it has huge effects elsewhere. However, it will not be the level of growth rate or recovery that would give us the type of out-turn in 10 years that we or society as a whole would be happy with. Within that framework, we see challenges ahead. We believe that the centre has a body of work to do. I am happy to speak about either the plans for the centre, the work that it is doing or answer any detailed questions that you might have about our outlook or our forecast.

The Chairperson: Thank you very much. You mentioned the independent nature of NICEP. To whom is NICEP accountable? What is the structure of accountability?

Professor Gibson: NICEP has an advisory board, which is not a management committee. That is important; it does not have a veto over what the research centre does. However, we have an advisory board, which comprises members from the university. I can provide the Committee with a full list. The vice chancellor is on the board, along with the head of the business school, Marie McHugh, and the head of teaching in the school, Gillian Armstrong. We have a teaching role as well, so we must have that overseen by the advisory board. Each of the sponsors has a person nominated to be on that board and a deputy for when they cannot attend, so there is a nominee from DETI, Invest NI — obviously, we do a lot of work that will be relevant to Invest, particularly on the forecast for exports, for example — First Trust and the Harbour Commissioners. We also have Philip McDonagh, who looks after the commercial interests of the centre to make sure that we do work that is commercially viable. He has a perspective on our commercial remit. Our teaching, commercial and public sector research arms are all represented on that board, but it does not have voting rights to decide what research is done and it does not have any editorial control over what we write.

The Chairperson: Who determines what you do?

Professor Gibson: At the moment, as director, I have control over the overall research programme, which I hope you can see from the document is informed by the consultations that I have. That is then put to the advisory board, which can make recommendations on whether it feels the research agenda is appropriate. Ultimately, its veto is its funding. It is important to understand that Northern Ireland plc is not committed to funding NICEP in the long term, irrespective of what it does. If our outputs do not match something that is beneficial to Northern Ireland, then, after that three-year period, there is no commitment to necessarily continue unless the centre is proving value for money.

The Chairperson: Was there any relevance to you qualifying that by saying, "at the moment"?

Professor Gibson: No. I did not mean that to be of any specific relevance. Precision of language is not something always associated with economists. *[Laughter.]*

The Chairperson: I would like to ask a few questions about the economy. You mentioned factors in the transition and austerity. I was on the panel when a couple of academics came over from England who had prepared a report for Northern Ireland Council for Voluntary Action (NICVA), which said that, as a consequence of welfare reform, £750 million per annum could be sucked out of the local economy. Do you have any thoughts on how you square that circle of the diminishing role of welfare reform on our local economy? On that occasion, representatives of the Northern Ireland Independent Retail Trade Association (NIIRTA) voiced concerns. How do you see that impacting while, at the same time, you quite rightly forecast that we have the potential for 6,000 net new jobs in 2013 and a further 12,000 in 2014? Are those projections lifted directly from what Invest NI is telling you, or is there another basis for those presumptions? In particular, has the impact of welfare reform been worked into those forecasts?

Professor Gibson: That is a good question. I have seen the NICVA work, although I have not looked through it in detail. It is important to say that the forecasts produced there come out of the model that we have been talking about. If we go back to the point that I made at the beginning — thinking of economic growth being a very simple calculation of who is spending money, Governments, businesses, consumers, and the trade picture — each one of those sectors has those factors built into its forecast. For example, some of those jobs are linked to the improving house price picture, which obviously links to construction. There is a lot of labour available at the moment. It does not take up a lot of jobs, but it is available. In other times, it is very difficult to get that type of labour, but at present, a housing market recovery should be able to be met by the skills in the labour force.

There is also a relatively positive outlook around the tradable services picture in particular, in which we have seen some notable job announcements in recent times, although the firms that have been here for quite some time are still recruiting in that area. There is not any direct modelling of the welfare reform changes at present, except to say that the extent to which they change government spending is built into the modelling. It is an issue, and we mention very loosely that we could carry out some more detailed work on it.

I will make a couple of observations about welfare reform. First, if we are looking at it as a whole subject, we have to start at the beginning by explaining why you would even look to welfare reform. We have to recognise that the welfare system is expensive from a UK and, indeed, a Northern Ireland perspective. If we went into any business to advise them and say, "We need you to be more efficient, but we are going to ignore your two biggest lines of expenditure", that would not be a very sensible piece of advice.

Things such as the Health Service and the welfare system, emotive as they are, are still part of what we should be considering in good governance to see whether the money that we are spending is being spent as effectively as possible. Not having studied it in any detail, I would not want to comment on whether the current welfare reform proposals are particularly more damaging in Northern Ireland than they may be in the UK. The only remark that I would make is that it is easy, given that it is an emotive subject, to suggest that the only thing welfare reform will do is draw money off people whose benefits are in any way affected or adjusted. That is, of course, factually true, but it also depends what that person then does. For some, that change to their circumstances may, in certain cases, provoke them into becoming more active in their job search. It may help them get into the labour market, which may lead to a better outcome. It is, obviously, difficult to say that because, for many, that is not a viable option. They may not have the right skills or perhaps they have various issues of health or otherwise that prevent them from being available for labour. However, some people will certainly find that the income level they have is no longer suitable, and that may provoke them to think more aggressively about potential training options and routes back into the labour market.

We always have to be careful in the calculations not to make assumptions. If we take money away, we have to ask what happens to those people whose income is reduced. It is important to assess that some of those people — it is for research to determine how many — may then be provoked into a different action regarding potentially taking up employment. We have no specific modelling of that issue. We were aware of the work that was being done and did not want to duplicate it. We will keep looking at the issue, going forward. However, any reform of any public expenditure, welfare or otherwise, will clearly have an impact in Northern Ireland.

The Chairperson: Will you look at that research?

Professor Gibson: Yes. Our next six-monthly review will look at the research that has been published by NICVA and others, but we are not carrying out any bespoke research on welfare reform.

The Chairperson: Forgive me for saying so, but what I have just heard from you is, more or less, the Iain Duncan Smith view. Before doing any further modelling, you probably need to look at other factors around the impact on people whose income will be drastically reduced and the impact on the economy, particularly the retail sector. That is an issue.

