

THE FINANCES OF THE PUBLIC SECTOR IN NORTHERN IRELAND 1968-1978

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1. INTRODUCTION

In recent years the public sector has become more important in the Northern Ireland economy. Not only has the scale of public services grown appreciably, as it has also in Great Britain, but against the background of continuing violence and political instability, public sector finance has been used in an increased role both to meet the direct costs of violence and also to try to sustain an economy which, however vulnerable it was before the onset of the disturbances, has been greatly handicapped in many ways by the direct and indirect effects of the troubles. Indeed one of the important debates arising from the past decade is whether or not the form and scale of government action to support the regional economy was wholly beneficial and also whether indeed public sector resources could have been better used to offset the many faceted economic problems of the area.

In the succeeding paragraphs the objective is, first, to identify some of the conceptual problems in assessing the finances of the public sector in Northern Ireland and then, second, to present a summary of public sector revenue and expenditure in Northern Ireland. This evidence is presented for the period since and late-1960s, and therefore shows the results in the “successful” period of the late 1960s and the changes associated with the instability of the 1970s. From the figures it is possible to make some comments on the concepts of parity, subsidy, need and viability as they are applied to the province and to illustrate that these concepts are capable of different interpretations.

2. THE HISTORICAL BACKGROUND

The political processes which led to the creation of a devolved structure of government in Northern Ireland in 1921 are well documented elsewhere (Green, 1979 and Lawrence, 1965). It has been argued that a devolved form of government was neither sought nor commended by the political party which, for most of the period from 1921, administered the devolved government.¹ However, despite the initial political debate, most Unionist politicians were later to argue the advantages of devolution when compared to a more centralised or unitary framework within the United Kingdom.²

Whatever the merits, or demerits, in political terms, of the creation of a form of devolved government in Northern Ireland, the arrangements to finance a devolved government quickly and continuously proved to be inadequate. A review of the financial relationships between the Northern Ireland government, which for convenience may be referred to as Stormont, and the United Kingdom government, which is referred to as Westminster below, over the past sixty years reveals a continuous need to reinterpret, adapt and change the basis of the financial arrangements. These same financial problems provided one of the central issues in the recent debate on proposals to create a devolved form of government in Scotland.

The *Government of Ireland Act, 1920* provided that the main areas of domestic economic, social and cultural policy should be the responsibility of Stormont and that, after making an imperial contribution to Westminster, the revenue from transferred taxes and reserved taxes (after deduction for the Courts etc. and administration collection costs) should be used to finance local spending. Stormont also had the power to borrow for certain forms of capital expenditure.

Such an arrangement gave no guarantee that Stormont would have financial resources to provide the same or better public services than would be available in Great Britain. Since the devolved government had to balance its budget and meet the imperial contribution, and since tax revenue was largely determined by Westminster tax rates, local expenditure was the main residual.

This position was eased in 1925 as a result of the recommendation of the Colwyn Committee that the imperial contribution should effectively be a residual rather than a first charge on Northern Ireland revenue provided Northern Ireland expenditure was determined so that it increased no faster than in Great Britain and necessary spending should not include services which did not exist in Great Britain.³ This was followed in 1926 by the Unemployment Insurance Agreement which partially integrated the cost of unemployment insurance with the scheme in Great Britain.⁴

In 1938, the then Chancellor of the Exchequer, Sir John Simon, faced with the problems of the insecurity of Stormont finances agreed "that it would be equitable that means should be found to make good a deficit on the Northern Ireland Budget that was not the result of a standard of social expenditure higher than, or of a standard of taxation lower than, that of Britain".⁵

This statement was the precursor to the arguments about parity of services in Northern Ireland and Great Britain and providing the finance to permit spending on a parity basis. Although the arrangements in the years 1921-1939 gradually were adapted to be more sympathetic to Stormont, the adjustments were still short of ensuring that provision of services in Northern Ireland was as good as in Great Britain.⁶

During the 1939-45 war, the Chancellor of the Exchequer was persuaded that Northern Ireland had "considerable leeway" to make up to attain equality of standards.⁷ For the post-1945 period the important phrases were to become "parity of services" and "making up leeway" as the basis for Stormont spending. Although the implication of this was that, if necessary, extra revenue would be provided to meet accepted expenditure, the presentation of a Stormont budget, where revenue resources appeared as the constraint on possible expenditure, continued until 1973.

The pattern of the Stormont budget for the post-1945 period was effectively established by the agreement made in 1946 that parity of services and taxation would be the guiding principle and that, in consequence, the Stormont budget would be agreed with the Treasury in London and no new expenditure costing over £50,000 would be undertaken without consulting the Treasury. For presentation, the Stormont budget was still shown as matching revenue and expenditure, but, *de facto*, current revenue was the residual and ways and means of providing the necessary revenue were found. The imperial contribution was retained until the early 1970s but gradually became a purely notional figure.

Revenue supplements from Westminster were found by:

- (a) Creating a stronger Reinsurance Agreement on the National Insurance Fund, backdated to 1948.
- (b) Adding to Stormont revenue through a Social Services Agreement which transferred to Northern Ireland 80 per cent of the proportionate difference in the cost of social services.
- (c) Paying a sum to Stormont to compensate for the remoteness of the agricultural industry, from 1957. (Ended in 1972, when running at £2 million per annum).
- (d) Varying the attribution of indirect and corporate taxation more in Northern Ireland's favour at various dates in the early 1960s.
- (e) Introducing, in 1971, a Health Services Agreement on the same lines as the Social Services Agreement.

