

# The Northern Ireland Economy

Dublin Economics Workshop, 14<sup>th</sup> September 2018

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# Outline

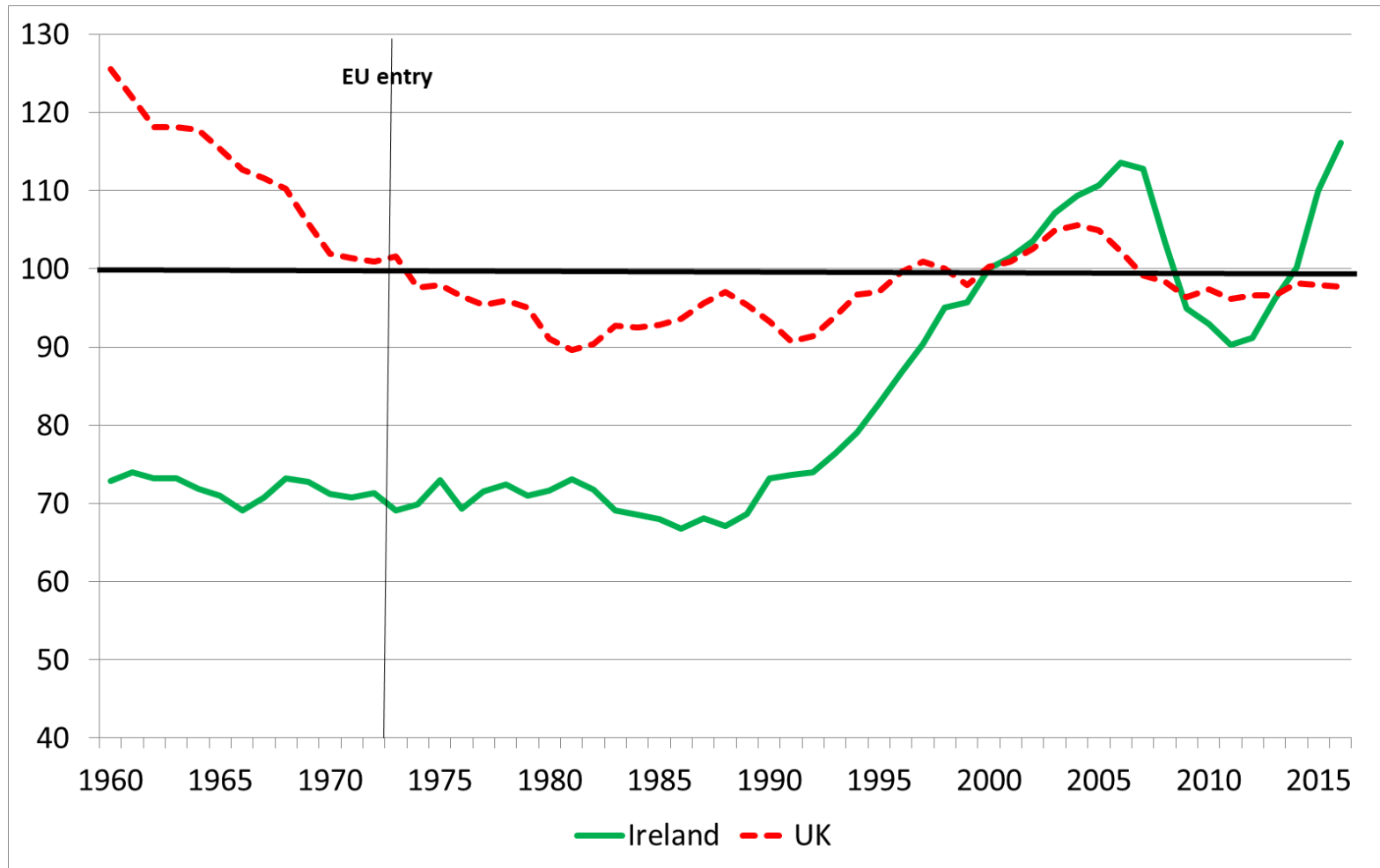
- The convergence process
  - National
  - Regional
- Historical evolution
- The economy today
- Options for the future

