Ireland's Future
Todhchaí na hÉireann

Planning for a Strong Economy in a New Ireland

Introduction

In this document we set out our vision in Ireland's Future of the economic benefits of Irish unification. It is clear to us that partition has had a crippling effect on the North's economy and despite immense local political will to improve the economic fortunes of the region, prospects for growth will remain poor.

The current governance and funding constraints almost ensure that the North will continue to fall behind the South, and other economies into the future. We believe that there is huge untapped potential for the North's economy to grow and that its productivity potential can only be achieved within a united Ireland framework. Nevertheless, we shouldn't understate the scale and nature of the challenges ahead and we recognise that substantial investment is required in key areas such as health, education, infrastructure and industrial policy.

These investments are necessary in order to begin to undo the damage of partition and maximise the benefits of unification for citizens in all parts of Ireland. In this document we outline why we believe that partition has failed and will continue to fail the economic interests of citizens in the North. We set out the economic benefits of Irish unification and address some of the fallacies that have become part of the conversation regarding the costs of unification in recent years.

Finally, we outline the detailed planning that must be undertaken in order to provide a clear vision for a new and united Ireland for those who will vote in referendums north and south. It is the responsibility of the Government in Dublin to begin to provide this detail in order to meet its commitments to allow for the possibility of future constitutional change, as set out under the terms of the Good Friday Agreement.

Failure to do so is a failure to lead.

Gerry Carlile
Ireland's Future CEO

How has partition led to economic failure in the North?

It is without doubt that the partition of Ireland has been an economic failure for the citizens of the North. The economic impact of partition was recently succinctly summarised by leading economic commentator David McWilliams who stated that *"before partition the North was twice as rich as the South, it is now twice as poor"*[1].

At the time of partition, the economy in the South was poor and based largely on agricultural activities, while the North's was much more industrialised, wealthy and focused around a well-developed manufacturing base in industries such as shipbuilding and linen.

Between 1921 and 1969 the North's economy was under the authority of a unionist regime whose primary focus was to maintain power along sectarian lines by ensuring that large swathes of the population had limited access to employment, education and housing opportunities.

Given this, it is not surprising that in the decades following partition, the economic trajectory of the North was one of continuous relative decline. Writing in 1981 the eminent Cambridge economist Bob Rowthorn asserted that *"thus from the very beginning Northern Ireland was a sectarian state, based on the notion of Protestant supremacy and geared primarily towards the satisfaction of Protestant needs. This fact has profoundly influenced the development of the province, and continues to do so after nearly a decade of direct rule from Britain"*[2]. The failure of the post-partition economic model is demonstrated by the fact that at the time of partition the North's economy generated a financial surplus to the UK treasury[3]. However by 1938 the region required a subsidisation from Westminster, and by the time of the fall of the Stormont government and the imposition of direct rule in 1972, had become one of the poorest performers compared to other regions in these islands. For instance, in 1971 per capita GDP in the North had fallen to 78% of the UK average and was below that of any of the 11 regions of Great Britain and was 11% lower than the next worst performing region[4] (Table 1).

1 Discussion at Feile an Phobail, August 6 2020.

2 Rowthorn, R.E. (1981). 'Northern Ireland: an economy in crisis', Cambridge Journal of Economics, 5: 1: 1-31.

3 This was termed the "imperial contribution".

4 https://www.ons.gov.uk/economy/grossvalueaddedgva/adhocs/005458historicalregionalgdp1968to1970and1971to1996

The North's economy had remained at, or close to, the bottom of the regional income ladder in the period up to the signing of the Good Friday Agreement (Table 1), becoming increasingly dependent on British Government subsidies. Whilst legacy effects of the troubles will undoubtedly contribute to the North's poor relative current performance, it is clear that low growth and the need for associated subsidisation evolved during the first half century of partition.

Table 1: Regional GDP Per Capita 1971 to 1996 (£ Sterling)

	1971	1981	1991	1996
North England	811	3488	7541	9354
Yorkshire & Humberside	814	3381	7764	9585
East Midlands	803	3555	8273	10096
East Anglia	845	3541	8533	10689
South East England	1018	4271	9908	12641
South West England	779	3420	8074	10143
West Midlands	912	3329	7861	10015
North West England	871	3460	7607	9631
Wales	767	3070	7324	8899
Scotland	831	3542	8269	10614
N Ireland	688	2882	6930	8700

Source: ONS , £ consistent with ONS Bluebook 1997

How was the North's economy cast adrift by consecutive London administrations?