We will move on to two or three other things that you mentioned, including the focus on access to finance. In fact, the big issue that is coming back to me from businesses is not so much access to finance, but the way in which banks are trying to restructure finance arrangements; in other words, moving an overdraft facility into a loan facility. Removing that overdraft facility prevents the flexibility that any business needs to allow payments in and out to keep it going and even, potentially, expand. Has your research picked up on that?

Professor Gibson: Not the research to date. It is important to note that we are aware that the Economic Advisory Group (EAG) is looking at the specific issues of access to finance, and I understand that a research programme is scheduled. Therefore, we did not feel that we should step into that space and duplicate that; rather, we felt that we should look at other issues. What you said, though, is important. It will be reflected in our research into the cost of doing business because it is extremely important — our launch included a good discussion about this — to, as you rightly articulated, fully understand exactly what the problems are in getting access to finance.

The InterTradeIreland survey quoted in the report does not put access to finance as the top issue. It states that rising costs are our biggest problem. We need to get underneath that and understand whether there is a particular type of firm for which access to finance is a particular problem. Is it a certain sector or a certain size? At the moment, the headline figures are telling us that the focus on access to finance, although understandable, misses some issues that may be even more important in relation to the rising cost base. We will be picking up access to finance and those particular issues in the cost of business research that is planned over the next 12 months, but we are not trying to duplicate any of the other research that is going on.

The Chairperson: You mentioned the issue of the composition of other rising costs. Have you any detail on what those other rising costs might be?

Professor Gibson: The real reason for doing the cost of business research is that there are anecdotal stories but, particularly in the years since the recession, there is no empirical evidence to document what those are. Energy gets very significant mention in the survey as a specific cost. However, in the balance between something like, for example, business rates or insurance costs, one would expect that labour would not be significantly increasing as a cost at the moment. However, again, we do not have anything other than anecdotal evidence. That very question has prompted that to be one of our top pieces of priority research.

Mr Douglas: Thank you, Neil, for your presentation. I wish you every success in your new project. Could you keep your answers brief because I am allowed only five minutes? *[Laughter.]* I am not being disrespectful.

Professor Gibson: You know me well.

Mr Douglas: You mentioned air passenger duty. Obviously, that is not yet a devolved matter. There are suggestions that it would cost us £60 million. Obviously, in light of the decision in the Republic of Ireland this week, there is no APD. That means that, for people going from Belfast to Birmingham or London, it is £26 every time. That is for businesses and ordinary people who maybe just want to visit relatives or whatever. Is there anything else that we can do apart from taking £60 million out of our block grant to pay for it? Are there any other measures that you have looked at?

Professor Gibson: Not yet. You have seen the literature review. That raises just how complex the issue is; airlines make a lot of complicated decisions about what they do or do not do on air access. Let us be clear: the research points out one very important fact, which is that the airlines are mostly responding to demand. If they have a choice of airports from which to set up their route, that will remain a factor, irrespective of what our price is here. There may be very many routes in which a market is not sufficient to support an air access route from both Dublin and Belfast. There are very important factors that will impinge on what impact that policy change may have, were it devolved, that go beyond the simple cost dynamic. It will also be linked with behaviour elsewhere and other factors in the airlines. That work is ongoing. We will report back with our findings. I do not want to pre-empt them, but we were aware of the announcement yesterday. We will be taking as wide a look as we can at other measures that might be relevant. It is not purely linked to air passenger duty; it is about the whole issue of connectivity.

Mr Douglas: You have done a lot of work in the past on the social economy. How important is the social economy in trying to get us out of this economic downturn?

Professor Gibson: It could be hugely important. I was very fortunate to be asked to take up a post on Bryson Charitable Group's board. I deliberately took that because I felt that it was a sector that I have less understanding of historically. I have worked for big corporates and I have worked in the small enterprise arena, so I felt that, from a personal knowledge point of view, to contribute more effectively, that would be an important position for me to hold. The social economy could be crucial. The greatest challenge for the sector is twofold. The first issue is about demonstrating its value. Economists tend to work in very narrow ways on what they consider to be value for money. We have to consider the right framework for what is considered to be value. The second issue is about identifying the sector, because it is becoming much more widespread throughout the economy. It is not a sector in itself; it is spread around, which makes it difficult for analysts to identify. The question for our research centre is about where our market opportunities are, and then asking about how they are best delivered. If we are really going to be ambitious about our future, we will have to be very open about methods of delivery. Be they private, public, third sector or social enterprise models, we really need to keep an open mind about all of them in any particular question. We cannot say that we just want to do something in the public sector because we always have. That will not be good enough. We have to ask the question and see what the right delivery model is. I am very excited about the potential of the social economy. I hope that I will bring more value to that in the years ahead.

Mr Douglas: Last week, we had the Northern Ireland investment conference. At that, a number of speakers talked about foreign direct investment (FDI). They also said that Northern Ireland is second only to London in the United Kingdom for foreign direct investment, which is very encouraging. How does that factor into your projections?

Professor Gibson: That is very important. As I mentioned, in the model of the economy, trade performance and investment performance are hugely important. We look at individual investment flows throughout the world. I remain a strategic adviser to Oxford Economics, so we can look at its world projections of trade flows and help to model what Northern Ireland may or may not capture.Although it is important at this juncture to say that we should always ask how efficiently we spend our money — we should never stop asking that question — those figures are important to reflect on. Northern Ireland is not without its successes. There are plenty of places elsewhere in the UK that have had virtually no inward investment during these tough times. Although we may ask whether we are getting the maximum value for our money, we cannot get away from the fact that the inward investment picture of the past few years has been one of our great successes. We should commend our successes, because they have been very important during a difficult time.

Mr Douglas: I have a final, final question. If Carlsberg could do economic investment — *[Laughter.]* — is that the model it should be looking at?

Professor Gibson: Other brands are available. *[Laughter.]* Are there specifics that we could do differently? Perhaps, but, honestly, that is exactly the sort of thing that we should be doing. It was well received, and it was wonderful to see the international coverage that it got. I am always on record for various complaints about what we do, but running conferences and bringing people to see Northern Ireland for the first time is not one of them. It was a job well done.

Mrs Overend: It is good to see you here in Committee; I am sorry that I missed you the last time you were here. Thanks very much for your presentation. I have a couple of questions. The Chair covered my concerns about your independence, how you are funded by DETI and First Trust Bank, and how you can be independent from them. Those are concerns. You have gone into that, so I will move on to another question, unless you have anything else to add to that.