# Convergence in EU

- The EU has been a major success story
  - Standards of living of poorer countries have quite rapidly caught up with richer countries
  - True for the EU 15, and true today for the EU28
- National convergence because
  - EU Single Market, learning from the leaders AND differences in national cost base the key
- Regional convergence within countries
  - Less satisfactory
  - Regional convergence: are there adequate differences in regional cost base to drive it?
  - Need to make it more attractive to locate away from booming major cities

# Irish Convergence

GDP/GNI per head, adjusted for PPS, Relative to EU15

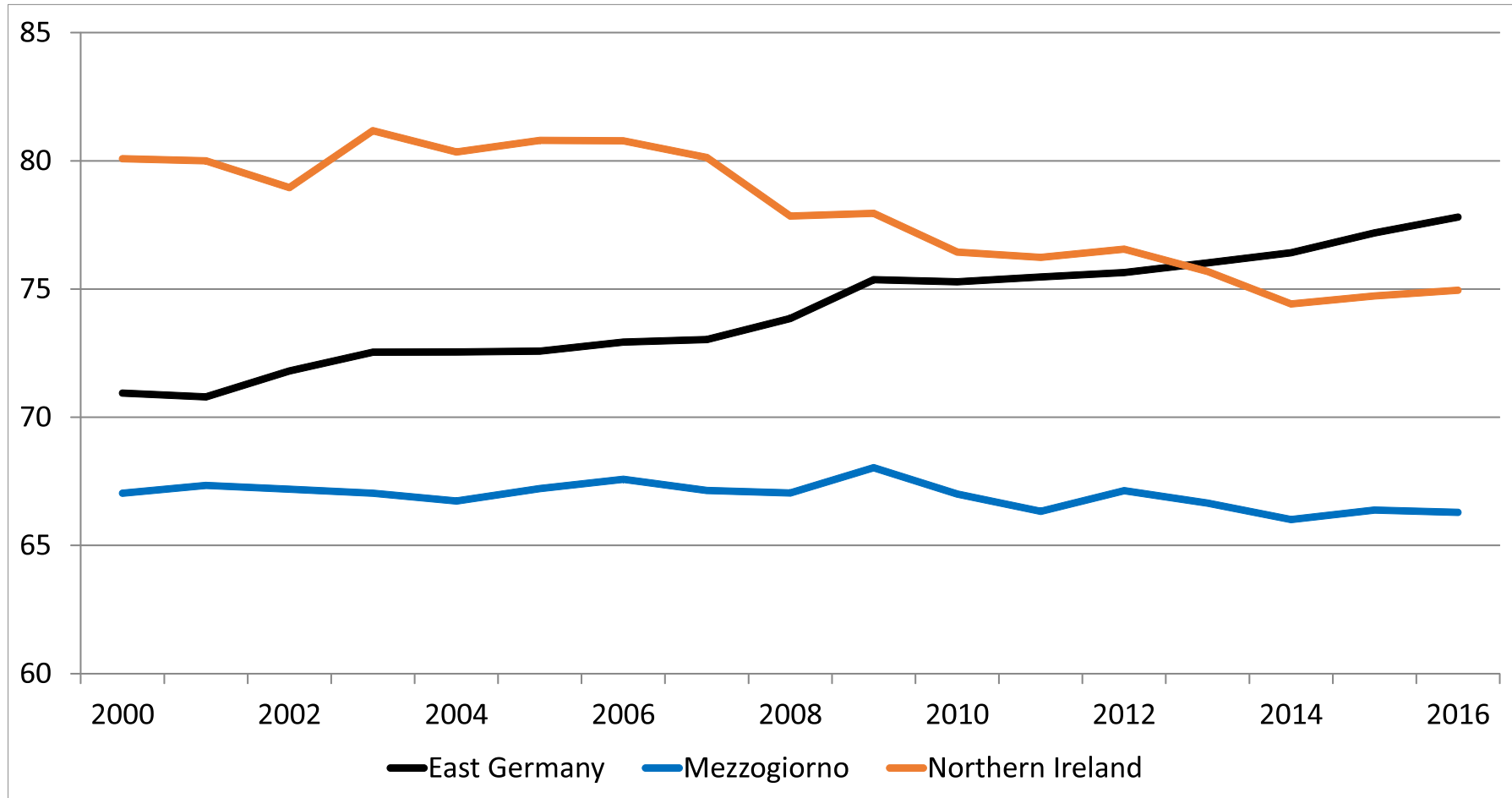


Source: Eurostat, EU AMECO, CSO

# Regional Convergence within Countries

- Currently regional divergence in EU 13
- Experience in EU 15 large states
  - Success story is Germany (Eastern Germany)
  - Failure is Italy (Mezzogiorno)
  - Northern Ireland is similar to Italian experience
- Key factors in success:
  - Regions must be attractive for investors, not through subsidies, but because they are competitive and attract skilled employees

