The Island of Ireland

Two Distinct Economies

Dr Graham Gudgin

Foreword by Rt Hon Lord Frost CMG
and Rt Hon Lord Trimble

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Rt Hon Lord Frost CMG

A persistent concept to have bedevilled the negotiations between this country and the EU over Northern Ireland has been that of the "all-island economy". This is the belief that the economies of Ireland and Northern Ireland, in many significant areas, are so closely integrated as to form one economic unit.

Graham Gudgin's masterly paper shows this concept to be a fiction. As he comments, *"the two economies have as many differences as any two neighbouring economies in Europe …there are two quite distinct economies on the island with a surprisingly low level of trade between them. The strong integration for Northern Ireland is with the rest of the UK."*

As Lord Trimble notes in his separate introduction to this paper, at the time of the Belfast Good Friday Agreement, no-one imagined there was any such thing as the "all-Ireland economy". All those involved in that Agreement knew perfectly well there were two separate economies on the island of Ireland.

Why, then, did the concept of the "all-island economy" get so established? And why does it matter?

The answer is that it suited the political needs of the EU and Ireland. From their perspective, the logic was obvious. If they could get it accepted that, following the Belfast Good Friday Agreement, the newly open border had created significant economic integration, and that this was now potentially disrupted by Brexit, it would be easier to keep Northern Ireland within the EU regulatory framework.

So by September 2017 the EU was stating as simple fact that *"an important part of political, economic, security, societal and agricultural activity on the island of Ireland currently operates on a cross-border basis, underpinned by joint EU membership of the UK and Ireland."*[1] And by November of that year they simply insisted that it was *"essential for the UK to commit to ensuring that a hard border on the island of Ireland is avoided, including by ensuring no emergence of regulatory divergence from those rules of the internal market and the Customs Union … necessary for meaningful North South cooperation, the all-island economy and the protection of the Good Friday Agreement"*[2].

These concepts were given intellectual backing by the so-called "mapping exercise" of North / South cooperation taking place at the same time. Extraordinarily, they were accepted by British negotiators in the December 2017 "Joint Report", thereby paving the way for the capitulation of Theresa May's Withdrawal Agreement, only partially undone subsequently by the 2019 Protocol.

Now that the job is done, we don't hear so much about the all-island economy. That's not surprising, because, as Graham Gudgin's paper

1. Guiding principles for the Dialogue on Ireland/Northern Ireland', European Commission Task Force 50; issued to the 27 on 6 September 2017 and formally communicated to the UK on 21 September 2017.
2. Negotiating paper circulated by the Commission's negotiating team, titled 'Dialogue on Ireland/Northern Ireland' issued by General Secretariat European Council to Ad hoc working party on Article 50, 8 November 2017.

makes clear, there is really no such thing. Instead, there are two distinct economies, with only 6 per cent of goods and services produced in Northern Ireland going to the Republic, and only 2 per cent going the other way. (These figures have been remarkably stable since the Belfast Agreement or indeed since the 1986 Single European Act.) Self-evidently, major public services such as health and education are organised in very different ways. There are two different currencies, two very different tax regimes, and very different economic outcomes. And, contrary to popular belief, real living standards are 10 per cent higher in Northern Ireland than in the Republic.

None of this is particularly surprising. In reality, the fact that needs explaining is the low level of integration between North and South. That fact stems from politics and the way it shaped developments after Irish independence, leading to two fundamentally different economies today. It also stems from the obvious reality that the Republic's economy is that of an independent country with, nowadays, European and wider global links, while that of Northern Ireland is a small part of the much larger UK economy and shaped by it, just like any other region of the UK. Its political, economic, and social links are overwhelmingly to the rest of the UK.

And that is what creates the problem - or one of the many problems - with the current Northern Ireland Protocol or indeed its predecessor. Shaped as the Protocol is by relative UK weakness and EU predominance in the Withdrawal Agreement negotiations, it enshrines a concept, the all-island economy, which suits the EU, Ireland, and their allies politically but which does not exist in real life. Hence the grinding tensions, the economic frictions, and the political turbulence caused by the Protocol.