You talked about jobs, first steps to recovery and the possibility of 6,000 jobs this year and 12,000 next year. We have always had a discussion about figures from DETI referring to jobs promoted rather than jobs created. How do you fit into that bracket? Are those actually jobs created?

Professor Gibson: Yes; they are actual jobs. All of our economic model is built on the official workforce jobs data series, so the projections that we make are the jobs that we expect on the ground, not jobs promoted. In fact, although we model inward investment flows, we do not take any data from Invest NI for what it expects to achieve as any part of what feeds into the model. We look at world trade and at our potential to get certain proportions of those sectors that are available to compete for, but we do not take any aspirations, targets or any government material in building the model. It is purely economic; it is driven by a very long list of equations, which I am sure you do not want to see.

Mrs Overend: I was just going to ask how you measure it.

The Chairperson: That is a lecture in itself, I think.

Professor Gibson: I have never yet found anyone interested in the detail of the model, but please, if you are, come and see us and we will take you through it. It is for the mathematicians; it is a joyous experience.

I will make one small remark on independence, which is important. I am very ambitious about what I want the centre to do. I have spent a lifetime commenting on what Northern Ireland does or does not do. At some point you have to stand up and say, "Could I do any better? Can I help in any way?" Independence is something that I protect very fiercely, but, ultimately, something has to fund it, so there has to be a funding model that works. At the moment, we have found the funding where we can. We are limited in what we can do with three people; nevertheless, I hope that the centre will grow. Maintaining its independence by having a good mix on the board is important; however, you have to fund it somehow, so it is important that we go out and generate money.

Almost any pot of money that comes will raise some question of independence, because it is coming from somewhere. Hopefully, however, if the Committee and elements of the Executive have issues that they want to discuss, we should be available to do that. If there are important issues coming from the Committee, hopefully we can find a way to programme some of that work into our research themes, so do please get in touch with us with work that you need a bit of independent advice on.

Mrs Overend: How realistic are the figures that you quoted?

Professor Gibson: Like all figures, they carry a risk, and there are a couple of very real ones at the moment. The international position is still pretty fragile. The US appears to have reached a deal, which is great, but the eurozone debt problems are by no means solved. Our trading partners are not without their difficulties — even the emerging markets that we are looking to. An important strategic message that we send is: "Look to new markets by all means, but do not forget the good customers that you already have, be that the US, the UK or Ireland. You cannot ignore them because they are still our biggest customers." There are risks around what is happening in the international private sector markets.

There is also a real risk around the property market. We have an improvement in the property market in our forecast. At the top of the property boom we preached about potential falls in the market because we looked at the economic fundamentals and said that they could not be sustained. If you look at the economic fundamentals now, there would be real value in the Northern Ireland property market.

We have that market beginning to pick up. If it does not pick up, it will be because the finance is not available or, perhaps more realistically, people are afraid. It is a great irony to me that any of my friends or peers would have bought a house at the peak of the boom when I was telling them that they were too dear, yet none of them will buy one now when I am telling them that they are quite cheap. To an economist, that seems bizarre, but that is how emotion works. Nobody will buy now when there is huge value, but you have to practise what you preach and I am trying to buy a house. *[Laughter.]* This is a time when there is value in that market. Our forecast suggests that the pick-up is beginning now. If I was identifying to the Committee the risks to our forecast, it would be external conditions and, potentially, a delay to property market improvement. The Government's lack of additional spend is already built in.

Mrs Overend: Recommendations were made recently to the Northern Ireland Executive to look at devolving additional fiscal powers. Is that something that you want to look at?

Professor Gibson: Yes. To quote Spider-Man, with great power comes great responsibility. If we take over a power, which, generally, I would be broadly in favour of, that makes us responsible. However, we need to be mindful of what being responsible means: it means doing things that may not be palatable when the market needs them.

Whether it is lobbying to get the power to set corporation tax — on which we may do research to update the modelling work because the world has changed — stamp duty or air passenger duty, all bring great responsibility to treat that policy responsibly. That means having a sound, empirical base to help to inform what you want to do with that policy, for example, move it up or down.

We will face many economic challenges. For a devolved government to work effectively, its needs to have levers at its disposal. For every one of those fiscal powers that we get, however, we need to take an evidenced position on what we do with that lever, and not one based purely on public sentiment or on what some other region did, which we may not be able to replicate. We have to take a proper evidence- and research-based decision on all the levers that we get.

However, within certain parameters, almost all the levers listed so far are exactly the sort of things that the centre should be looking at. Is it a lever that we should lobby to get and what could we feasibly do with it? Most importantly, what would we like to do differently with that lever that would give us particular control?

Our property market did not mimic in its scale or speed what was happening in the UK. We had nothing at our disposal to do anything about that, so there are clear examples of where Northern Ireland can move at a different pace from other economies. The London and south-east England economy dominates much UK thinking. We are a very different world from that. We would be looking at having levers; that is something that we should be pushing for. However, we need to be realistic that with that comes price tags and great responsibility.

The Chairperson: Thank you for that. You mentioned the property issue. We focused largely on policy drivers, economic levers and the like. I am hearing from many people, particularly those associated with the property market, that a major issue affecting FDI is the availability of suitably tailored properties for companies that are anxious to say, "Right, good to go. Where is the office space?" — and there is none or very little.

As a consequence, and it is nothing whatsoever to do with policy levers, economic policies, or investment or incentive packages from Invest NI, well and good as they are, the reality is that it cannot be done in the time that those companies want to do it. Have you done any scoping exercises on that?

Professor Gibson: We have done nothing bespoke at this stage, but we are aware of the issue. In the plan for our modelling, you will notice that although we will do the headline economic model that I talked about, the idea is that we will translate those forecasts into what might be called relevant business metrics. That would include the skills requirements to drive the type of growth that we project, the office space requirements, the traffic journeys that would be required and the environmental impact of energy used.

The long-term programme of work is to build the sorts of metrics that might be particularly relevant to this Committee. If we said that our forecast is X jobs, which means Z square feet of office space, that is important because our forecasts are purely demand-based on what we think the market will ask for. If there are constraints on that — if you do not have the right skills, the right planning permissions or the right office space — they may well not be delivered. That is important.