The effect of these supplements, excluding (d), was to transfer a sum of £83m to Stormont in the financial year 1971-72. This amounted to 14 per cent of public sector spending (excluding debt repayments). To this must be added the direct spending in

Northern Ireland by the (United Kingdom) Ministry of Agriculture which increased the total to £105m; 18 per cent of the total public sector spending.⁸

When the political and civil disruption developed in the latter part of the 1960s, the Stormont budget was still presented as an exercise in matching revenue and expenditure but, *de facto*, expenditure was determined in consultation with Westminster. In various ways this was seen as a reasonably favourable arrangement. Extra current revenue was made available; the Stormont budget operated with low levels of capital borrowing to finance capital spending since the transfers from Westminster served to keep borrowing at relatively low levels; and the general principles of parity and making up leeway seemed to ensure that expenditure levels were appropriate to the economic and social needs of the province.

This "favourable" interpretation cannot be accepted without reservations. As later sections will illustrate, the levels of spending were not favourable to Northern Ireland, on a straight *per capita* basis, until the late 1960s; spending, when assessed by need, was not favourable until after the mid-1970s; and, if public spending were to be judged by the reduction of relative social and economic differences then, by definition, it proved inadequate. Admittedly it is somewhat ambitious and disingenuous to offer the latter comparison as a yardstick.

Put briefly, this points to the divergence of interpretation of these figures which is possible. Westminster did assist in the provision of finance for Stormont on a significant scale, if the starting point is of a region which was expected to be self financing. Westminster transfers did not reach the levels that might have been expected in a unitary state which related spending in different areas to some yardstick of need. This difference of emphasis is developed further in the sections which follow.

3. PUBLIC SECTOR EXPENDITURE IN NORTHERN IRELAND, 1968-78

Total public sector spending in Northern Ireland, in 1978-79, amounted to £2,259m.⁹ Some indication of the relative importance of the level of spending can be derived by comparing the figure with a measure of the total national, or regional, income and looking at how this has changed over time. A similar comparison can be made for the United Kingdom as a whole. Table 1 summarises this information for the period 1968-78.

Table 1 is, however, inadequate in a number of ways as a basis for a comparison of the scale of public sector expenditure in the province. First, to express public sector expenditure as a ratio of gross domestic product is misleading if it is interpreted as if it were *part of* gross domestic product. The inclusion in the former of transfer payments and subsidies distorts the ratio upwards, and more so for Northern Ireland than the United Kingdom as a whole. Second, since the value of gross domestic product *per capita* is lower in Northern Ireland the same *per capita* level of public sector expenditure would represent a higher ratio of gross domestic product.¹⁰ Both these elements give a bias which would make the Northern Ireland ratio larger. A third factor which distorts the comparison in the other direction is that the United Kingdom public sector expenditure figures include spending on defence, external relations and some other functions which are not allocated (even *pro rata*) to Northern Ireland. Consequently, this factor makes the Northern Ireland figures too low, by an uncertain amount.

In an assessment of the relative scale of public sector expenditure, Table 1 is inadequate and misleading.¹¹

In an assessment of the relative expansion, over time, of the public sector, this table gives some indication of the more rapid growth of public sector expenditure in Northern Ireland, especially since about 1971. If, in 1977, public sector expenditure had held the same relationship to gross domestic product as in 1969 or 1970, then public sector expenditure in that year would have been £308m lower. Since unemployment and other economic problems have increased in the United Kingdom, without the local civil and political difficulties, the gap might have narrowed slightly. As a first estimate, to which we return below, spending may have been about £400m per annum higher, in 1977,

because of the direct and indirect consequences of Northern Ireland's local difficulties. (This is on the assumption that the relative spending levels would have otherwise remained stable, which is perhaps too severe an assumption to make).

Table 1: *Public sector expenditure*
(Expressed as a ratio of Gross Domestic Product)

	United Kingdom			Northern Ireland		
	G.D.P.	P.S.E.	P.S.E. + G.D.P.	G.D.P.	P.S.E.	P.S.E. + G.D.P.
	£'BN	£'BN	%	£'m	£'m	%
1968	37.55	16.27	43	725	400	55
1969	39.62	16.81	42	786	440	56
1970	43.46	18.57	43	883	498	56
1971	49.43	21.05	43	991	568	57
1972	55.15	23.68	43	1,093	647	59
1973	64.15	27.32	43	1,287	767	60
1974	74.07	35.00	47	1,517	1,022	67
1975	93.50	46.73	50	1,929	1,358	70
1976	110.27	52.13	47	2,247	1,608	72
1977	125.21	54.42	43	2,542	1,800	71
1978	142.00	63.01	44		2,156	

Notes: ¹United Kingdom figures from *National Income Blue Book, 1979*.

²Public sector expenditure (P.S.E.) defanged to exclude debt interest and non-trading capital consumption. For the United Kingdom, P.S.E. includes net lending to public corporations.

³Northern Ireland figures from *Digest of Statistics* amended to include Northern Ireland Office expenditure. Financial year figures adjusted, *pro rata*, to calendar years.

A more relevant comparison can be made by taking only those functions of government which are administered in Northern Ireland and comparing expenditure in the province with expenditure on the same functions (only) in the United Kingdom. An estimate on this basis is presented in Table 2.¹²

Table 2 illustrates that public sector expenditure in Northern Ireland has risen from a fairly stable 3.1 per cent of the national total to a total of 4.1 per cent in 1977-78. If a ratio of (say) 3.2 per cent had been retained, then public sector expenditure would have been £404m lower in 1977-78. Not surprisingly this figure is of a similar order of magnitude to that calculated from Table 1.

The figures in Tables 1 and 2 are, of course, estimates in terms of current prices. No cost indices are available to deflate the component parts of each series to constant price terms, but using the implied price index for the increase in public sector expenditure on goods and services as an approximate correction gives an estimate in volume terms which is presented in Table 3. The conclusion from Table 3 is that expenditure in Northern Ireland has shown a continuous increase in real terms since 1968 which was significantly faster than in the United Kingdom over the whole period except for a brief period in 1975-76.