Given this economic reality, the Protocol arrangements could only have worked if, in real life, the EU regulatory framework had not been fully applied in practice (recognising, for example, the Protocol's requirement to minimise checks and controls at Northern Ireland ports) and there had been much more pragmatism in its operation. As it was, the EU's purism and its casually destructive handling undermined East / West links from the start and are now bringing the Belfast Agreement itself into great peril.

Graham Gudgin's paper brings us back to reality. It demonstrates that one of the fundamental intellectual constructs behind the withdrawal negotiations is not grounded in empirical fact. All the more reason to move on from a Protocol that is based on it, to put in place more balanced arrangements which can work, and to remove the threat to the Belfast Agreement so that Northern Ireland can make the progress it so richly deserves.

Lord Frost was the UK's Chief Negotiator for Exiting the European Union 2019-20 and Chief Negotiator for Task Force Europe during 2021.

Foreword

Rt Hon Lord Trimble

As we approach the 25th anniversary of the GFA it is clear that its institutions are in crisis and indeed on life support. This is no surprise. Paul Murphy, a key UK minister in 1998, pointed out in December 2018 the way in which EU and UK negotiators were trying to impose a top-down model while the GFA itself was based on a bottom-up approach. I had the responsibility of engaging with the unionist community. I was clear that it could not be treated as a passive actor and that great political balance and sensitivity was needed. If Tony Blair had not been prepared to challenge Irish nationalism in Ireland and America there would never have been a deal. In the end, 71 per cent voted for the agreement in the referendum, a majority of both communities; it was the sine qua non of its subsequent success.

On 16 May 1997, Prime Minister Tony Blair came to Belfast in order to rescue a political process which was in the doldrums thereby creating a danger of a return to violence. The Prime Minister speaking at Balmoral made it clear that he was not neutral on the Union: 'Northern Ireland is part of the United Kingdom, alongside England, Scotland and Wales. The Union binds the four parts of the United Kingdom together. I believe in the United Kingdom. I value the Union.' He described the Labour government's policy of devolution — in Scotland, Wales and Northern Ireland — as being designed to 'renew and strengthen the Union'.

Exactly twenty-five years later another Prime Minister, Boris Johnson, returned to Belfast. He was again faced with a political process in the doldrums. Like Tony Blair before him, he made it clear that he was not neutral on the Union. He also noted with approval the fact that Sir Keir Starmer had made it clear that he too was not neutral on the Union.

Blair made the case for a power-sharing local assembly: 'domination by one tradition or another is unacceptable.' He supported also the need for 'sensible arrangements for cooperation with the Republic of Ireland, practically and institutionally, which will be significant not only on the ground but also politically for the nationalist community.' This became the so-called strand two (north/south) of the Good Friday Agreement. He acknowledged the case for an enhanced east/west dimension to Northern Irish affairs and this was agreed also by the Irish government as early as the *Heads of Agreement* of December 1997. This became the third strand of the Good Friday Agreement. All three strands are described as interdependent: that is, the agreement depends on all three functioning together. Tony Blair spoke of an agreement with 'which all the people of Northern Ireland can feel comfortable, and to which they can all give lasting allegiance;

one which reflects and celebrates diversity and the traditions of both communities'.

When he visited Belfast exactly twenty-five years later, Boris Johnson deliberately echoed these words and built on the way in which the template of the Good Friday Agreement has been the basis for an acceptance of diversity within Northern Ireland. Indeed, as I argued at the time, it helped to end the cold war between north and south. Alas, in the crisis created by the Protocol, all that is now at risk. 'We must of course devise arrangements which match the particular circumstances of Northern Ireland', Tony Blair had said. Boris Johnson, in his 2,200-word essay in the *Belfast Telegraph* made it explicitly clear that it was exactly where he stood.