The peace process, and the emergence of devolved government have, unfortunately, not seen the levels of investment necessary to reverse the low growth trajectory that has stemmed from decades of economic mismanagement, compounded by the subsequent economic impact of the troubles. There was evidence that regional policy, whereby successive UK adminstrations attempted to boost the growth rates of deprived regions, formed part of government policy throughout the 1970s and 1980s. However, despite this, regional policy spending appears only to have been effective in preventing poorer regions, such as the North, from falling further behind high growth areas, such as London and the South East (McGuinness & Sheehan, 1998). Data from 1990 onwards confirms that UK Governments largely abandoned any attempts to support poorer regions through regional policy and, as a direct consequence, the gap in income levels between the North and wealthy areas of GB began to widen considerably again over time. For instance, between 2000 and 2014 the gap between per capita GDP in N Ireland and the three wealthiest regions of GB increased by 44%.

Why does Northern Ireland's economy not work?

In recent decades, devolved ministers from the main political parties in the North have all done their utmost to deliver services and implement policies that best meet the needs of the local population. However, devolved ministries in the North lack any fiscal autonomy and must operate within the confines of the block grant from Westminster.

This financial constraint means that there is no effective prospect of adequate policy provision under continued partition. Funding levels for the North's main devolved departments are determined by the Barnett formula, which links additional funding on devolved services (such as education, health, housing, transport etc) in any year to reflect the changes in spending in English regions.

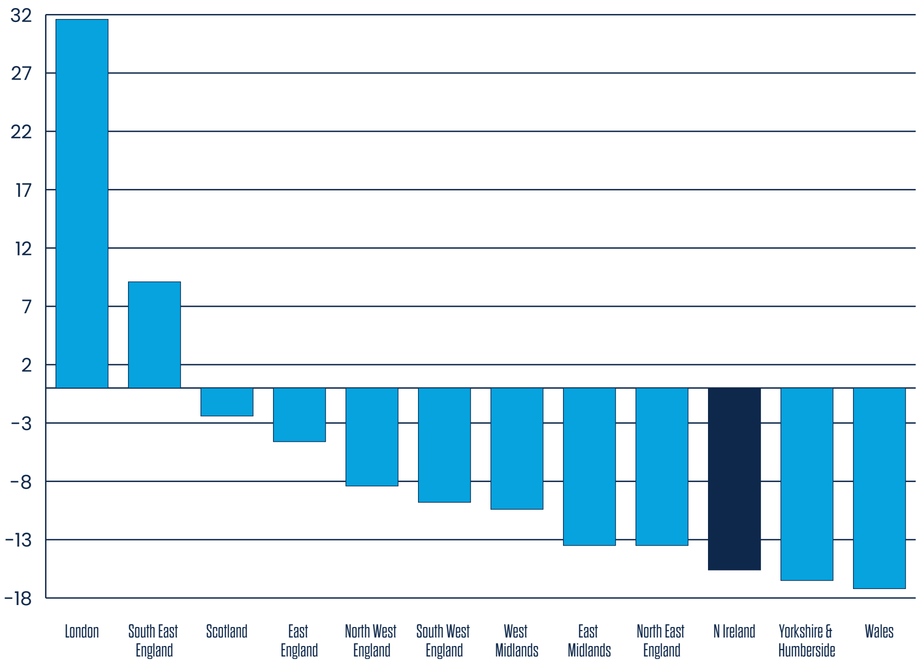
However such a model of funding entirely ignores the large gaps in key services provision that already exist for the historical reasons discussed above, between N Ireland and England. For instance, in 2015 an average of 6.3% of young people across the nine English regions had no qualifications, compared to 10.4% in N Ireland[5]. With

[5] Calculation based on Table 9 of McGuinness & Bergin, (2020).

respect to health, in 2018 there were 94,222 people in N Ireland waiting more than 52 weeks for their first consultant-led outpatient appointment, the comparable waiting list in England was 3,464 (Griffin, 2019). The outpatient consultant waiting list in the North was 26 times that of England, despite England's population being over 30 times that of the North's.