It is also important when we model aspirations for Northern Ireland. Whatever we want to be, we want to converge with the UK average in living standards. What are the implications of that for land use and office space? I will make a couple of quick observations. That is a message that we hear a great deal, and it allows regions that have been successful in the past to steal an advantage because they will have vacant office space that is already there because previous employers have left.

It might be time to look innovatively at things. The private sector is always seen as risk-taking, but it many cases it is not; it does not like to be the first people in a particular place. We might take examples from elsewhere in the world where, for example, the public sector has been the key tenant of a newbuild with the proviso that if the private sector comes in when the building is being constructed, the public sector will step aside and let the private sector take it. That is one of the innovative models that shows that we can give the developer some security of tenure; however, we are doing that only to get the build started, after which we will step aside.

Such innovative approaches to get the market going are important because the market does not like to take risks in that regard. It cannot sit on vacant property, and no tenant is going to wait for you to build it for them when there are other properties out there. It is a chicken-and-egg situation; that is an example of a situation in which the public sector can play a key role.

You will know that, even with the large public sector estate, there will be a need for quality office provision over the next 10 or 20 years. Bringing those forward is a way to kick-start a market. That is one of the things that I would like to investigate as a possibility. You are absolutely right: the international investment market is so fast-moving that you have mere seconds to convince them that they need their office built, particularly in the service sector, which does not have a long lead time. They will say that they are ready to occupy next month and they will ask you what you have available.

It is very important, but asking the private sector to build speculatively in the current market is virtually impossible. We need to think about models to incentivise building to take place. The direct answer to your question about whether Northern Ireland needs better quality office is undoubtedly yes.

The Chairperson: Thank you very much; that is very interesting and helpful.

Ms Maeve McLaughlin: Thank you; it is good to see you again. I want to ask about the jobs first of all. In which sector will the 6,000 in 2013 and the 12,000 in 2014 be created?

Professor Gibson: They will be created in a range of sectors. I can provide the detail of those sectors to the Committee. It is a sectoral model, so you can have a look at it.

Ms Maeve McLaughlin: Is there one sector —

Professor Gibson: No; there is no dominant sector. It has been very interesting to notice that, in recent quarters, manufacturing has been enjoying a little bit of job growth. That is not unexpected; we have some very competitive and internationally successful firms in that sector. Agriculture, although not creating a lot of jobs, has at least stopped shedding them; it is not drawing jobs out in the way that it was, perhaps, 10 years ago.

As I said earlier, some of the key sectors, including the professional services and ICT sectors, have done particularly well in recent years. The new sectoral classification allows information and communications to be separately identified, which is very helpful. If you look at the data, it grew right throughout the recession, so it has had no real material recession and continues to grow.

It is crucial to note that the job growth figure is a net figure. It is important to understand that one of the big changes is that some of the sectors that were shedding jobs in the past four or five years have at least reached the bottom of that process, construction being the obvious one. Even during the difficult years there were sectors that were growing, ICT being the obvious one, but that was drowned out by the losses elsewhere. Now that many of the other sectors such as construction have stopped being a drag anchor, if you like, on the labour market, we can begin to see some of the good performing sectors having a bigger effect on the overall figures. Tradable professional services is a strong element leading the growth, but there is also an important component coming in from the manufacturing sector, which is also doing very well.

Ms Maeve McLaughlin: The forecast model, and particularly the notion of subregional economic modelling or macro-modelling, is a strong theme in your presentation and the paperwork. I agree with you that we do not have the information to drill down. You referred to the fact that you can look at a sector in Scotland and see the exports and issues there and distill that right down. That was one of the things that we picked up from the Centre for Cross Border Studies during John Bradley's presentation. Is your work likely to recommend that the concept of subregional clusters should be used to address economic development?

Professor Gibson: I would not want to pre-empt our work. However, I echo many of John Bradley's comments. To be blunt, if any region should have world-class statistics, it is us. We are smaller than all the others, so we should be world leaders in the provision of economic data. We ask our firms a lot of questions; we do a census of employment every two years; an annual business register and employment survey (BRES); a 10-year census; and a labour force survey. Yet, as economists, we still have real doubts about the quality of, say, the GDP data. I know that there is a statistics committee. We are working closely with our colleagues in the Northern Ireland Statistics and Research Agency (NISRA) to improve that.

I want to put this on the record: Northern Ireland should accept nothing less than world-class statistics. The Scots should never have better statistics than we do. If they can manage it with their population of businesses, we can certainly manage it with ours. I think that we need to get to that position. We require a certain level of data every year from our companies about their profitability, employment, skills needs and costs. It cannot be beyond our wit to say, "Let us look at all the data that we gather, make it a statutory requirement to provide one formal return and get the information that we need to make the right decisions". I implore the Committee to continue its efforts.

I echo what John Bradley said: if we have a data gap, that is not an excuse, and we have to fix it. I do not want to speak out of turn, because we have not fully got into the work. I am speaking to Philip McDonagh from the statistics committee and to colleagues in NISRA about their work, and I am trying to get my head round why we have so much information but why, in many cases, we are not getting to the truth of what is happening or why we have contradictory data. We simply should not accept that position. The danger is that, after we do research, we provide you with the wrong advice, because we had the wrong information. We simply cannot accept that. One of NICEP's pledges is to try to work alongside our agencies and, in a reasonable time, to lead the UK and the world in the provision of quality statistics. This is a small region, so we should know everything about our firms or as much as we need to know within the data protection limits.

Ms Maeve McLaughlin: That is useful. There is a piece on the lack of economic data. The Committee has taken and will continue to take an active role in that. I am interested in the result of that and in your opinion on it. I know that, in a former life, you did some work for the One Plan on the economic modelling needed to find out what were the key catalyst programmes. It is a similar scenario in the North. In my view, the only way to tackle regional disparities is by looking at where our strengths are in specific clusters. We are not so naive to think that investors do not make their decisions based on profit; of course they do. If there are strong industries in certain regions — manufacturing in mid-Ulster is a clear example at the minute — the processes should be directed, shoved and nudged towards such regions. Is there likely to be a call, as a result of developing the data, that we look at the concept of subregional clusters?