4. THE STRUCTURE OF PUBLIC SECTOR EXPENDITURE

The information in Table 3 confirms the general statement that, in real (or volume) terms, public sector expenditure has grown in the past decade on a comparable range of services, some four times as fast in Northern Ireland as in the United Kingdom, as a whole; 60 per cent as compared to 14 per cent. This significant difference is therefore of interest in terms of the areas in which the extra expenditure has been incurred. The published information is all in terms of current prices and therefore an analysis of where

the expenditure has been allocated in Northern Ireland can only be undertaken in relative terms.

Table 2: *Public sector expenditure comparisons*
Northern Ireland compared with spending on the same services¹ in the United Kingdom

	United Kingdom	Northern Ireland	N.I. + U.K.
	£'m	£'m	%
1967-8	11,724	360	3.1
1968-9	13,027	401	3.1
1969-70	13,644	439	3.2
1970-1	15,103	500	3.3
1971-2	17,142	570	3.3
1972-3	19,295	647	3.4
1973-4	22,286	778	3.5
1974-5	29,125	1,076	3.7
1975-6	39,040	1,425	3.7
1976-7	43,124	1,645	3.8
1977-8	44,418	1,825	4.1
1978-9	51,536	2,234	4.3

Sources: *National Income Blue Book, 1979*, *Northern Ireland Digest of Statistics* and Northern Ireland Office figures in the Appropriate Accounts.

Note: ¹United Kingdom figures on services comparable to those administered in Northern Ireland. Excludes defence, external relations, research, finance and tax collection and other services. Northern Ireland figures exclude Common services and other public services. United Kingdom figures on a calendar year basis.

Table 3: *Public sector expenditure comparisons*
*An estimate of changes in volume terms, at 1975 prices*¹

	United Kingdom		Northern Ireland	
	£'m	Increase %	£'m	Increase %
1967-8	(30,690)		(949)	
1968-9	32,649	6	1,005	6
1969-70	32,180	-1	1,035	3
1970-1	32,134		1,064	3
1971-2	32,902	2	1,094	3
1972-3	33,851	3	1,135	4
1973-4	35,830	6	1,251	10
1974-5	38,222	7	1,412	13
1975-6	39,040	2	1,425	1
1976-7	37,995	-3	1,449	2
1977-8	35,421	-7	1,455	-
1978-9	37,210	5	1,613	11
Increase:				
1968-9 to 1973-4		10		24
1973-4 to 1978-9		4		33
1968-9 to 1978-9		14		60

Notes: ¹Estimate based on the index of the price of goods and services purchased by the public sector in the United Kingdom, as derived from the *National Income Blue Book, 1979*. (Table 9.3)

²Figures based on spending on comparable services, as defined in Table 2, note 1.

In the decade 1968-78, expenditure on the comparable range of functions increased in the United Kingdom as follows:

1968	£13,027m
1978	£51,536m

An increase by a factor of 3.96.

In Northern Ireland the increase was:

1968-9	£401m
1978-9	£2,234m

An increase by a factor of 5.57.

Putting the calculation on an alternative basis, if Northern Ireland had shared the United Kingdom experience, total public sector expenditure would have been £646m lower in 1978-79 (£458m lower in 1977-78).

The relative increases, by functional area, are illustrated in Table 4, which summarises the main functional headings used for public sector expenditure. Over the decade the areas which showed the increases above the average increase for Northern Ireland totals were:

Law and order	300% faster
Education	14% faster
Housing	9% faster
Health and social services	8% faster
Environmental services	7% faster
Social security	1% slower
Transport and communication	11% slower
Employment and industry	24% slower
Roads	30% slower
Agriculture	52% slower

Perhaps some significance can be attached to the fact that the social services, broadly defined, are in the top half of this list and the main economic services are in the lower portion. Table 4 reveals that this emphasis on social services is much more marked in the latter half of the decade.

Before drawing any conclusions from this information, the way in which the increased public sector expenditure was allocated should be compared with the changing allocations, within the same group of services, in the United Kingdom. This is illustrated in Table 5.

Compared to changes in the United Kingdom totals, Northern Ireland public sector expenditure, in the decade 1968-9 to 1978-9, increased faster under each classification. Based on the relative proportions in 1968-9, the increases were as follows:

Law and order	267% higher
Transport	183% higher
Employment and industry	103% higher
Environmental services	61% higher
Education	50% higher
Roads	48% higher
Housing	32% higher
Agriculture	27% higher
Health and social services	21% higher
Social security	17% higher
Average	41% higher

Table 4: *Functional analysis of public sector spending in Northern Ireland*
£m

	Total	Roads and public lighting	Transport	Employment, industry and trade	Agriculture	Housing	Environmental services	Law and order	Education	Health and social services	Social security	Other services
1967-68	369	—	—	—	38	—	—	9	—	—	—	9
1968-69	410	20	4	54	39	32	16	11	61	54	98	9
1969-70	450	22	3	80	40	33	17	15	64	60	105	11
1970-71	514	22	3	90	47	40	21	21	73	71	112	14
1971-72	586	22	6	98	42	46	26	29	89	80	131	17
1972-73	667	24	11	106	37	39	32	60	104	88	147	20
1973-74	800	33	9	142	43	51	37	72	121	104	165	23
1974-75	1096	43	11	186	70	87	49	103	165	147	214	21
1975-76	1445	58	11	235	64	114	73	151	278	206	283	21
1976-77	1663	64	9	228	78	176	75	172	261	240	341	19
1977-78	1845	75	13	227	99	171	82	181	296	270	411	21
1978-79 (E)	2259	83	20	288	124	189	93	210	376	317	535	25
% increase												
1968-69 to 1973-74	95	65	125	118	10	59	131	554	98	92	68	155
1973-74 to 1978-79	182	152	122	103	188	271	151	192	211	205	224	9
1968-69 to 1978-79	451	315	400	343	217	490	481	1810	516	487	446	178

Sources: Northern Ireland *Digest of Statistics* supplemented by Northern Ireland Office spending.