The current funding mechanism ensures the large gaps in key services that currently exist with respect to the North will only continue to widen over time, as spending increases reflect the needs of high-performing English regions and completely ignore the challenges facing service delivery in N Ireland. Spending on key services, such as education, health and transport, are all important factors that will determine productivity levels, while continued under-investment will ensure that the low growth trajectory of the North's economy will persist. For instance, in 2018 regional output per hour, which is a measure of productivity, in the North was 15.6% below the UK average and well below that of the vast majority of GB regions (Figure 1).

Figure 1: Regional Output per Hour Relative to the UK Average 2018, (%)



Source: ONS

Investments in key services in the North must be based on the specific needs and challenges of the region and be sufficient to undo the problems and legacies of the past. This will never be achieved under partition, and a funding model that completely ignores local needs. Under the status quo, the relative standards of local services in key areas such as education and health are unlikely to see any substantial improvements in performance levels.

The wellbeing and prospects of current, and future, citizens of the North will continue to decline under partition. Irish unification offers an opportunity to break free from the economic constraints of partition and take advantage of an environment whereby much needed increases in investment can take place. Unification will enable much more effective policy-making under which spending decisions will be based on the needs of people living in the North. Under unification policy-makers will no longer be constrained by having to operate within a spending model designed to meet the requirements of privileged English regions that have been long prioritised by successive British governments.

How does Brexit impact the economy of the North?

While the Northern Ireland protocol will protect businesses from the worst impacts of Brexit by allowing them to trade freely with the EU, there will still be costs borne by firms in the region that will hinder performance. The ability to export high value-added services is a key factor in the success of the economy in the Republic.

Exports account for 54% of total business turnover in the Republic compared to 18% in the North; services account for 52% of exports in the Republic compared to 18% in the North[6]. Trade in services remains outside of the protocol, meaning that, as a direct result of Brexit, the North will be much less able to take advantage of high value-added export markets and it will also be a much less attractive location for service-based multinationals seeking access to EU markets.

Corporation tax in the North will be double that of the Republic in the next few years, representing another major barrier to investment. Brexit also removes the free movement of travel that allowed businesses to hire workers from other EU countries. Firms in the North will now have to implement a points-based immigration system[7],

6 https://www.iza.org/publications/dp/12496/the-political-economy-of-a-northern-ireland-border-poll

7 https://www.investni.com/media-centre/features/preparing-eu-exit-trading-services

which will substantially reduce the pool of skilled labour available to employers which will drive up hiring costs and lower productivity further.

Sectors such as hospitality, retail and agriculture that rely heavily on skilled EU workers will be particularly affected by this aspect of Brexit. Furthermore, farmers in the North have been in receipt of subsidies in the region of £280m per annum under the Common Agricultural Policy. It is estimated that EU subsidies account for over 85% of total farm incomes in the North[8]. After Brexit, farmers no longer have access to CAP funding and while the British Government has undertaken to replace the EU funding stream until the end of 2022, there is considerable uncertainty regarding the situation thereafter[9].

The EU has already stated the North can re-enter the EU following any successful unity referendum, meaning that Irish reunification is the most straightforward way to undo the massive ongoing economic damage to the North's economy as a direct consequence of Brexit.

How can Irish unification unleash potential and lead to a more prosperous economic future for citizens of the North?

Unification will allow the North to escape the low productivity trap that partition has created. Productivity levels in the North are well below potential, due to both historical reasons and current funding constraints that prevent effective policy-making.

A successful reunification process will require substantial restructuring in key areas (such as infrastructure, education, business development and health) in order to unleash the North's vast productivity and growth potential, and reverse the trends of the past. Irish unification, and the international goodwill which will undoubtedly flow from both the European Union and the United States of America, offers the opportunity for the region to secure the funds necessary to make much-needed investments. For instance, following German reunification in 1989, the then EEC implemented a "Community Aid Programme" that committed €6bn[10] in today's terms in the first three years alone following reunification[11].

8 https://publications.parliament.uk/pa/ld201617/ldselect/ldeucom/169/16908.htm

9 https://www.daera-ni.gov.uk/brexit-cap-funding-payments-questions-answers

10 This is calculated by applying a 1:1 exchange rate between the ECU and the Euro and then applying a inflation factor of 1.7483 (source: CSO) for the period 1990 to 2020.