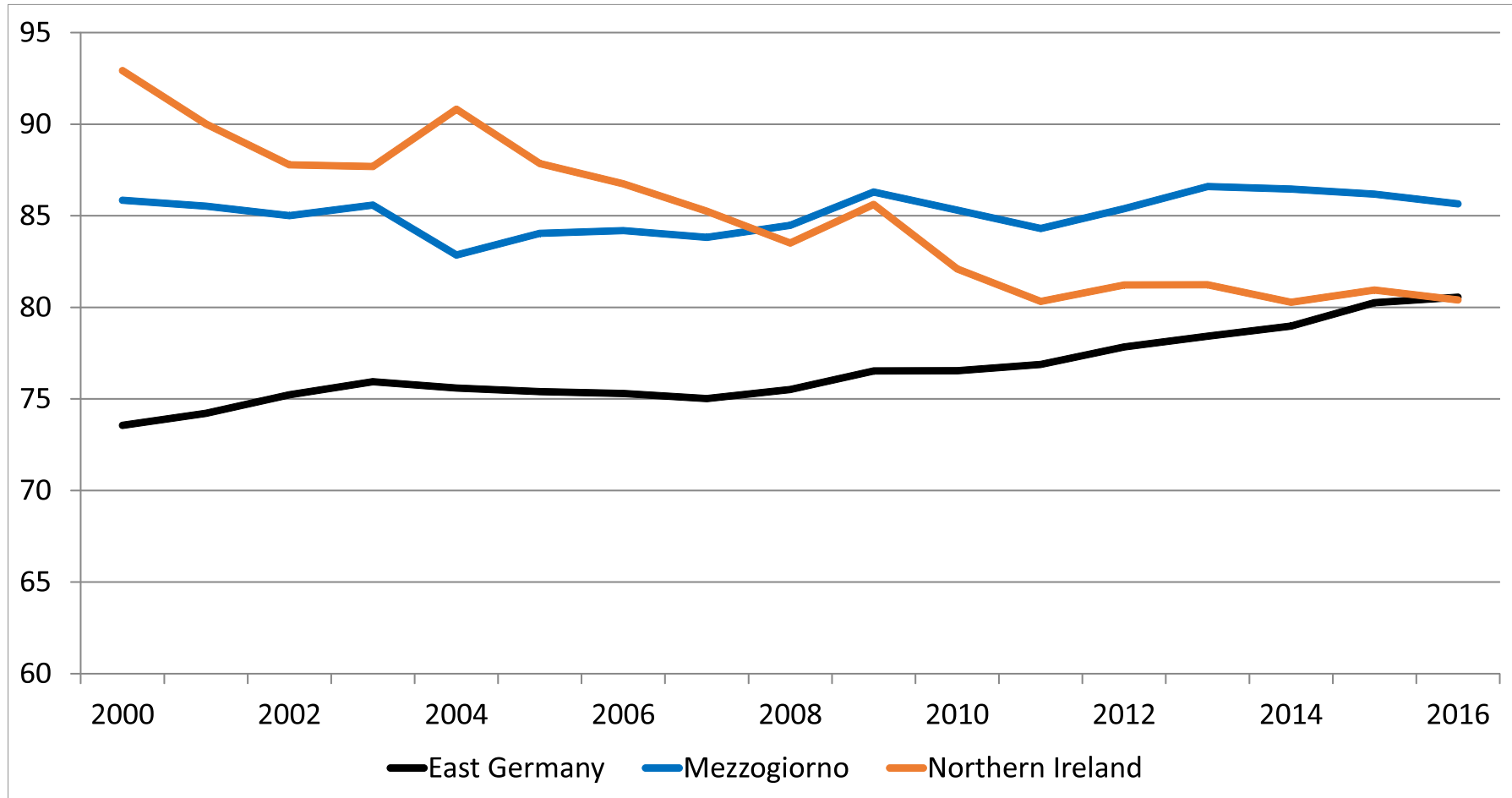
# Regional GDP per head relative to national average