Table 5: *Public sector spending in Northern Ireland as a percentage of United Kingdom totals for comparable services*
%

	Roads and public lighting	Transport	Employment, industry and trade	Agriculture	Housing	Environmental services	Law and order	Education	Health and social services	Social security
1967-68	—	—	3.6	10.4	—	—	2.2	—	—	—
1968-69	3.3	0.6	4.0	9.8	2.8	2.3	2.4	2.8	2.8	2.9
1969-70	3.2	0.7	4.6	10.2	2.7	2.4	3.0	2.7	2.8	2.9
1970-71	2.8	0.7	5.2	11.7	3.0	2.5	3.5	2.8	2.9	2.9
1971-72	2.7	1.1	4.4	8.4	3.5	2.6	4.1	3.0	2.9	3.0
1972-73	2.7	1.5	5.3	7.8	2.6	2.8	7.5	2.9	2.8	2.9
1973-74	3.0	1.3	7.2	8.4	2.2	2.5	7.6	2.9	2.9	3.0
1974-75	3.6	0.8	9.3	6.4	2.1	3.0	8.4	3.4	3.1	3.1
1975-76	3.8	0.7	5.9	3.7	2.6	3.2	9.3	3.3	3.1	3.2
1976-77	4.1	0.8	6.7	6.4	3.4	3.3	8.7	3.4	3.1	3.0
1977-78	4.9	1.3	12.3	9.9	3.3	3.8	8.5	3.7	3.2	3.1
1978-79	4.9	1.7	8.1	12.4	3.7	3.7	8.8	4.2	3.4	3.4
Proportionate change:										
1968-69 to 1973-74	-10	+116	+80	-15	-22	+8	+216	+3	+3	+3
1973-74 to 1978-79	+63	+31	+13	+48	+68	+48	+16	+45	+17	+13
1968-69 to 1978-79	+48	+183	+103	+27	+32	+61	+267	+50	+21	+17

Sources: *National Income Blue Book, 1979* and Table 4 attached.

Notes: ¹The population of Northern Ireland in 1976 was 2.75 per cent of the total United Kingdom population.

²The United Kingdom figures are the calendar year (i.e. 1978 is shown under 1978-79).

³The comparable services, as defined above, exclude the following headings in the United Kingdom classifications: defence; external relations; research; finance and tax collection and other services.

Converting these relative increases into spending in 1978-79 and 1977-78 would mean that public sector spending was above par (defined as the parity of 1968-9 without regard to other changes) by the following amounts:

	1978-9	1977-8
Law and order	£153m	£130m
Transport	£13m	£11m
Employment and industry	£146m	£153m
Environmental services	£35m	£31m
Education	£125m	£72m
Roads	£27m	£24m
Housing	£46m	£26m
Agriculture	£26m	£1m
Health and social services	£55m	£33m
Social security	£78m	£27m
Total	<u>£704m</u>	<u>£508m</u>

These figures total to a larger amount than the figures of £646m in 1978-79 and £458m in 1977-78, (mentioned above) because of the implicit weighting difference caused by converting each item by the change in the United Kingdom spending structure into Northern Ireland figures which have a different relative weighting structure (i.e., the biggest proportionate increases in Northern Ireland tended to be amongst the services which were a smaller proportion of total spending than in the United Kingdom).

Whatever the statistical problems, the areas of public sector expenditure which have expanded most during the past decade, in absolute terms when compared to the levels in the United Kingdom, are:

Law and order	Education	Health and social services
Employment and industry	Social security	Housing

These together account for some 86 per cent of the increased total spending and, incidentally, also comprise 86 per cent of total public sector spending.

5. AN ECONOMIC ANALYSIS OF PUBLIC SECTOR EXPENDITURE

The economic classification of public sector expenditure provides some indication of the way in which the increased expenditure has affected the Northern Ireland economy. Table 6 indicates that the main impact, in percentage and absolute terms, falls in the category "current expenditure on goods and services" which it may be reasonable to infer mostly means increased employment.

In proportion to the changes in spending on comparable services on a United Kingdom basis, which is illustrated in Table 7, the increase has proportionately been largest on current goods and services and on fixed assets (which includes the lending to the public corporations). Capital grants to the private sector have fallen, in relative terms, whilst net lending to the private sector has risen, when in the United Kingdom it has recently been a negative figure.

If the higher spending of £704m in 1978-79 (using the United Kingdom proportions of 1968-69) is allocated, approximately, by economic classification the results are:

Changes in spending on:	
Current goods and services	£300m
Subsidies	£60m
Current grants	£140m
Fixed assets	£140m
Capital grants to private sector	-£5m
Net lending to private sector	£65m
	<u>£700m</u>

Table 6: Public sector spending in Northern Ireland analysed by economic classification¹
£'m

	Total	Current expenditure on goods and services	Subsidies	Current grants to persons	Current grants to private bodies	Expenditure on fixed assets ²	Current grants to private sector	Net lending to the private sector
1967-68	369	113	30	87	8	92	36	2
1968-69	410	123	39	100	9	92	46	1
1969-70	450	138	42	109	10	93	55	2
1970-71	514	164	45	118	12	111	61	2
1971-72	586	195	44	139	16	127	58	7
1972-73	667	222	46	179	19	139	56	5
1973-74	800	279	69	195	23	164	51	20
1974-75	1096	421	118	255	31	197	51	23
1975-76	1445	555	117	347	42	246	84	54
1976-77	1663	640	162	408	49	292	79	33
1977-78	1845	734	195	478	50	278	90	20
1978-79	2259	891	216	599	70	317	103	62
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% increase								
1968-69 to 1973-74	95	126	76	95	155	78	10	
1973-74 to 1978-79	182	219	213	207	204	93	102	
1968-69 to 1978-79	451	624	454	499	678	244	124	

Sources: Northern Ireland *Digest of Statistics* supplemented by an estimated breakdown of spending by the Northern Ireland Office.

Notes: ¹This table includes common service and other public service, amounting to £25m in 1978-79. These are excluded for the comparison in Table 7.