11 https://www.cvce.eu/en/education/unit-content/-/unit/1f5d29d1-bc79-44af-ae41-

It is conceivable that additional funding could be channelled through the expansion of existing EU programmes such as PEACE IV[12]. It is highly likely that substantial assistance from the USA will be forthcoming, to help facilitate a successful transition to Irish reunification. The departing British Government would also come under pressure to meet its responsibilities in this respect. A by-product of successful unification would be that the North's economy could potentially move from a position of requiring subvention supports from Westminster, as a consequence of its low productivity, to being a net contributor to the Irish exchequer.

Hubner (2015) measuring the impacts of reunification, using a computational general equilibrium macroeconomic modelling framework, estimated that unification would increase the North's long-run GDP per capita by between 4% and 7.5%, long-run per capita. GDP levels in the Republic are also estimated to rise from between 0.7% and 1.2% as a result of ending partition[13]. In a 2018 updated analysis, Hubner et al estimated that the all-Ireland economy could grow by approximately €36bn in the first eight years following unification[14].

Additional key benefits arising from unification would be guaranteed human rights, worker and environmental protections provided through EU membership, all of which are perceived to be under significant threat in the North as a consequence of Brexit and the current UK Government's "race to the bottom" in standards. Reforms arising from unification have the potential to create more efficient and cost-effective public service delivery systems. Unification would end the costly duplication of services on both sides of the border in key areas such as health, education and infrastructural planning. Any planned reforms that involve the reorganisation of key services would naturally seek to retain the best aspects of practise and provisions from legacy systems, thereby maximising the benefits to all Irish citizens.

Living standards, education and life expectancy, North v South?

Recent research on living standards, opportunities and life quality highlighted how important gaps have emerged between the North and the South in key areas. Disposable household levels in the North were found to be 12% lower than the South, after accounting for price differences between the regions.

6fdb3f41608e/03167992-d38d-4f75-90f7-a8b69492bda3.

12 https://www.seupb.eu/piv-overview

13 https://cain.ulster.ac.uk/issues/unification/hubner_2015-08.pdf

14 https://www.irishtimes.com/news/ireland/irish-news/hard-brexit-could-cost-island-of-ireland-42-5-billion-over-seven-years-1.3689807

In addition, rates of poverty were also substantially higher in the North, with the South's tax and welfare system much more effective at protecting the interests of low-income households.

Levels of educational attainment were also lower in the North across all elements of the lifecycle and, in addition, the rate of early school-leaving in the North was almost twice that of the South. These differences in living standards and opportunities are understood to have cumulative impacts that will, ultimately, result in lower life expectancy levels.

Life expectancy at birth in the North in 2017 was 1.6 years lower than that in the Republic in 2017. These differences in living standards and opportunities were also found to impact the life expectancies of older people today; for instance, a 65 year old living in the North in 2017 could expect to live six months less than a 65-year-old living in the South in that year (Table 2).

Unification offers an opportunity to close these gaps in living standards, opportunities and life expectancy and will provide more prosperous outcomes for current and future generations of all citizens.

Table 2: Living standards and Quality of Life Indicators[15]

	Year	RoI	NI
Household disposable income (US $, PPP adjusted)*	2017	$34.0	$29.4
Poverty rate after taxes and transfers (60% poverty line)	2019	12.8%	19%
Enrolment rates for 15-19 year olds*	2018	92.6%	73.6%
Enrolment rates for 20 -29 year olds*	2018	29.0%	15.2%
Rate of Early School Leaving*	2018	5.0%	9.4%
Life Expectancy at Birth	2017	82.2	80.6
Life Expectancy at 65	2017	20.2	19.6