Boris Johnson's intervention implicitly acknowledged the dangers of a new crude majoritarianism. The Unionist Assembly members to a person today reject the operation of the Protocol but they are a large minority.

Since Brexit, the UK government has moved to meet the principal concerns of Nationalists. There will be no hard border. The EU's single market will be protected. However, the international agreement, which sits alongside the Good Friday Agreement, imposes a responsibility on the UK government alone to defend the economic interests of the people of Northern Ireland and to oppose any attempt to destroy equality of esteem and to ride roughshod over the legitimate aspirations of any section of the community. The Johnson government is now acting in that spirit. It is searching for a new and more viable arrangement in order to save the Good Friday Agreement. At the time of the G7 summit in Cornwall last year, it came under attack from the EU and the USA for so doing: in other words, for upholding its duty under the Good Friday Agreement. The UK government resisted the pressure then and the UK today has, of course, a stronger position in the world as a consequence of its leadership in the Ukraine crisis, although there are prominent politicians in Dublin whose utterances show they have not grasped that new reality.

David Frost has explained in full detail why the UK government signed the Protocol in the first place.[3] It is worth adding, however, that in his first letter opening up negotiations with the EU, Boris Johnson expressed his concerns about protecting the 'delicate balance' of the Good Friday Agreement. It was reasonable to expect that the EU would live up to its many commitments to respect 'all aspects' of the Good Friday Agreement both inside and outside the text of the Protocol. It is now easy to see that this never happened: as I have said the Good Friday Agreement was trashed.

One of the senior EU/Irish negotiators, Rory Montgomery, has admitted that in the early phase of the negotiations the Irish government was allowed to take over sole guardianship of the Good Friday Agreement.[4] This in turn inevitably led to the EU failing to understand both the detail and spirit of the agreement. The UK and Unionist role in terms of their Good Friday Agreement rights and responsibilities was stripped out in favour

3. Keynote speech by Rt Hon Lord Frost of Allenton CMG (27 April 2022), *The Northern Ireland Protocol: how we got here, and what should happen now?*; https://policyexchange.org.uk/pxevents/the-northern-ireland-protocol-how-we-got-here-and-what-should-happen-now-keynote-speech-by-rt-hon-lord-frost-of-allenton-cmg/
4. See Roderick Crawford (2021), *The Northern Ireland Protocol: The origins of the current crisis*, Policy Exchange; https://policyexchange.org.uk/publication/the-northern-ireland-protocol/ .

of 'full implementation' of the Protocol. This was clearly incompatible with the model for east/west relations outlined in strand three of the agreement. There was little understanding (cf Michel Barnier's memoir) either of the operation of the north/south dimension and even the rules and obligations of the Assembly. The Good Friday Agreement makes it clear that all these strands are interdependent; they require the support of both political communities and, at the moment, they have the support of only one.

The government says that its policy is designed to create the conditions for the re-establishment of the functioning of the Good Friday Agreement. It is involved in a test of wills with the EU which it cannot flunk. But it is also the case that just as I had to respond – often with great difficulty — to the contexts created by Tony Blair who tended, like Boris Johnson, to say hopeful things not fully borne out by subsequent facts, so the present Unionist leadership today has a part to play. It has to show that it fully commits itself to bring back power-sharing not only because it is right but because it will impose a duty on all other parties in the dispute to act responsibly.

Dr Graham Gudgin's excellent report on 'the island economy' comes at a critical moment. At the time of the Good Friday Agreement, the Irish government did not talk to us about an island economy: they were looking for cooperation for mutual benefit. They were concerned above all by the need for stability. They explicitly accepted there were two economies on the island of Ireland. Today the Irish government has a different language in which the island economy is an endlessly repeated theme. Dr Gudgin shows that this does not correspond to the facts on the ground. The Irish government sharpens Unionist fears that there is some all-island economic propulsion leading to political unity. This has had a destabilising effect. We were faced after 1998 by DUP challenges that we had agreed to a united Ireland economy leading to a political united Ireland. These challenges collapsed in the face of reality. But we were also helped by the realism of the Irish government on this matter. This time the Irish government has given momentum to the party in Northern Ireland (the Traditional Unionist Voice) opposed to the Good Friday Agreement, which significantly increased its vote.