²Includes net lending and capital grants to public corporation.

Table 7: Public sector spending in Northern Ireland
as a percentage of United Kingdom totals for comparable services¹
%

	Total	Current expenditure on goods and services	Subsidies	Current grants	Expenditure on fixed assets	Capital grants to private sector	Net lending to private sector
1967-68	3.07	2.52	3.78	2.99	2.99	9.17	2.5
1968-69	3.08	2.55	4.42	3.00	2.79	6.99	2.5
1969-70	3.21	2.62	4.95	3.07	2.91	7.00	38.3
1970-71	3.31	2.72	5.14	3.04	3.33	8.25	1.4
1971-72	3.32	2.83	4.70	3.27	3.37	6.73	2.2
1972-73	3.36	2.79	3.96	3.51	3.50	7.90	1.4
1973-74	3.49	3.08	4.78	3.44	3.51	6.54	3.8
1974-75	3.69	3.66	3.91	3.69	3.82	6.23	2.1
1975-76	3.65	3.38	3.16	3.84	3.39	8.94	10.0
1976-77	3.81	3.43	4.68	3.63	4.12	7.22	19.6
1977-78	4.11	3.59	4.89	3.54	5.22	7.91	3
1978-79	4.33	3.85	6.01	3.79	4.98	6.68	3
Proportionate change:							
1968-69 to 1973-74	13	20	8	15	25	-7	52
1973-74 to 1978-79	24	25	26	10	42	2	
1968-69 to 1978-79	41	51	36	26	78	-4	

Sources: As for Table 6.

Notes: ¹The Northern Ireland functions included are the same as those in Table 4, excluding common services and other public services. The United Kingdom figures exclude defence, external relations, research, finance and tax collection and other services; they also exclude any external payments under the functional headings which are included.

²The United Kingdom figures are for calendar years (i.e. 1978 is shown as 1978-79).

³United Kingdom figure negative.

The functional and economic classifications indicate that only a small part of the increased public sector expenditure can be *directly* attributed to the impact of the local disruption. Minimally, the extra £150m on law and order (including compensation) can be directly attributed to the local unrest.

The other increases in public sector expenditure cannot be so easily classified. In part these are the indirect consequences of local problems, possibly mainly reflected in the relative increase in expenditure on employment and industry and also in the relative increase in social security payments. Other government commitments may have increased partly to offset the adverse impact of the local problems, but it is possible to argue that this was a secondary, but beneficial, consequence of commitments which could also be justified primarily on the basis of need and that this was only very tenuously linked with local violence or political instability.¹³

If a rough categorisation was to be attempted, the following is offered as a first approximation.

In 1978-79 public sector expenditure was approximately £650m above the relative Northern Ireland-United Kingdom position as observed in 1968-69. Of this increase:

£160m is directly attributable to local civil problems

£175m is indirectly attributable to local civil problems, including lost jobs and jobs maintained with support

£315m is a result of the increased provision of other public services, and arises mainly in education, health, social services, housing and roads.

6. COMPARISONS OF THE SCALE OF PUBLIC SECTOR EXPENDITURE

Because of the need for revenue support from Westminster for the Stormont budget, and the use of the "parity" and "leeway" arguments in recent decades, there may have been an impression that, by 1968, public sector expenditure per head in Northern Ireland was above the average justifiable levels elsewhere in Great Britain. If this had been the case, then any relative increase in public sector expenditure during the past decade could have been viewed as an increase above parity; the extra support to an area with major political, as well as social and economic, problems.

Two official reports have provided evidence which show that this impression was not, in fact, the reality. The 1974 discussion paper, *Finance and the Economy*,¹⁴ showed that while public expenditure per head was higher than in England, it was lower than in Scotland in the years prior to 1972, and lower than in Wales prior to 1969. These comparisons made no allowance for differences in relative needs which, subjectively, could be argued to tilt the comparison more in Northern Ireland's favour.

More recently, the Treasury published a similar comparison for six main social functions in a *Needs Assessment Study* (1979) which were considered for possible devolution to Scottish and Welsh administration.¹⁵ These functions account for just over half of total public sector expenditure in Northern Ireland. The comparison is summarised in Table 8.

Table 8: *Identifiable public expenditure; country comparison*¹
(Per capita spending expressed as a percentage of per capita spending in England)

	Scotland	Wales	N. Ireland
1959-60	105	95	88
1962-63	118	99	92
1965-66	111	94	97
1968-69	134	101	103
1971-72	125	104	111
1974-75	118	97	112
1976-77	123	101	136
1977-78	128	100	141

Source: *Needs Assessment Study* (1979).

Note: ¹Six social (broadly defined) sectors; see note (15).

For these public sectors, Northern Ireland only overtook Scotland in 1975-6 and Wales in 1967-8.

The novel feature of the *Needs Assessment Study* (1979) is that it attempts to refine the assessment on a better basis than the straightforward *per capita* basis. For example, educational needs are assessed on the school population, its age distribution, the degree of overcrowding, the number of sub-standard places, the degree of social deprivation, etc. A summary of the main elements in the Study is set out in Table 9.

If the formulation is corrected to allow for the minority view on some health spending (which seems to have been a contentious item) the "needs" figure should be adjusted as in the third column above.

On the latter basis, Northern Ireland public sector spending was, for these functions in 1976-7, broadly in line with needs. If the unadjusted figures are appropriate, the extra spending would have been of the order of £30m out of £985m.

The needs assessment study gives enough detail to show how actual spending and

needed spending diverged in Northern Ireland in 1976-77 when compared to England. This is set out in Table 10.

Table 9: *Spending and needs compared*

	Actual spending	"Needs"	"Needs" adjusted
England	100	100	100
Scotland	122	116	119
Wales	106	109	111
N. Ireland	135	131	135

Source: *Needs Assessment Study*.