Source: Eurostat

# Regional productivity

GDP per person relative to national average



Source: Eurostat

# Lessons from elsewhere in EU

- Once there is convergence in living standards: less incentive for progress in output and productivity.
  - German success story involved “tough love” – had to increase productivity
  - Mezzogiorno, having achieved a good standard of living in 1970 by transfers, no further need to increase productivity
- Being more competitive than the national average matters for convergence from below
  - Attracting and holding skilled labour matters



# Real growth per head

	Ireland	UK	Northern Ireland
1926-38	1.4	1.6	0.7
1938-50	1.1	1.3	4.0
1950-60	2.2	2.9	2.6
1960-70	3.9	2.4	3.7
1970-80	2.5	2.0	0.8
1980-90	1.3	2.8	2.7
1990-00	5.5	2.2	2.4
2000-10	0.2	0.9	-0.2
2010-16	3.3	1.3	0.2

Sources: Kennedy et al, 1988, CSO, Bank of England, NISRA, Eurostat, ONS  
For Ireland 2010-14, not 2014-16

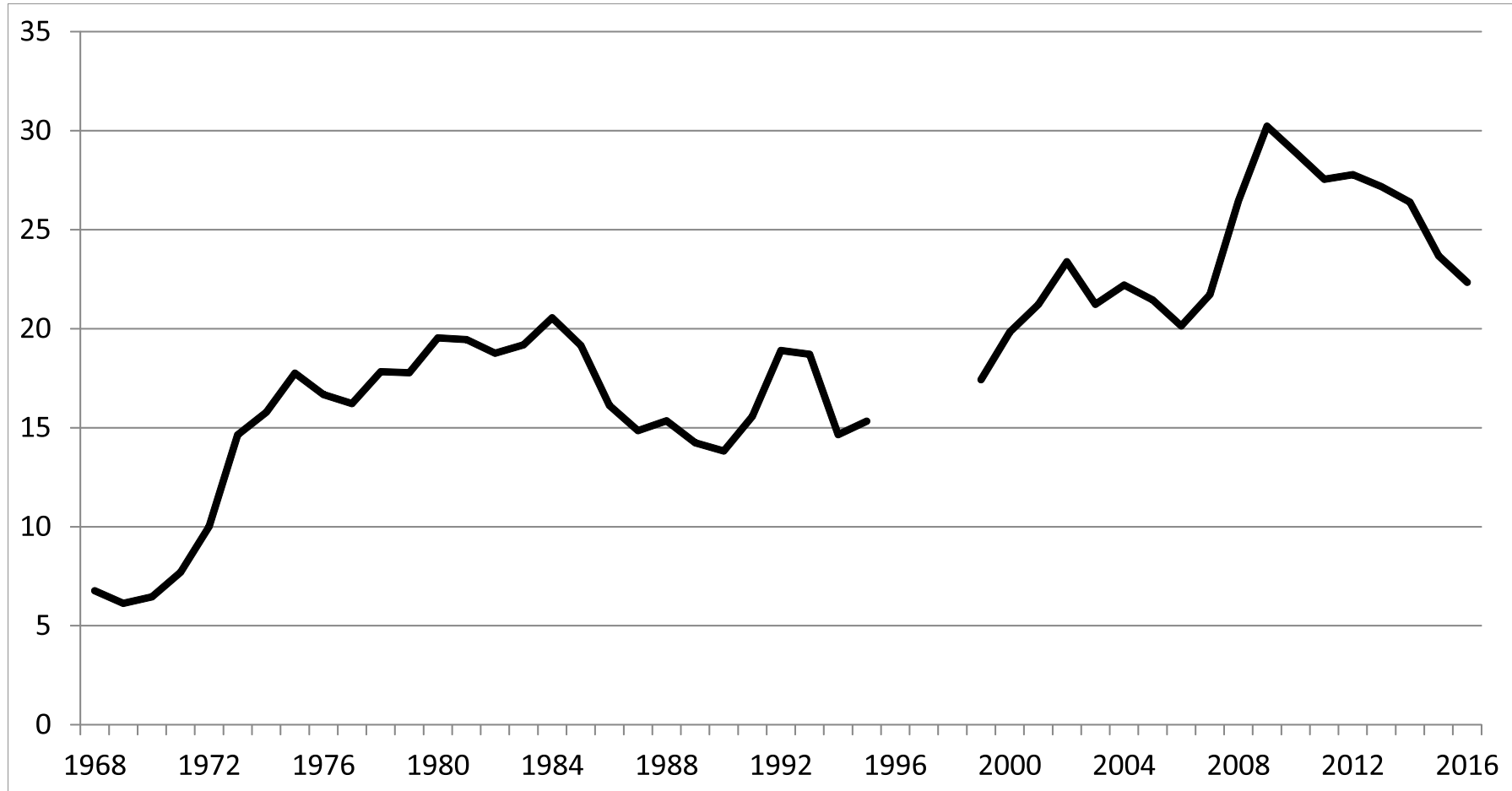
# Productivity

	Ireland	UK	Northern Ireland
1950-60	3.3	2.8	3.3
1960-70	4.3	2.8	-0.2
1970-80	2.9	2.0	0.2
1980-90	1.8	2.2	2.8
1990-00	2.6	2.2	1.9
2000-10	1.3	0.9	-0.4
2010-16	3.0	0.7	0.0
1950-00	3.0	2.4	1.6

Sources: Kennedy et al, 1988, CSO, Bank of England, NISRA, Eurostat, ONS  
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# Northern Ireland Subvention