Professor Gibson: That is a good question. We have intimated that one of our longer-term goals is to drill the model down to local areas, if the data allows us.

My work for the One Plan was hugely rewarding. What it reminded me is that — I think that you mentioned this important issue — there is a real risk of many economists doing what I call "blank-page economics", whereby you simply look at a profit and loss account and say, "This sector works, and this sector does not".

You have to start with your natural endowments — your skills and the capabilities. It is remarkable how we need to do work to evidence those. In the One Plan there is a feeling and a knowledge that there was expertise in, for example, the creative sector — I am thinking of the City of Culture bid, for example — but there was no evidence there.

I was involved in helping to win that bid by putting the evidence together and showing that, as a city, Derry languished at the bottom of the economic table of urban locations according to almost all indicators. However, it did not languish at the bottom of the creative arts and culture league; it was mid-table and above, according to some indicators. There was a clear indication that there was something to build on as a potential.

When I was interviewed for the city bid, one of the key points that I made was that we are trying to build an economic future that starts with our economic strength. Understanding that means that we have to have local information and having a much better relationship with our businesses, which, I think, is happening in Northern Ireland. The growth of the Chamber of Commerce is an example of that; businesses are more understanding of why we need their information and data to be able to identify clusters. Only then will we able to tell them that the issues that are slowing their growth might be quite different. The issue might not be their office space requirements; it might be skills shortages or issues to do with connectivity. Without such data you cannot look at that situation.

You are absolutely right that this model is sectoral. In the long term, the plan is to make it local. It is at that level, in many cases, that we can intervene on where our policies can have an impact. If we were to give you an overall figure, it would be very hard for you, or for policy makers, to ask what it is that you need to do as a policy action. It is about understanding what our firms need in different locations and understanding their strengths.

I was amazed that some of the economic development material produced, not just in Northern Ireland, to sell a location touches only on the economic data, such as wages and so on. Employers look at other things. I had a conversation with people in Omagh about the quality of property that a potential executive could buy. When I worked in Oxford Economics my co-directors were amazed at the standard of living that you could have here doing the same job that they were doing. They had no concept of what, for example, house prices were. We need to market our assets, such as our quality of life, our housing infrastructure and our hospitals. Many visitors here are amazed at the proximity of hospital access, for example, or by the school system for their children. Selling a location means more, even if it is in an economic development plan, than selling the economics of that region. That is an important message.

Ms Maeve McLaughlin: In the "Looking long" section of your report you state that

> *"there appears to be little sanction, or even public recognition, if ... targets are missed."*

Does that apply to the Departments?

Professor Gibson: Yes, and it has to change. There is always a reason for not hitting a target; it can be because of an economic crisis. However, there is no point in setting targets if we cannot face what we are spending against the target and evaluate whether we hit it. If I may be bold enough to say it: we need to be more mature as a society. We will fail sometimes, but we learn from failure. If we do not hit a target, we need to look at why we did not hit it and look at what we could change. We do not have that culture. We try not to talk about the things that we did not succeed in, and we are afraid of what the media might say if we missed a performance target. Let us be more mature and say that there is knowledge in failure. Let us say that these are genuine targets set up as aspirations; if we have missed one or another, we need to ask why we missed them and what it is that we need to do differently. Let us not be afraid of falling short of the ambitions that people would expect us to set.

Mr Agnew: Thank you, Neil, for the information; it has been fascinating. The project's independence was mentioned. It seems to me that some of the bodies that advise us are another lobbying wing. When we looked at corporation tax, an economic advisory group came forward, but it might as well have been the Department or a representative of business because it carried the same messages. When we talked about some of the challenges, they dismissed them.

To be fair, in any presentation that I have seen from you, you give the big picture; you tend not to look just at the positives and ignore the rest. You mentioned costs. Reducing corporation tax would have negative consequences for public spending, as would reducing air passenger duty. As for energy and network costs, it is debatable what we can do on that, but any subsidy would have consequences. Reducing VAT payable by the hospitality industry always tends to attack the quality of employment. Then, of course, we want more spending on construction and government infrastructure projects to boost jobs. Those pieces do not add together. Individually, each seems quite reasonable when presented, and there is a good case to be made for it.

When we come to corporation tax and energy costs, where are the priorities? With the best will in the world, we cannot do all of those things. Even if we look again at welfare reform, the welfare cuts will result in less public spending. Consumers who are directly affected will spend less, certainly in the short term.

I get the impression that looking at the holistic picture is what you are setting up to try to do. The test of independence will be whether your advice to us differs from that of every other lobbyist. It was interesting to hear you say that access to finance was not as big an issue as had been suggested. Is there another instance of where you think that, in an ideal world, it might be nice to cut costs here, there and everywhere, but doing so would be damaging?

Professor Gibson: That is a very good question. You started with a very important point, which is lacking in a lot of the debate — the consequences. All forms of economic modelling should consider these questions: how am I paying for this; if I do not want to pay rates, who else will pay them, or what other tax will you raise? A body of education is required so that everybody, whether those in lobby groups or the public at large, understands the simple economics that you just articulated.

Even in the corporation tax modelling work that I was involved in six or seven years ago, the first question was this: how do we pay for this? We tried to estimate what the short-term costs would be. Sadly, on that subject, I put down some of the delay in a decision on whether the power was devolved to arguing over cost, when, in a sense, that was a secondary issue. The devolution of the power was the key principle; it would be up to us to decide the cost. You could decide what rate you could afford or, if you did not think that it was relevant, you would not have had to change it, but at least get the power while that window was open. Now, bizarrely, we are waiting for the Scots again, which I find a bit frustrating, personally.

I am on record as being quite a strong supporter of reducing corporation tax. I genuinely believe that one of the economic problems in Northern Ireland is the firms that are not here. In our policy advice, we spend a lot of our time asking the firms that are here what their issues are. That, however, covers only half the problem — we are not asking the firms that are not here. The quantity of firms here is not enough. I was convinced by the economic case that there would be a positive effect on FDI flows, which, in turn, would have a net benefit. However, the key point is that that was one subject area in which we did the relevant analytical research and work. People tend to suggest various credible alternatives to me, such as R&D tax credits or investment in skills etc, but I need them to show me the evidence. I still do not see the case. Whether it is rate relief schemes — industrial derating or small business rate relief — I need the same type of evidence base to make a decision, and I think that you should demand that type of evidence in every case. Whether you believe in the corporation tax argument or not, it comes down to whether you think that it is a price worth paying for that level of investment. You may not believe that you will get that investment, but let us have the same conversation about R&D, tax credits and skills investment so that we can ask whether it is an issue.