Table 10: *Spending and needs compared by function*
(Per capita figures based on England = 100)

	Actual spending	"Needs"
Health and personal social services ("Needs" on minority view)	120	197 } (122) }
Education and libraries	123	129
Housing	135	159
Water services	234 ¹	129
Roads and transport	117	155
Law, order and protective services (excluding police)	492	121
Overall	135	131 } (135) }

Source: *Needs Assessment Study*, (adapted).

Note: ¹Includes current spending; excluded in England.

The services *not* covered by the needs assessment study are, in the main, more related to economic functions. It is therefore of interest to note that for the six headings analysed Northern Ireland spent 3.59 per cent of the United Kingdom total and was, at most, 3 per cent above need. For the other services, excluding defence and overseas spending Northern Ireland spent 3.56 per cent of the United Kingdom total and, on a *pro rata* basis, was no more favourably treated.

Since the "other" services include social security, police, trade and industry, energy and agriculture, there is no obvious reason to conclude that the other services are significantly more favourable to the province.

On the basis of these studies, the relative increase over the past decade in total public sector expenditure of £650m (approx.), at 1978-79 prices, should not, without major reservations, be treated as putting people in Northern Ireland in an excessively favourable position relative to the rest of the United Kingdom, although it should be acknowledged that, if 1976-77 was a year when "needs" approximately related to "spending", spending relative to the United Kingdom has increased by 13 per cent in the last two years.

7. FINANCING PUBLIC SECTOR EXPENDITURE

In the years prior to 1972, Stormont revenue depended on two main elements. First, the attribution to Stormont of the taxation collected in, or apportioned to, Northern Ireland and second a range of supplements to this revenue which were agreed, or legislated for, in the different ways outlined in Section 2 (above). With the implementation of the Northern Ireland (Financial Provisions) Act, 1972 and the Northern Ireland Constitution

Table 11: *Government Revenue in Northern Ireland*¹
£m

	Total	Share of taxation ²	Rates	National insurance ³	Other current revenue	Total current revenue	Net borrowing ⁴	Transfers from U.K. govt. ⁶
1964-65	259.8	137.0	15.6	29.8	21.0	203.4	13.9	42.5
1965-66	301.9	147.8	16.8	37.1	22.4	224.1	29.0	48.8
1966-67	347.0	166.9	18.9	38.1	26.1	250.0	45.5	51.5
1967-68	389.9	196.5	20.1	42.6	30.8	290.0	37.2	62.7
1968-69	430.7	222.7	21.8	46.3	34.7	325.5	30.5	74.7
1969-70	483.8	259.7	23.8	50.0	39.0	372.5	37.9	73.4
1970-71	554.4	276.4	24.4	60.3	46.9	408.0	60.1	86.3
1971-72	638.9	296.4	27.1	66.7	53.6	443.8	69.6	125.5
1972-73	738.3	302.5	29.9	82.0	61.2	475.6	82.2	180.5
1973-74	858.4	305.6	(30.2)	93.8	(62.6)	492.2	55.0	311.2
1974-75	1120.3	422.9	52.2	122.5	72.0	669.6	60.6	390.1
1975-76	1496.8	558.4	69.0	180.0	83.9	891.3	34.4	571.1
1976-77	1703.9	643.7	76.3	187.8	103.2	1011.0	66.8	626.1
1977-78	1857.7 ⁵	694.5	88.6	199.5	117.3	1099.9	57.1 ⁵	700.7 ⁵
1978-79 (E)	2150.6	775.3	96.7	217.8	92.7	1182.5	125.1	843.0

Sources: Northern Ireland *Digest of Statistics; Finance and the Economy* (1974); and the Northern Ireland Office Appropriation Accounts.

¹Including local government but excluding public corporations.

²Taxes on income, expenditure and capital as attributed to Northern Ireland and after deducting the U.K. cost of collection (£14.4m in 1977-78) and the Northern Ireland share of the U.K. payment to the E.E.C. (£22.5m in 1977-78).

³Includes Redundancy Fund.

⁴Capital spending less surplus on current accounts.

⁵Excludes £250m loan to N.I. Electricity Service written off.

⁶Includes direct spending by the Northern Ireland Office.

Act, 1973, this second element was consolidated effectively into a grant-in-aid which was explicitly acknowledged to be calculated as a residual when local tax revenue etc. had been deducted from approved expenditure. There still remains a separate Northern Ireland Exchequer, which for administrative purposes presents the same analysis as the former Stormont budget, but the share of United Kingdom taxes attributed to Northern Ireland is now more of academic interest than it is a determinant of, or constraint on, spending.

In this new situation (and indeed in a slightly different way pre-1972) it is not clear to an outside observer how Stormont and Westminster agree on the amount of Northern Ireland expenditure which is to be met by borrowing. Whatever the reasoning which decides on the amount of borrowing, which means that the smaller the borrowing requirement then the larger the grant-in-aid, the net result has been that a significant contribution is made, each year, from current revenue to capital expenditure. This has the effect of reducing the interest and repayments total in later years and also increasing the grant-in-aid in the current years.

The structure of government revenue in Northern Ireland is illustrated in Table 11. Before examining the changes in the structure, attention should be drawn to the fact that this definition of total revenue is not conceptually the same as that used for total public sector expenditure. The latter excludes debt interest and borrowing repayments by central government. There are other technical differences but no reconciliation is published by the Department of Finance.¹⁶ However, the totals represent the same general orders of magnitude.

Table 11 illustrates that whilst total revenue increased by a factor of 4.99 in the decade 1968-9 to 1978-9, local current revenue (including taxation), increased only by a factor of 3.63. It is hardly surprising therefore that transfers from Westminster increased by a factor of 11.29. The proportion of total revenue from the main sources is shown in Table 12.