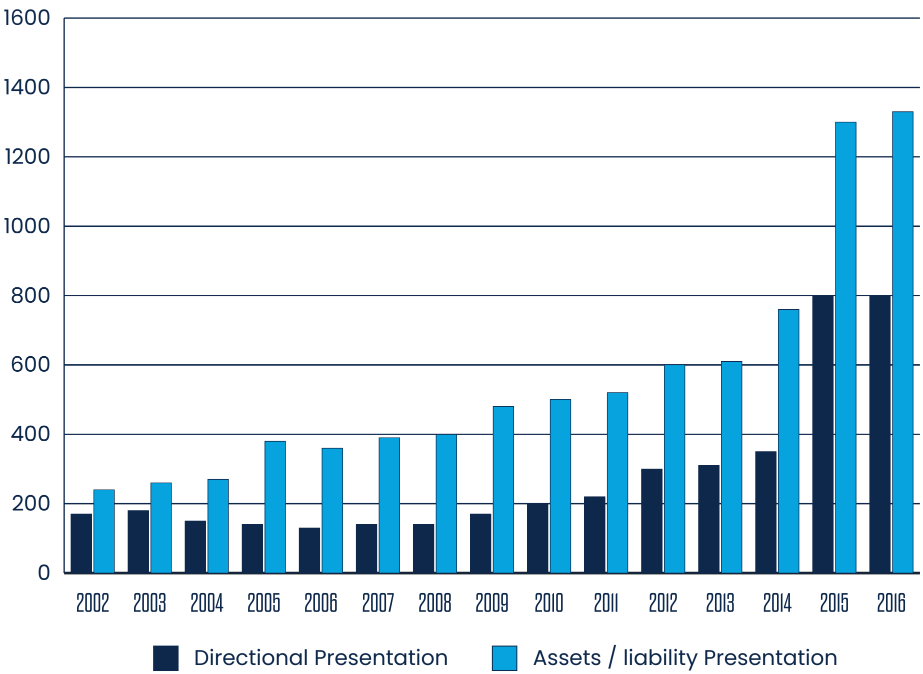
15 * data taken from Bergin & McGuinness (2020), poverty rate for RoI taken from https://www.cso.ie/en/releasesandpublications/ep/psilc/surveyonincomeandlivingconditionssilc2019/povertyanddeprivation/, poverty rates for NI taken from https://www.communities-ni.gov.uk/system/files/publications/communities/ni-poverty-bulletin-201819.pdf
Life expectancy data taken from Eurostat.

What will be the benefits of Irish Unification for the South?

There are strong grounds to believe that the Southern economy has already benefited substantially from the establishment of a sustainable peace process in the North, as well as the increasing integration of business supply chains across the island as barriers to free movement of goods and people were removed.

Academic studies have found a causal link between foreign direct investment (FDI) and the establishment of peace agreements (Joshi & Quin, 2018). As can be seen from figure 2, inflows of FDI to the South accelerated rapidly following the signing of the Good Friday Agreement in 1998.

Figure 2: FDI Inflows to Ireland 2002-2016 €bn



Source: CSO

It is no coincidence that the economy in the South was the fastest growing economy in the world after China for most of the decade following the Good Friday Agreement.

This reflected the impact that the promise of political stability and the dissolution of partition constraints had, not just on foreign direct investment flows and the unlocking of latent domestic investment potential but also in generating net in-migration for the first time since the Famine.

It is clear that a fully integrated, efficient and stable all-island economy would be a magnet for further investment and human creativity.

The modelling work undertaken by Hubner (2015) indicates that per capita incomes in the south could rise by as much as €3,804 during the first seven years of unification. Irish unification will provide a positive boost to the southern economy on a number of fronts including:

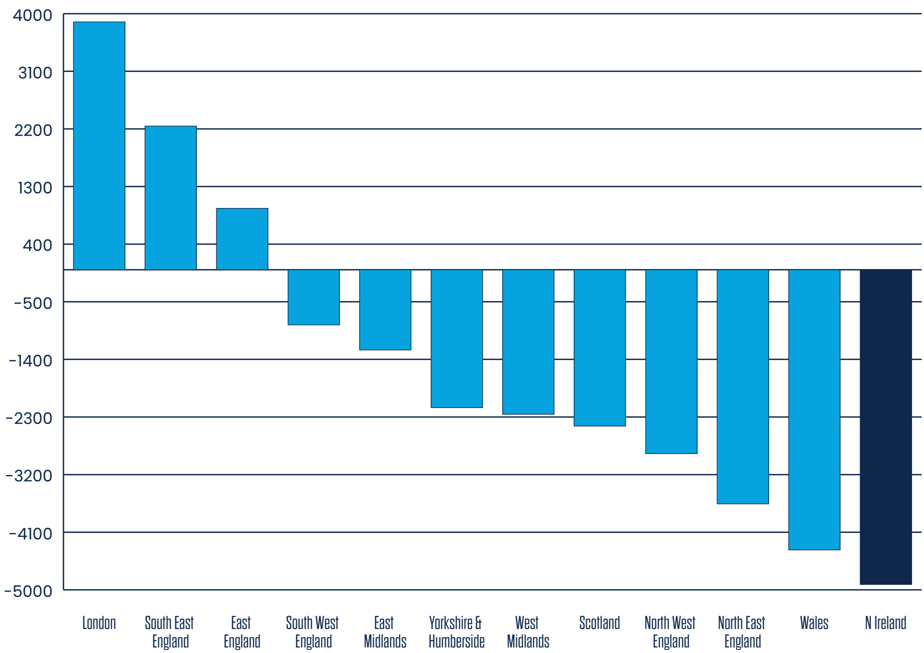
- The growth of cross border trade resulting from a more integrated all island economy and the removal of non-tariff barriers and the harmonisation of tax and regulatory systems.
- More ready access to streams of educated labour that will help alleviate inflationary bottlenecks arising from skill shortages in key sectors.
- Diminishing subvention requirements and rising productivity will lead to the North becoming a net contributor to the Irish exchequer.
- Access to additional key infrastructural assets such as airports, ports, universities, transport networks and broadband technologies.
- More effective and lower cost service deliveries in areas such as health, educations and key civil services functions resulting from the eradication of costly duplication and the improved exploitation of economies of scale.
- An integrated approach to infrastructural development that will again enhance the trading capacity both at a cross-border level and internationally.

Subvention, pensions and international finance in a New Ireland

There has been much debate on the potential costs of Irish unification, with most of that focus centred on estimated subvention, which refers to the gap between UK Government spending allocated to the North and the revenues raised in the region through taxes levied on businesses and individuals.

The most recent estimates put the level of subvention at £9.2bn for 2017/18. The need for subvention reflects the North's low productivity and, as can be seen from figure 3, the region had a higher rate of fiscal transfers per capita than any GB region in 2017 / 2018 which, again, demonstrates the need for a new approach to economic policy in the region.

Figure 3: Net Fiscal Balance Per Capita 2017 / 2018 (£)[16]



16 https://en.wikipedia.org/wiki/Northern_Ireland_fiscal_deficit

However, the true cost of subvention, as related to the constitutional question, is likely to be much lower than this, as many aspects of spending currently attributed to the North would not be relevant under unification.

Examples of these non-relevant costs include spending on the North's estimated share of

(i) UK defence spending
(ii) UK debt servicing costs
(iii) UK international services.

Subtracting these "non-identifiable" spending items reduces the initial estimated subvention costs by 25%.

Furthermore, citizens in the North have built up old age benefit entitlements through national insurance contributions and these liabilities would also have to be honoured by the UK Government following unification. The most recent data available indicates that annual spending on old age pensions in the North stood at £3.2bn in 2016/17[17]. Therefore, after relevant deductions, depending on the outcomes of negotiations around debt and pensions etc, the subvention figure relevant for unification could be in the region of £3.6bn (€4.04bn[18]).

This is not an earthshattering amount of money in the context of Irish Government spending, for example, in the five-year period between 2014 and 2019 general expenditure increased by an average of €2.72bn in each year[19].

A successful transition process would require substantial initial investments in all Ireland provision areas such as education and health, enhanced all Ireland infrastructure and a reformed all Ireland industrial strategy targeted at enhancing productivity levels in the North. A properly planned and financed transition period would ensure that the full benefits of unification were maximised. It is imperative that the scale of required investments for a successful transition to unity are costed as part of the planning process. Potential funding sources must also be identified, and international partners lobbied to secure the appropriate financial commitments, in advance of any vote on constitutional change.

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17 McGuinness & Bergin (2020).

18 Applying a 2020 average exchange rate factor of 1.1239 http://www.edwinfoley.ie/Revenue-euro-sterling-exchange-rate

19 https://www.cso.ie/en/releasesandpublications/er/giea/governmentincomeandexpenditurejuly2020/

While the issue of subvention tends to be overstated in debate, the investments necessary to begin to address the economic harm done to the North's economy by partition are often ignored.

A successful transition process will require substantial investments from the EU, and potentially other willing partners such as the USA, in order to begin addressing some of the North's structural problems. Arguably, there will also be a moral responsibility on the part of any departing UK Government to provide additional financial supports in ensuring a successful transition to a new constitutional and economic framework.

