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24th April 1969

Dear Ward,

Withdrawal of Subventions to Northern Ireland

You may have seen the earlier papers on this subject including Pliatzky's letter to Cairncross of 21st February and Unwin's record of a meeting on 26th February.

The Prime Minister has now asked to see an examination of the extent to which we might withdraw United Kingdom subventions to Northern Ireland and what the effect of this would be. I enclose a draft, based on the paper which was before the meeting on 26th February and the points made at that meeting, and I should be very grateful if you would let me have your comments. The subject is likely to be discussed at a meeting of the Official Committee at noon tomorrow, so it would be very helpful if you could let us have some preliminary thoughts either tonight or in the morning.

D. E. R. FAULKNER

C. Ward Esq.

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Withdrawal of United Kingdom Subventions to Northern Ireland

This paper examines the extent to which it might be possible to withdraw the United Kingdom subventions to Northern Ireland and what the effects of such a decision might be. Such a measure has been considered as a means of exerting pressure on a reactionary government in Northern Ireland (for example if Capt. O'Neill had resigned); it has not been contemplated in a situation where pressure was being placed on a moderate government to pursuade it to be more liberal. The payments which can be considered in this context are the 'residuary share' on reserved taxation; special payments made under a variety of enactments; agriculture deficiency payments; and capital loans.

The 'residuary share' of reserved taxation

Provision for these payments is made in section 22 of the Government of Ireland Act 1920. The amount is determined annually by consultation between the Treasury and the Ministry of Finance in Northern Ireland and formally by the Statutory Joint Exchequer Board on which the two departments are represented under an independent chairman. The figure for 1968/69 is £195 million. [It almost certainly exceeds the amount collected in Northern Ireland but for technical reasons it would be difficult to establish by what margin.] Payments are made on a bi-monthly basis but in accordance with an annual determination which is usually made in the Spring. A reduction in the amount for the current year - i.e. the period up to April 1970 - would certainly require legislation and any attempt to introduce a different basis of ~~assumption~~ assessment adverse to Northern Ireland would probably also require legislation. The Joint Exchequer Board cannot easily be manipulated and a proposal for example to increase the 'imperial contribution' from the present figure of £2 million to say £40 million (and to decrease the 'residuary share' by a corresponding amount) would no doubt be resisted by the Member representing Northern Ireland so that the Board would be prevented from agreeing to that proposal. Even if it did there is provision under section 52 of the Government of Ireland Act for appeals from its decisions.

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Special Payments

All the special payments are statutory and a decision to suspend any of them or to reduce any of them during the current year would require legislation. They comprise:

(a) payments under the Social Services (Northern Ireland Agreement) Act 1949 - about £19 million;

(b) payments under section 32 of the Agricultural Act 1957 ('remoteness' grants) - about £1.7 million;

(c) regional employment premium - about £9.2 million;

(d) National Insurance Joint Authority payments made to the Northern Ireland National Insurance Fund under section 63 of the National Insurance Act 1946 - about £13.3 million.

Agriculture Deficiency Payments

Agriculture deficiency payments are made to farmers in Northern Ireland and amount to about £23 million, but they are part of the system which applies to the United Kingdom as a whole and the Ministry of Agriculture in Northern Ireland acts simply as the agent of the Government of the United Kingdom. Technically the Ministry of Agriculture has powers to differentiate between different regions but it would hardly be practicable to differentiate against farmers in Northern Ireland particularly since the discrimination would be ~~seemingly~~ to be against them as individuals and not against the Northern Ireland Government.

Capital Loans

Capital loans are made under section 2 of the Miscellaneous Financial Provisions Act 1950 and enable the Northern Ireland government to lend investment capital to local authorities and public utilities. These are discretionary within the statutory limit of £120 million and could be stopped without legislation more or less at any time. The existing programme provides for £ million to be paid in 1969/70.