I have one question in mind that has nothing to do with personal interest. We have quite a complicated rates system in the sense that there are various schemes, including industrial derating exemptions and small business rate relief schemes. We are going through a revaluation, and we accept that that is necessary because everyone else has that system. However, if costs are important, I just wonder whether we need to ask a more radical question about how our rates system actually works. Let us be clear: we take money off firms in rates, and we give money out to other firms through various grants and subsidies. Maybe it is time to ask questions not about each individually but about whether we really redistribute the money that we take in a way that maximises benefit. I have no fixed view on that, but I am conscious that that work has not really been done. We are entering a revaluation at a very tough time, and I wonder whether we have explored all avenues and looked at what is for many businesses the biggest cost. I know that the Committee has looked at that before.

I do not want to pre-empt the research that we have done. Rather, I want to put on record that the level of diligence with which we approach corporation tax is the level of diligence that we should apply to any subject matter. We have a finite team, but whether that grows or not, we will take any policy suggestion that comes in. When people said to me, "It is not corporation tax; it is R&D and tax credits", I said, "Bring me the proposition, and let us model it in the same way." I would be asking the business organisations that are lobbying to articulate succinctly the policy ask and its cost implications. We would then model that and put it alongside the other choices. I agree with you totally that we live in a world in which we just do not have that sense of responsibility. People say, "I would like to pay less tax, and I would like more to be spent on this or that." However, they take no account of the consequence of who would pay for it.

Mr Agnew: Thank you. I agree wholeheartedly. You touched on one of my frustrations with the Department and the economic advisory group. We were told what would happen if we reduced corporation tax versus what would happen if we did nothing. Doing nothing was never an option, so why were we benchmarking it against doing nothing? Certainly, that should always be one of the benchmarks, but why were we not looking at other proposals, such as investment in skills and whatever else? Nothing has come from the Department, which it is our job to scrutinise. It is corporation tax or nothing, and we plod along, which makes it easier to choose corporation tax, of course.

I want to go back to the cost of energy and the lobbying of us on that. We have looked in great detail at the price of energy. International companies are forever telling us that, if the rise in energy costs continues, they will not come and invest here. I single out Bombardier because it is a success story. It works at the margins, yet, consistently, brings investment to Northern Ireland. You mentioned the investment that is not coming, and maybe more would come if we resolved other issues. Sometimes, I feel that companies come out with scare stories. They say that, if we do not do a certain thing, they will run. Then, regardless of what we do, they do not run. That is where I find your question is really interesting. Are we hearing scare stories? Is the rising cost of energy a genuine problem? There is no doubt that it is a factor. Companies would like lower taxes, lower rates and everything else. However, is it the big issue that we should be focusing on, or are there other areas that we can work on effectively, because there seems to be very little that we can do about energy costs? We keep being pushed to change something that we cannot change, and I wonder whether there might be different areas of cost that we could look at more productively.

Professor Gibson: This will be a slightly unsatisfactory answer to your question in the sense that it is exactly that thought process that is behind why the cost of doing business is one of our top research priorities. We simply do not know the answer to that question, and it is important that we do, not least because, were you to have different energy costs and not have industrial derating, or were you to have a different portfolio of costs, which sectors would that affect and by how much? How much does it genuinely affect firms in the international competitive market for investment that is likely to come here but is not here today? Of course, we have to care about the firms that are here, but we need to know what puts other firms off.

I have done the work on corporation tax, and I am convinced by the case. For the reasons that you correctly outlined, it remains the one case that we are in a position to press at the moment. When we were doing the work on corporation tax, my view was always that, eventually — critics and sceptics are not the right words — people whose priorities were different would line up a set of alternative policy options. I thought that they would say, "You think that you will get 60,000 jobs out of that, but we might get 80,000 from our option. Let us look at your research." We try to make our research open so that people can pick holes in our corporation tax work. That stood up to all the Treasury scrutiny and all the analysis. However, I still do not see the alternatives, and I am open to modelling any of them. I hear a lot of ideas about skills. I know that they are very important, but what policy intervention is being asked for, and what would be the return on that? Pushing alternatives to model is exactly the right point. From the point of view of an analyst and an economist, I would be convinced by the corporation tax case because I perceive one of the problems to be that we need more international companies. If you do not believe that that is the problem, you might want to look for a different policy solution. However, it is certainly my belief that we could do with more of them here. Consequently, that is a tool that we might feasibly get.

The Chairperson: Thanks for that. We will have to move on. I have been fairly liberal with the time that I have allowed you, Steven.

Mr Dunne: Thanks very much, Neil. I fully respect your enthusiasm. It is very refreshing for the Committee.

Unemployment, mainly among young people, is relatively high. What more can be done in the short term to address that?

Professor Gibson: That is a terrific question and one that many people are wrestling with around the world. I have not done any research on the issue specifically, but I want to make a couple of quick remarks.

Our biggest, most important employer is you — the public sector in all its guises. Do watch out if you, for example, introduce recruitment freezes as a response to budget pressures, because they have a material impact on youth unemployment. You are the biggest employer, and we have to make sure that our public service does what it is asking our private sector to do, which is to continue to make opportunities for young people. With my university hat on, I would say that we must ensure that all employers are made fully aware of the pain and suffering that young people are experiencing and how they can play a small part by, for example, taking on even one young person on a placement for a year.

There are, of course, more controversial measures. The South has reduced unemployment benefits for young people, which is extraordinarily painful for them. I am sure that you saw the press reaction to that, which was that the Government were telling young people that, if they cannot find a job, they will have to go somewhere else. In part, the Government's action was a necessity caused by their financial pressures, but I am not sure that we would want to go down that route. However, let us think about what our young people can do.