Nevertheless, debates around the likely size of the subvention figure are essentially a deflection as they will almost certainly overstate the cost, if any, of unification to the Irish Exchequer. They ignore both the growth potential of the North's economy and the productivity improvements that are achievable during any effective transition to unity. With proper preparation and planning, a unification process can be achieved with the potential to enhance economic growth across the entire island - without the necessity of any additional government spending.

What steps must be taken to make sure the reunification process maximises the benefits for everyone on the island?

Successful unification requires that voters be both properly informed and have confidence that the promises being made by proponents of unity are achievable.

The Scotland's Future document, prepared by the Scottish Government to inform voters of their vision for Scottish independence in the run-up to the 2014 referendum, provides a useful benchmark to the level of detail required[20]. The Scotland's Future report is 640 pages long and lays out the policy positions for an independent Scotland in areas such as fiscal and monetary policy, education, housing, pensions, welfare, transport, business competition and social care; the document also lays out details of the transition period that would follow any vote in favour of independence.

The high level of preparation undertaken by the Scottish Government, in advance of the referendum, meant that its assertions could be properly challenged, fact checked and scrutinised. The Scottish approach also limited the capacity of those advocating the maintenance of the United Kingdom to make spurious assertions. In contrast, the Brexit referendum demonstrates very clearly the social, economic and political chaos that occurs in the aftermath of major referendums in which the facts have not been properly established and individuals are free to make demonstrably false claims.

20 https://www.gov.scot/publications/scotlands-future/

What is the role for the Irish Government in planning and preparing?

It is clear that the momentum of the constitutional change debate will only gather pace and consequently there is an onus on the Irish Government to properly prepare for the likelihood of constitutional change. Any planning documentation should contain the following information:

- An accurate comparison of living standards and life quality in both regions.
- An overview of the relative strength and weaknesses of key areas of public sector provision in areas such as health, education, industrial development, social welfare, taxation and social policy.
- Strategic reports on each aspect of public sector provision highlighting how an all Ireland approach to delivery would be achieved that would retain the best aspects of systems North and South to the betterment of all Irish citizens.
- The development of an all Ireland macroeconomic structural model that can measure the impacts of post-unification policy reforms in areas impacting the North's productivity[21] during various lengths of transition periods.
- Macroeconomic modelling will allow for a clear identification of the key areas that must be targeted during a transition to unity and the optimum duration of any transition period in order to maximise the benefits of unification.
- The scale of finance necessary to deliver the required structural reforms must be properly costed. Potential financing strategies, including the likely scale of international assistance, should also be assessed.

Compiling all of this information in a way that is robust, verified and communicable is an enormous task, requiring substantial resource investments and the establishment of appropriate review and quality assurance mechanisms. These are not tasks than can be undertaken and completed in the six months preceding any unity referendum. It is imperative that the process of information-gathering and planning commences without delay and given the level of resources required to do this, the planning process can only be conducted effectively at governmental level.

21 This process would model, for example, the productivity (and therefore the tax revenue) impacts of achieving improvements in factors such as FDI or exports during a defined transition period.

Summary

- All existing credible evidence available at this stage points to the economic failures of partition and the significant potential economic benefits of Irish unification.
- In this document we have attempted to explain the root causes of the North's economic decline and highlight why Irish unification offers the only viable alternative for change.
- The economy undoubtedly will be a key issue of debate in any future border poll.
- It is crucial that we avoid the mistakes of the Brexit referendum and ensure that voters have reliable information and data on the potential benefits of unification compared to maintaining the status quo of partition.
- Proponents of partition are also encouraged to make the economic case for maintaining existing constitutional arrangements. It is crucial that all evidence is presented in a transparent way which will allow for scrutiny and analysis.
- Proper planning for unity will guarantee that voters will be equipped with the relevant information that will enable informed voting and also ensure that the benefits of unification are maximised.
- It is clear that Irish unification provides major opportunities that can reverse the damage imposed on the North's economy by partition and more recently Brexit.
- There is a need for the Irish Government to model the sequence and timing of future investments to ensure that the best policy options are taken.
- Failure to plan by the Irish Government for future constitutional change, as allowed for under the terms of the Good Friday Agreement, is an unacceptable abdication of responsibility which will create instability around future referendums on the island.
- The time is right to plan and prepare for a strong economy in a dynamic new Ireland.

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