Possible courses of action

In the short term the only practicable course of action not involving legislation would seem to be to discontinue capital loans. The immediate effect would be slight and its only value would probably be as a gesture and as a warning that more stringent measures might be taken if the Government of Northern Ireland did not respond. In future years it would be possible to discontinue the 'remoteness' grant to farmers in Northern Ireland and payments of regional employment premium; the Government of the United Kingdom could also refuse to increase the amount of the other special payments. The effects would however be marginal and would take some time to be felt.

If there were a decision to introduce legislation there would be much greater scope for action, but there would still be a problem in equity over denying to Northern Ireland the proceeds of the taxes paid by the province. There would not be a similar problem in withholding special payments, which amounted to subsidies from Great Britain to Northern Ireland. Legislation could certainly be drafted which would place the Northern Ireland government in an extremely difficult situation and could probably in the last resort cause it to collapse as a source of effective authority. In that event however the Government of the United Kingdom would be compelled to assume complete control and if this were to be the result it would be better achieved directly and without the additional damage and hardship which financial pressure would cause.

Conclusion

Legislation would certainly be necessary if financial pressure were to have any immediate effect except as a warning to a reactionary government. Any legislation would however be extremely controversial: the suspension or reduction of the special payments would affect directly the most vulnerable members of the community in Northern Ireland - those receiving social service benefits, farmers and workers in industry (where employment would contract still further). The same difficulty applies to a reduction in the residuary share of reserved taxation since Westminster has no direct control over expenditure by the Northern Ireland government and a reactionary government in Northern Ireland could apply reductions to vulnerable sections of the community and place the blame on the government of the United Kingdom. More generally the effect on the economy of Northern Ireland, including the loss of confidence, could do irretrievable damage to the province and increase the political and social problems which can be finally resolved only in conditions of economic prosperity. Finally, if military intervention became necessary (and financial pressure might help to make it necessary) the task of the troops would be rendered more difficult if they were seen by the local population as the agents of a government which had caused them unnecessary suffering and hardship.

Against this background it may be thought that even a threat to apply financial pressure would lead to controversy and alienate moderate opinion, or alternatively that it would not be taken seriously.

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Withdrawal of United Kingdom Subventions to Northern Ireland

This paper examines the extent to which it might be possible to withdraw the United Kingdom subventions to Northern Ireland and what the effects of such a decision might be. Such a measure has been considered as a means of exerting pressure on a reactionary government in Northern Ireland (for example if Capt. O'Neill had resigned); it has not been contemplated in a situation where pressure was being placed on a moderate government to pursuade it to be more liberal. The payments which can be considered in this context are the 'residuary share' of reserved taxation; special payments made under a variety of enactments; agriculture deficiency payments; and capital loans.

The 'residuary share' of reserved taxation

The 'residuary share' currently amounts to about £200 million a year - paid under section 22 of the Government of Ireland Act, 1920. It consists of the proportion of U.K. taxes which is properly attributable to Northern Ireland, after deduction of about £2 million as an Imperial Contribution (i.e. a contribution towards Defence and overseas expenditure, etc.).

The precise amount of the residuary share is determined annually by consultation between the Treasury and the Ministry of Finance, and formally by the statutory Joint Exchequer Board, on which the two Departments are represented under an independent chairman. The Joint Exchequer Board could not easily be manipulated to sanction even a modest reduction in the residuary share; and if it did so, there is statutory provision for appeals from its decisions. Any substantial reduction would mean a radical departure from the

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accepted and long-standing practice for interpreting the provisions in the 1920 Act for calculating the residuary share; and the Treasury, on legal advice, do not think that this could be introduced without amending the legislation itself.

Special Payments

A number of special payments are made to supplement the residuary share and thus enable Northern Ireland to enjoy 'parity of services' with Great Britain. The special payments, and their current annual costs, are:-

(i) payments under the Social Services (Northern Ireland Agreement) Act 1949 - about £19 million;

(ii) National Insurance Joint Authority payments made to the Northern Ireland National Insurance Fund under section 63 of the National Insurance Act 1946 - about £13 million;

(iii) regional employment premium - about £9 million;

(iv) payments under section 32 of the Agriculture Act 1957 ('remoteness' grants) - about £1.7 million;

(v) agriculture deficiency payments - about £28 million.