% of GDP



Source: NI Department of Finance, ONS, Eurostat

# UK Public Expenditure

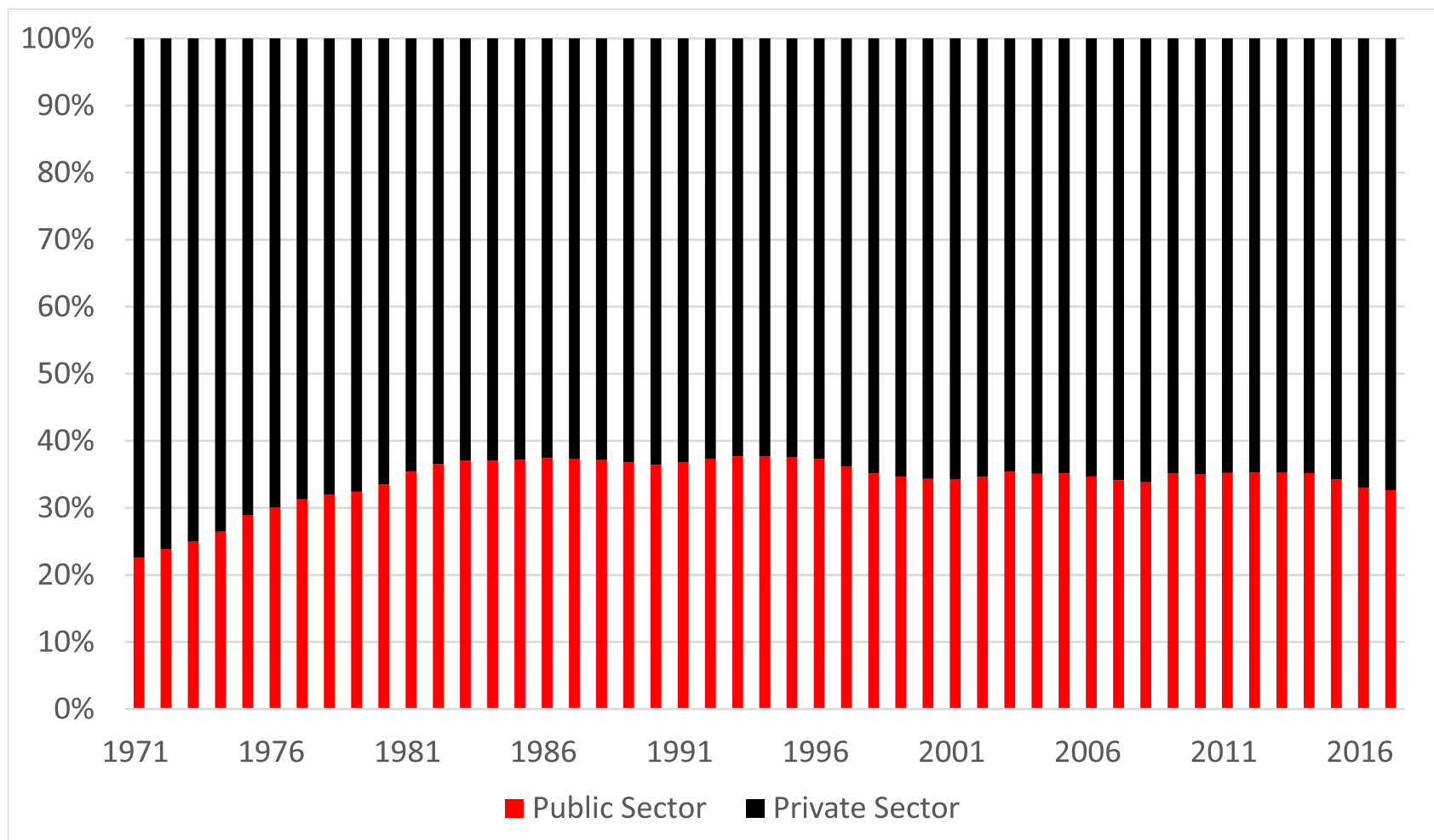
% of UK average

	Public expenditure per head	Disposable Income per head
England, NE	104	85
Scotland	116	97
Wales	109	88
Northern Ireland	121	82

Source: <https://www.gov.uk/government/statistics/public-expenditure-statistical-analyses-2018>

Comparing the North and the NE of England, the North is a little less well off, but dramatically better off in terms of public expenditure. These data show expenditure but don't include revenue. Scotland has chosen higher taxes to fund higher expenditure

# Public Sector Employment, share



Source: NISRA Employee Jobs Data

# Comparison of living standards

Relative to Ireland, 2012

	UK	Scotland	Northern Ireland	Ireland
Personal consumption	1.34	1.26	1.20	1.00
Government consumption	1.18	1.27	1.43	1.00
Investment	0.62	0.60	0.31	1.00
GNI	1.06	0.99	0.84	1.00

Source: CSO, ONS, NISRA, EU AMECO

- Between 2012 and 2016 living standards have risen in Ireland by over 6% per person
- Between 2012 and 2016 living standards have risen in the UK by over 6% per person
- On the basis of GNI (adjusting for data problems) national income per head is today substantially higher than in the UK.
- However, consumption per head is likely still below the UK and the North
- But investment is much higher in Ireland than in the UK
- In turn, investment in the UK is much higher than in the North

# Brexit effects on North

- Structure of economy means output will be worse affected by Brexit than UK average
  - Agriculture bigger, mechanical engineering etc.
  - Integrated supply chain with Ireland (Intertrade Ireland report)
- If border with Ireland – major disruption to trade because of non-tariff barriers
  - Damage to retail and distribution sector
- If border in Irish sea – huge disruption to Northern retail and distribution sector