We also note the views of serious Irish political commentators that the government's sponsorship of Anglophobia is helping, rather than curbing the rise of Sinn Fein in the Republic, now polling at record levels of 36 per cent and for the fist time out polling the combined support of Fine Fail and Fine Gael; it seems more than likely that party will dominate the next Irish government[5]. All these developments require some steel on the part of the UK government. The EU formally repeats its support for the Good Friday Agreement but there is no engagement with what that might mean in practice. In the last week of the Good Friday Agreement talks, Tony Blair stood firm and persuaded Bertie Ahern to reject the maximalism of some of his leading officials. This was the key to success. Boris Johnson now has to show similar firmness.[6] It is time to

5. 'Fine Gael has cemented Sinn Fein's path to government in Dublin', Patrick Murphy, Irish News, 14 May 2022.
6. See on this point *The Alastair Campbell Diaries, volume 2, Power and the people 1997-1999*, London, 2011, p349, quoting 8 April 1998: 'all the big concessions had gone to the unionists'.

draw back and reanimate the spirit of pragmatism in Belfast, Dublin and London which created the Good Friday Agreement in the first place. Irish America has a role to play. I recall wistfully Senator George Mitchell's role as chairman of our talks in 1998. He started from the assumption that there were two communities in Northern Ireland which both needed to be protected in any new arrangement. It is impossible to imagine Senator Mitchell carrying himself as Congressman Neal did in his visit to Northern Ireland in May 2022. The Senator would never have dismissed the rejection of the protocol by all the elected representatives of the majority political community in Northern Ireland as 'manufactured'. He would have acknowledged reality in a pragmatic way and started from there. As I said at the start, it is not possible to treat either the unionist or nationalist tradition as a passive participant in the process.

Lord Trimble won the Nobel Peace Prize for his role in securing the 1998 Belfast Agreement. He was First Minister of Northern Ireland 1998-2002 and leader of the Ulster Unionist Party (UUP) from 1995-2005. He sits as a Conservative peer in the House of Lords.

Executive Summary

The agreements underpinning the Northern Ireland Protocol introduced a policy aim of protecting the 'all-island economy' and southern Irish politicians have enthusiastically promoted the idea that there is such an entity. However, this concept is an illusion promoted for political ends. It is much more accurate to say that there are two distinct economies on the island of Ireland. The Republic of Ireland is a sovereign state, fully part of the European Union but also one the world's largest tax havens. Northern Ireland is a region of the economic union which is the United Kingdom. With different currencies, different fiscal and monetary arrangements including different interest rates and VAT and excise duties, and with separate legal systems, the two areas are distinct. Both have their own distinctive health, education and social security systems and much else besides. The impact of the Protocol, which keeps Northern Ireland inside the EU single market, at least for goods, and partly within the customs union, has not changed this. The Protocol continues pre-2021 practice within the island. Although the relative ease of obtaining supplies from the EU relative to GB has changed, this still leaves the two economies as largely distinct.

Although sharing the same island, with little in the way of natural geographical or linguistic boundaries, the two have different histories and conduct remarkably little cross-border trade despite the lack of barriers. The relative ease of sea travel compared with land transport, until the mid-19th century, maintained Northern Ireland's strong links with GB and especially Scotland. Partition in 1921 came after the construction of the railways, but before the widespread use of motor transport. The South remained a largely agrarian society, and the focus of NI trade remained eastwards to GB rather than southwards. While the South's protestant population collapsed after 1921 and its lack of industrialisation continued for a further four decades, the new province of Northern Ireland remained inside the UK with a very different economy strongly orientated towards GB. The Republic used its independence to drive its economy in a different direction to the UK. Initially it emphasised self-sufficiency and trade protection. An unfavourable outcome led to a major change in direction, using low company taxation to attract foreign investment