Neither the Social Services nor the Insurance payments ((i) and (ii) above) could be suspended or reduced without legislation. But the provisions for the 'remoteness' grants (iii) are discretionary in form; and R.E.P. payments (iv) made under the 1967 Finance Act might also so be regarded.

Agriculture deficiency payments (v) are made to farmers in Northern Ireland, but they are part of the system which applies to the United Kingdom as a whole and the Ministry of Agriculture in Northern Ireland acts simply as the agent of the Government of the United Kingdom. Technically the Ministry of Agriculture has powers to differentiate between different regions but in practice the

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scope for using these powers to differentiate against farmers in Northern Ireland seems limited.

Capital Loans

Capital loans are made under section 2 of the Miscellaneous Financial Provisions Act 1950 and enable the Northern Ireland government to lend investment capital to local authorities and public utilities. They are discretionary and could be stopped without legislation more or less at any time. The current statutory limit of £120 million has nearly been reached and the 1969 Finance Bill will provide for it to be increased to £170 million.

Possible courses of action

The possibilities of taking action without legislation seem very limited. The main possibility would be to discontinue capital loans. The immediate effect would be some disruption of the capital programmes which these loans finance - i.e. the programmes of local authorities (including housing) and of the Electricity Board - and the principal value would probably be as a gesture and as a warning that more stringent measures might be taken if the Government of Northern Ireland did not respond. It would also seem possible to reduce the 'remoteness' grants and R.E.P. payments. The effects would not however be great and would take some time to be felt.

If there were a decision to introduce legislation it would be possible to make a much larger reduction in United Kingdom subventions. Any legislation would be extremely controversial and it would be necessary to consider very carefully which particular payments should be reduced. Thus, there would be a problem in equity over denying Northern Ireland the share of United Kingdom taxation which is properly attributable to them. But the residuary share of reserved taxation might be reduced by increasing the deduction for

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the Imperial Contribution so that it more nearly represented a proportionate contribution towards Defence and other Imperial expenditure. Alternatively, the reduction might be effected on the special payments which are more clearly subsidies from Great Britain to Northern Ireland. The difficulty here is that these payments are related to the needs of the more vulnerable members of the community in Northern Ireland - those receiving social services benefits, workers in industry and farmers - and, in the case of agriculture deficiency payments, would mean a direct reduction in the actual payments to farmers.

Any large reduction would effectively reduce public expenditure in Northern Ireland and involve a departure from the principle of 'parity of services' between Northern Ireland and Great Britain which was introduced by the Simon Declaration of 12th May, 1938. Moreover, whatever the form of the reduction in United Kingdom subventions, a reactionary government in Northern Ireland could apply reductions to vulnerable sections of the community and place the blame on the government of the United Kingdom.

More generally the effect on the economy of Northern Ireland, including the loss of confidence, could do irretrievable damage to the province and increase the political and social problems which can be finally resolved only in conditions of economic prosperity. Finally, if military intervention became necessary (and financial pressure might help to make it necessary) the task of the troops would be rendered more difficult if they were seen by the local population as the agents of a government which had caused them unnecessary suffering and hardship.

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Legislanion would be necessary if fanancial pressure were to have any substantial immediate effect except as a warning to a reactionary government. The legislation would be extremely controversial; the reduction of United Kingdom subventions would force a departure from the principle of parity of services; and it could inflict serious damage on the economy of Northern Ireland. It must also be doubted whether financial pressure would work in H.M.G.'s interest either in the shorter or longer term. Against this background it may be thought that even a threat to apply financial pressure would lead to controversy and alienate moderate opinion, or alternatively that it would not be taken seriously.

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