Table 12: *The proportion of Government revenue from different sources*
%

	Taxation and other local revenue	Net borrowing	Transfers from U.K. govt.
1964-5	78	5	16
1965-6	74	10	16
1966-7	72	13	15
1967-8	74	10	16
1968-9	76	7	17
1969-70	77	8	15
1970-1	73	11	16
1971-2	69	11	20
1972-3	64	11	24
1973-4	57	6	36
1974-5	60	5	35
1975-6	60	2	38
1976-7	59	4	37
1977-8	59	3	38
1978-9	56	6	39

Source: Derived from Table 11.

If the proportion of total revenue in 1978-79 transferred from Westminster had been the same as in 1968-69, then total revenue would have been some £570m lower. This

makes no allowance for the effect of the decade in reducing the revenue from taxation (through increased unemployment, emigration or lower profit margins), which would make the total increase in transfers from Westminster somewhat lower than £570m in 1978-79.

The make-up of the main financial transfers from Westminster to Stormont is itemised in Table 13.

8. CONCEPTS OF ASSISTANCE

If the statistical evidence of the earlier sections is generally acceptable, although no doubt there are areas where presentationally it might be varied, then some of the problems of interpretation can be made clearer. Part of the difficulty in dealing with conflicting interpretations lies in clarifying the questions and the concepts. Phrases such as non-viable, heavily subsidised, and spongers have been used in more populist analyses of the state of the public sector in Northern Ireland. In their different contexts each of these themes can be evidenced but this evidence tends to be greatly abused.

The questions come in several forms (some implicit) and in the following paragraphs these are illustrated using the evidence for 1976-77, which coincides with the year of the Needs Assessment Study.

Question 1

One version of the question on assistance to Stormont is the straightforward accounting type question "How much of the public sector expenditure in Northern Ireland is financed from the United Kingdom Exchequer?" The question does not explicitly say so, but by implication it presumes that Northern Ireland can (or should) be seen as a separate financial unit.

Without debating the premises on which the question is based, the factual evidence, in 1976-77, was that measurable financial transfers from Westminster amounted to £626m (see Table 11). Total public sector expenditure in 1976-7 was £1,663m (Table 4) and the percentage financed by transferred funds was, therefore, 38 per cent.

Continuing to accept, for illustrative purposes at least, that the flow of transfers is a useful statistical concept then the previous paragraph may be thought to err on the side of understatement. No allowance is made for the costs of, for example, defence or the national debt. Even if allowance is only made for the extra costs on the defence budget of the Northern Ireland problems, then the £626m should be increased to £685m (see Cmnd 6721). The figure then rises to 40 per cent.

If interest on the national debt and defence costs were attributed at 2 per cent of the United Kingdom total, to Northern Ireland, the figure would rise to over 43 per cent.

The significant feature of the past decade is that the percentage of public sector expenditure financed by transfers from Westminster has increased. As was discussed earlier this is partly a direct and indirect result of the local difficulties; however, it is also partly a consequence of an expansion of public sector services which may have been only marginally influenced by local events. Prior to 1968-69, the percentage of public sector expenditure financed from transferred funds was fairly stable at 15 per cent to 16 per cent of the total.

Question 2

An alternative to the question posed above comes in the form "How much extra is Westminster having to transfer to Northern Ireland because of the local civil disruption?" On the evidence available this question is more difficult to answer. The direct costs of violence and law and order could include the extra defence budget costs, the increased law and order spending and the cost of compensation. In 1976-77 these may have amounted to about £190m, or £130m if the defence costs are excluded. However there are many indirect costs, perhaps most noticeable in the various extra schemes to maintain the economy and the costs of the relative increase in unemployment. If an estimate is to be

Table 13: *Financial transfers from the United Kingdom to the Northern Ireland administration*
£m

	Total	Agricultural subsidies ¹	National insurance transfers ²	Social services agreement ³	Agricultural remoteness ⁴	Health services agreement ⁵	S.E.T. refunds ⁶	V.A.T. refunds ⁷	Financial provisions Act, 1972	Expenditure on law and order ⁸ through N.I.O.
1964-5	42.5	(23.0)	11.0	8.5	--	--	--	--	--	--
1965-6	48.8	(25.0)	13.0	9.5	1.3	--	--	--	--	--
1966-7	51.5	25.0	14.6	10.3	1.6	--	--	--	--	--
1967-8	62.7	30.0	16.9	10.3	1.8	--	3.7	--	--	--
1968-9	74.7	31.0	13.3	19.4	1.7	--	9.3	--	--	--
1969-70	73.4	31.0	14.7	16.0	1.7	--	10.0	--	--	--
1970-1	86.3	37.0	12.9	23.7	1.9	--	10.8	--	--	--
1971-2	125.5	31.0	21.7	40.3	1.9	19.8	10.8	--	--	--
1972-3	180.5	25.0	21.8	44.5	2.0	25.0	11.2	--	51.0	--
1973-4	311.2	30.0	29.7	30.7	2.4	15.1	8.1	0.8	175.0	19.4
1974-5	390.1	41.5	43.1	--	2.0	--	--	4.3	199.3	99.9
1975-6	571.1	27.1	38.0	--	2.1	--	--	5.6	351.0	147.3
1976-7	626.1	35.2	56.0	--	2.4	--	--	5.5	360.0	167.0
1977-8	700.7 ⁹	27.3	59.2	--	--	--	--	6.4	432.3 ⁹	175.5
1978-9 (F)	843.0	27.5	63.1	--	--	--	--	8.1	560.0	184.3

Sources: Northern Ireland *Digest of Statistics, Finance and the Economy* (1974) and Northern Ireland Office expenditure estimates.

Notes: ¹ Formerly paid by Ministry of Agriculture, Fisheries & Food.

² Re-insurance agreement with the National Insurance Fund, 1948.

³ As introduced in 1949.

⁴ As agreed in 1957.

⁵ As introduced in 1971.

⁶ As defined in the Finance Act, 1967.

⁷ As defined in the Finance Act, 1972.

⁸ As defined in the N.I. Constitution Act, 1973.