A very effective phrase, which was, I think, coined by Michael Gould in the Department for Employment and Learning is that we should keep children in "warm storage". In other words, we should make sure that their skills do not become redundant and that they remain in some form of training. At the Northern Ireland economic conference, Andrew Sentance remarked that he might think quite radically about simply not providing any unemployment benefits to anyone under 25 unless

they were in some form of work scheme. I have no knowledge of how that would work in practice — I have not looked at it — but there must be some sense in which we can look at that. If I was sending out a research question, I would ask for an option paper on how we can keep everybody gainfully doing something until they are 25. I would ask what it would cost to do that and how it would work operationally. Andrew made the remark, so he may have more evidence, but it certainly piqued my interest as something that we should explore. It is not as if we can look around society and say that there are not things that need to be done.
A fledging economy trying to set a new bright future for itself needs to find a way of being committed to making sure that the under-25s have something gainful to do, even if the economy is struggling. The obvious solution is to get the economy growing faster, but that will not solve all the problems, particularly for those who have been out of work for two, three or four years. The labour market will not go looking for them first; it will take the fresh batch of school leavers or graduates when recruiting. Can we do anything to incentivise them? I know that there are programmes.

You are right to identify youth unemployment. As a modern, wealthy economy, in international terms, we should be able to consider options that mean that everyone under 25 has something gainful to do. I simply do not know what that is at this moment. However, it sets a dangerous precedent if you have young people claiming unemployment or other types of benefit and not doing anything productive in the economy because there are no opportunities for them. That is very damaging for the individual and for society. I agree that we need to target that. I do not know what the measures are, but my curiosity was piqued by Andrew's point that a modern society should find some way of making sure that under-25s are not in receipt of benefits unless they are on a scheme or training initiative that we have provided for them.

Mr Dunne: Most of the issues have been covered, but I have one further question. You talked about the cost of property. When we read the local papers, we see large numbers of commercial properties — warehouses and factories — lying empty. Their value is at an all-time low. Do you see any light at the end of the tunnel for commercial property in the foreseeable future?

Professor Gibson: It should pick up to some degree because the economy is growing. However, in many cases, the property available does not match the requirements of those coming in. It is a bit like vacant properties in town centres. We need to be on top of the data to know exactly what those properties are and why they are not in market demand. Perhaps they are not energy efficient, not in the right location or require a big maintenance bill to get them up to spec for new companies coming in. We just know that they are there and that firms are not interested in them. We also know that, for the bulk of jobs coming in, the demand is, primarily, for grade A office space, and many of the available commercial sites are certainly not that.

That said, I would not rule it out. Look at what happened with the Paint Hall in the Titanic Quarter. There are options for what those types of commercial properties can be used for, but we need to get under the skin a bit more and understand where they are, what quality they are, what they need to be viable and why they are not being picked up. There is a mix and a myriad of reasons for that. The Paint Hall is only one example. There are also very modern employers who like different styles of office workplaces — very modern and very industrial spaces. There is a great mix of employer needs, and it is not all for open-plan offices. That is a creative approach to making good use of our available buildings. However, the first part of that is to audit what is available and why it is not being picked up. We can then see what we might be able to do to transform it into an asset that the market will value.

Mr Anderson: Thank you, Neil. As with Gordon, quite a few of my questions have been answered. I want to make a couple of points.

You have three staff — you and two associate directors — and funding for two years. Is that right?

Professor Gibson: Three years. We are three quarters of the way through the first year.

Mr Anderson: You three have a lot of work ahead of you. I wish you well. You have a lot of work on your desk in these difficult economic times.

I want to touch on the long-term economic vision mentioned in your paper. You refer to the lack of clarity in the aspirations and vision going forward. Will you elaborate on that?

Professor Gibson: It has always been a concern of mine that we have, along the way, picked various targets. Productivity convergence was a big one for a long time, or whether convergence without

London was included. Irrespective of what anyone else is doing, we need to ask what we in Northern Ireland think would be a desirable outcome in 10 or 20 years. What sort of economy do we want for our children? Is it full employment or a certain level of wealth?

If we knew what we were aiming for, we could work back from that and ask where we might get the jobs required for that and what kind of skills we would need in what sectors. We could ask whether we need more language skills, which has been a bugbear of mine for a long time, given what is an internationally focused market. We could also ask whether we need better connectivity, which we talked about earlier. We could take that approach as opposed to taking on issues because they arise, as is the case with air passenger duty or even corporation tax. What is the vision of what we are trying to aspire to in Northern Ireland with which we would all be happy? We could then work back from that. Let us say that we aspire to 80% employment across Northern Ireland. We could ask what that looks like and what scale of challenge it presents for Northern Ireland. Then, we could work that back into areas in which we can make policy interventions.

In any consultations that I have had with the EAG or the Department, I am still not convinced that I know what we mean when we say, "This is our economic vision." I put that on record with the Committee. We may have a headline number, but is it GDP, jobs or fairness? We hear the words in the Programme for Government, but, for my economic language, it is not set out in a mathematical way so that I can say to you that to achieve that vision you need x square footage of office space.

A long time ago, we did a little work on the development of the Titanic Quarter and its implications for traffic coming from north Down. That is the sort of question that we need to ask. I will give a figure off the top of my head: let us say that we are aiming for 100,000 more jobs — it will be at least that — and we believe that the market will place the majority of them in and around Belfast. We need to ask what that means for the transport infrastructure and for the other parts of Northern Ireland. Do we have a target for those areas, and, if so, is it different?

That is what I was getting at. I still do not think that we have a sense of purpose about exactly what success would look like. We can produce our forecasts, but, without that sense of purpose, the outcome will not be one with which anyone around this table will be particularly happy. The public certainly will not be happy with it. We need to ask what we would be happy with, and then we can start to do the gap analysis and ask where we are short. Then we can set our targets in that context, not in the context of what we think the existing agencies can achieve. What is the vision; what is the goal? Let us be realistic about the fact that it will be very challenging, and we may not reach it. People should not be losing their jobs because the target is not reached; only if they do not try hard enough. We have to try to work back from that.