  - Increase in consumer prices, loss of competition and choice, loss of jobs etc.
- Customs Union likely to make a very big difference, greatly reducing problems

# Marital Discord or Good Home

- The North remains part of UK

## **EITHER**

- English nationalism and UK economic problems may result in a major cut in subvention from London
- Tough love in the North – because subvention rapidly reduced, for example after the next UK election

## **OR**

- Subvention continues or gradually reduced
- Develop a sustainable Northern Ireland economy
  - Need a dramatic change in policy by a Northern Ireland Executive
  - Slow winding down of subvention
  - Major cuts in some areas of expenditure to redirect funds to physical and human capital investment



# Alternatives?

- Tough love – independence?
  - End of subvention - massive cuts in public services
  - Very big rise in unemployment and loss of income
  - Decades needed to catch up
  - Unsustainable: huge emigration and possibly unrest
- Adoption by Ireland?
  - Could maintain living standards in North but lock in dependence
  - For Ireland subvention would be similar to fiscal adjustment of the financial crisis. The result would be a 15% permanent reduction in living standards (ESRI Hermes model)
  - This would leave the North 20% better off than Ireland through the exceptional permanent subvention from Ireland

# Conclusions

- North faces major economic problems which will be greatly aggravated by Brexit
  - Costs minimised if UK in customs union
- Long-term risks
  - After 20 years of failure by the Northern Executive, dramatic policy shift needed to make Northern Ireland economy sustainable
    - Need to double investment to sustain real growth
    - Prepare for major danger – English nationalism
    - Successful development could leave open other choices in the very long term