⁹ Excludes £250m write off of loan to N.I. Electricity Services.

made then, as a first approximation, this might be put at £100m in 1976-77. A third element is the loss of tax revenue because of the lower level of economic activity and increased emigration which has been offset by increased financial transfer. A figure of £50m in 1976-77 might be an order of magnitude based on a 5 per cent lower level of total personal incomes. One offsetting factor is that the extra expenditure itself will have generated certain tax revenues which are difficult to estimate.

On this basis, the extra financial transfers, because of local civil problems, might be of the order of £250m in the Stormont accounts, amounting to 15 per cent of total public expenditure (or some 42 per cent of the total transfers). On this basis a stable Northern Ireland would have received transfers of some £380m and public sector expenditure would have been some £230m lower at £1430m. This would have made transfers the equivalent of 27 per cent of public sector expenditure in a peaceful Northern Ireland.

Question 3

A development from the discussion on question 2 can be put in the form "Excluding the extra costs of the local problems, to what extent is public sector expenditure higher in Northern Ireland (proportionately) than in the United Kingdom as a whole?"

On the evidence of the Needs Assessment Study (1979) relating to the main areas of social concern, including housing, the answer is that the spending levels in 1976-77 were 35 per cent higher than in England but that this was only 3 per cent above the level determined on the basis of need (taking the lower, majority view, estimate of needs). If this is also true for other public services, then the spending above the "need" formula would have been less than £50m in 1976-77. (The evidence is that it would have increased since 1976-77 by a significant amount). In 1976-77, this could be interpreted as saying that transfers from Westminster gave a *relative* advantage to the Stormont budget to increase expenditure by less than 4 per cent.

Question 4

Although Northern Ireland exercises responsibility for local government services, as defined in Great Britain, because of the devolution arrangements, the cost of local government services has to be met out of Stormont revenue. There is therefore no transfer to Northern Ireland which distinguishes the degree of central support from Westminster for local government services from the transfers to support central government services. There is, therefore, no equivalent of the rate support grant as in Great Britain. Alternatively, it can be argued that Stormont has to finance the equivalent transfers out of its own revenue. This raises the issue of how the scale of the financial transfer compares with what might have been appropriate under rate support grant arrangements.

The recent working party report on the Regional Rate (1978) gave some indication of the level of rate support grant that would have been relevant in Northern Ireland on the formula used in England and Wales. Using the same proportion of the rate support grant in earlier years the total transfers from Westminster can be compared with a hypothetical grant. This is done in Table 14.

This table confirms that until 1971, Stormont would have been able to balance its budget if it had had a rate support grant formula as the basis for transfers of funds.

Conclusion

The form of devolution to Northern Ireland has, over the years, tended to emphasise the concepts of subsidy and assistance. It can be argued that the presentation of the accounts lends itself to this type of analysis. However, if questions are asked based on relative needs and how these relate to spending then the Northern Ireland position does not look so deficient. In fact the comments on viability, subsidy and support usually stem from assumptions on the conceptual framework. The more Northern Ireland's public sector is examined as a self-contained budgetary problem, the more the points relating to dependence are emphasised. Questions at the other end of the spectrum which relate

relative expenditure based on needs reduce the emphasis on assistance and focus attention more on the redistribution process in the United Kingdom.

Table 14: *Financial transfers and a rate support grant*

	Transfers from Westminster	Rate support grant	Difference	Difference as % of expenditure
	£'m	£'m	£'m	%
1965-6	49	44	5	2
1967-8	63	62	1	—
1969-70	73	78	-5	—
1971-2	125	105	20	3
1973-4	311	150	161	19
1975-6	571	288	283	19
1976-7	626	305	321	19
1977-8	701	312	389	21

FOOTNOTES

1. Lawrence, R.J., *The Government of Northern Ireland*, p. 14 *et seq.*
2. The evidence to the Kilbrandon Royal Commission on the Constitution from politicians in Northern Ireland was mainly consistent with this viewpoint. Even the non-Unionists usually referred to improving the workings of a devolved government, not to its abolition.
3. Lawrence, *op. cit.*, p. 45 *et seq.*
4. Lawrence, *op. cit.*, p. 51.
5. Quoted by Lawrence, *op. cit.*, p. 60 from 335 H.C. Debate, 53, 1709.
6. Lawrence, *op. cit.*, p. 31.
7. Lawrence, *op. cit.*, p. 70.
8. The author's estimate for 1963 indicates that transfers as a percentage of spending were at a roughly similar level to these.
9. Unless otherwise stated, public sector is defined to include the current and capital spending of central and local government, including the area boards, and lending to the public corporations (such as the Housing Executive and Electricity Service) but excluding their current trading revenue and expenditure.
10. If G.D.P. *per capita* is 20 per cent lower, then if public sector expenditure is equivalent to 45 per cent in the U.K. of G.D.P. and was the same in absolute *per capita* terms in Northern Ireland, the ratio would rise to 56 per cent.
11. For this reason it is surprising that the Review of Economic and Industrial Strategy (The Quigley Report) HMSO, 1976, tried to use this concept as a yardstick (Para. 22.2).
12. In Table 2, and several later tables, calendar year figures for the United Kingdom are treated as equivalent to the financial year (i.e. 1978 is treated as 1978-79). This could have been corrected on a *pro rata* basis, but the differences, in some test calculations, were not significant for the purposes of this paper.
13. Not only has public sector expenditure increased because of the local problems but public sector revenue has also been reduced. This is referred to in a later section.
14. *Finance and the Economy*, prepared by the Northern Ireland Office, HMSO, 1974.
15. These six functions were health and social services, education, housing, other environmental services, roads and transport, and law and order.
16. Such a reconciliation would be useful in the better understanding of Northern Ireland's public sector finances, as would some greater clarity on the details of the capital accounts which are published in the Northern Ireland *Digest of Statistics*. These calculations may already be available, internally, as part of the material sent to the Treasury to prepare the *National Income Blue Book*.

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