My personal view, from my experience in Northern Ireland and elsewhere around the world, is that it can be hard to keep asking people for their vision. So one of my tasks is to start to try to articulate my vision of success and let people shoot that down. Be brave enough to lift your head and articulate what you think success looks like and ask the question of others: if it is not that, what is it? Do not just ask, as I am doing now, "What do you think success is?" I have been saying that for a long time, and I still do not hear it being articulated. We will come back with what I think might be a plausible ambition for Northern Ireland, and I expect you, the Department and everyone else to pick holes in that and say that you do not agree. However, maybe it will get the ball rolling so that we can say that we know what the quantum of skills is to help to deliver that; what the road infrastructure is; and what the environmental implications of achieving that are. That is the right way to think about it, and my view is that we just do not have clarity on that vision at the moment.

Mr Anderson: Thank you for that, Neil. What is your opinion on what happened in America in the past few hours, when the decision was taken to step back from the brink? Just as we are, hopefully, getting over a banking crisis, we could have been entering an economic crisis that would have affected the whole world. As the old saying goes, if America sneezes, we get the flu. There is only a temporary solution until January or February. Do you have an opinion on how things will pan out?

Professor Gibson: The decision does not surprise me. Certainly, public opinion in the US was swaying towards making a deal almost inevitable in some ways, so it does not surprise me that one appears to have come. From the perspective of the world economy and trade, it is important that the American economy is growing — that is a given. The key lesson from the American situation is that the reason that they are having a problem is that their debt is absolutely enormous.

In my view of the world and the way that economic models work, I am not a huge fan of austerity programmes when the economy is really struggling. That would be seen as Keynesian — when nobody else is able to spend, only the Government can spend — but it is what you do when spending that money that matters because you have to get to a point in the future when you do not need to spend it. Unfortunately, we have a lot of deathbed conversions to Keynesianism — things are tough, so we should spend now — but would you cut spending when things were going well? That challenge lies ahead for America. I am very supportive of what Obama is trying to do to get money into the economy and transform the energy landscape and healthcare. He is trying to put America in a better position so that it does not need the money in future. If you borrow simply to get out of today's problem, you will do it again tomorrow, the day after and so on, but, if you are not spending anything on capacity building, that is a problem that will eventually get you.

I am very critical of outright austerity. The evidence is pretty damning on whether austerity has worked as a stimulus for growth. I do not care what the UK Government say currently; we have had five very tough years. You only have to go to the people of Greece or the people of Ireland to know what austerity feels like. However, that does not mean an open chequebook to spend when the economy is going through tough times. It is what you spend the money on that matters. The idea that our infrastructure here, whether for energy, transport, or even public sector buildings, is fit for purpose for the next 20 or 30 years is just wrong. If you can bring that forward when the economy is on its knees, with people lying idle and not working, do it. However, that is not the same as what the critics of that type of approach would say, which is that you will just run up debt for ever.

That means that good people like you will have to do the really tough things when the economy is going really well. You will have to say that you will spend less, which will be hard, but, hopefully, people like me will be there to keep pushing for that. Mathematically, growth is a simple calculation, and if nobody is spending, growth does not happen. So, if nobody else is spending in the consumer sector, do we really think that it is a good idea for the Government to join that party and stop spending, too? I do not think so, but I understand the reservations about just throwing public money at the problem. It is a matter of what you spend on capacity building.

My last observation on America is that there are good things happening there. Look at its manufacturing industry now. Look at the quality of infrastructure being developed in certain places. Look at the transformation of its energy base. Not all that is happening there is good, but you cannot say that all of that money is being thrown away. America is making some strategic investments that will pay dividends.

Mr Frew: I will be brief. I had a debate last night with some young people. Although they and I could see shoots of recovery, they were very downbeat about the trend towards temporary employment. When the situation for companies becomes tight, they just shed temporary workers. It has been happening in the construction industry on and off since the year dot. People were forced to become self-employed. Does that worry you? We talked about 6,000 jobs being created here and there, but is there a worry about the mix of permanent places, temporary contracts and agency work?

Professor Gibson: It is a concern. I would not list it as one of my main concerns because, sadly, it is, to some extent, the world that we live in. Were we to do something different here, it would be very difficult for employers, who would simply say that there are plenty of other locations. An employer would say, "I sell stuff. If I am not selling it, I do not need the people. That is the reality of my business." Sadly, and as difficult as it is, it is a world that we will probably have to live with. That is not to say that we should not look at the rights of temporary workers etc.

I will make one observation about young people: this is a very challenging time for them, but we cannot let them feel sorry for themselves and believe that somebody else will fix the problem. We can address parts of it, but young people also have a huge challenge in front of them to up their game to meet the challenges of a modern marketplace. I will give you a simple example from my university teaching. Almost all my students have a Facebook page; none has a professional competency page that they can show to potential employers. I ask them whether they have their own website on which they can show an example of their work and demonstrate what they can do to an employer. They say no. However, they know how to use the technology. I do not want my comments to be seen as in any way unsympathetic to the challenge for young people, but we cannot merely tell them that it is a terrible environment and that we are doing all we can. We have to say to them that it is a hard marketplace.

Mr Frew: For companies increasingly employing temporary workers, what would make that shift? What would change that trend so that they employ permanent staff? I think that it is down to need and demand.

Professor Gibson: It is absolutely down to demand. The experiences of the recent past suggest that many large firms will face volatile shifts in demand. Given that their big cost is labour, we will have to find ways to live with it. I cannot see it changing soon. We need to make sure that young people understand that a permanent job would be terrific, but, if they can get only a temporary job, they could make a name for themselves if they are brilliant. We should not dissuade people from those opportunities because, sadly, it is commonplace in lots of other parts of the world.

The Chairperson: Thank you very much indeed, Professor Gibson, for your comments here today. It was a very informative and useful exchange. Will you make sure that you routinely forward any research to the Committee? Would you mind doing that?

Professor Gibson: Certainly, and we will make sure that you get our six-monthly report. That will not be just about forecasts; we will summarise our research. The centre will always be open to the Committee to give evidence and to individual members if they ever want to have a conversation about issues on their mind. It is here to help, and I hope that we can serve.

The Chairperson: As you probably know, we are reviewing electricity costs. Anything that might usefully feed into that would be very helpful indeed, too.

Professor Gibson: Certainly. Thank you very much.

The Chairperson: Thank you very much for your time. Good luck to you with your research. I look forward to reading more of it.

Professor Gibson: My pleasure. Good luck to all of you. You have the harder job; I have only to advise.