Even British and Irish membership of the EU did little to increase trade across the Irish land border. Right up until Brexit less than 6% of the value of goods and services produced in Northern Ireland were sold to the

Republic. A third of this trade consisted of goods like fuel and cars passing through NI from elsewhere rather than being produced in Northern Ireland. Less than 2% of the Republic's exports go to Northern Ireland, although this figure means relatively little due to the huge distortions in the South's trade figures caused by transfer pricing by multinational companies. Senior Irish journalists like Dan O'Brien recognise that cross-border trade is very small.[7] The reasons for the low level of trade are not hard to find. Both markets are small, only 1% or less of the EU total. Successful firms need to look across the UK, Europe and the wider world for their markets. Aircraft wings from Belfast's Bombardier, or Viagra from Cork, require European or global rather than local markets. Evidence for an increase in cross-border trade in Ireland since the Protocol was introduced is mixed and contradictory, but there does appear to have been some diversion of trade away from GB sources.

A southern tax haven

The two economies have developed in very different ways since the second world war. Tax systems have developed differently including income tax, but it is the sharp contrasts in the taxation of company profits that have most impact on the respective economies. The South has increasingly become a major tax haven. Starting in 1957 with low corporation tax on exporters, the economy adopted one of the world's lowest tax rates for profits at 12.5%, firstly for manufactures and then after 2003 for all goods and services. Additional tax concessions for intellectual property mean that the effective rate of corporation tax is estimated at 4.5% with major multinational companies avoiding tax altogether on some profits. The result has been an inflow of multinational company activity into Ireland but more importantly a huge inflow of global profits not earned in Ireland and only slightly connected with any physical activity in Ireland. Even at a low tax rate, the huge inflow of profits means that corporation tax generates around 16% of all Irish tax revenue compared with half that in the UK. The inflow of profits also fundamentally distorts Irish national accounts to the extent that Irish headline GDP figures have become meaningless as a measure of real economic activity in Ireland.

Northern Ireland, as part of the UK tax system, has a corporation tax rate of 19% (due to rise to 25% in 2023) making it average in a world context. There are no tax avoidance measures equivalent to those in Ireland, and as a result multinational companies are less attracted to Northern Ireland than to the Republic. While Northern Ireland is unique among UK regions in having the legal power to run its own corporation tax regime and set its own tax rate, it has chosen not to do so. Its lower attractiveness to multi-national firms has, surprisingly, not led to a proportionately smaller manufacturing sector compared with the Republic. Nor has it led to a lower proportion of output in high-technology and other intellectual property-rich sectors within manufacturing. The industrial regime in Northern Ireland based on grant support and low business rates has proved reasonably effective in supporting investment in many of its indigenous

7. Dan O'Brien, Chief Economist at the Institute of International and European Affairs (IIEA) and Ireland's leading public economist, described the all-island economy in 2019 as tiny: '*There is very little all-island economy. Between 1998 and now there has been almost no growth in cross-border trade...It's tiny. It's actually gone from 2.7pc of our goods trade to just 1.5 per cent; 1.5 per cent of our goods trade goes North-South*'. Eamon Dunphy interview with Dan O'Brien, on *The Stand*, podcast 503 'Brexit crisis — Our backstop consensus is wrong', 16 September 2019.

firms. Although Northern Ireland has proved less able than the Republic to attract, develop or retain firms in the financial and professional services sectors, by UK standards it has been successful in attracting some types of service-related foreign direct investment (particularly from the USA). Like other low-productivity regions in the UK, it is the low representation of these high-wage, high value-added service sectors that chiefly keep aggregate productivity well below the UK and Irish averages.

The importance of public sectors

The Northern Ireland economy is often characterised as more highly dependent on the public sector than the Republic of Ireland, but this is an exaggerated perception. Public spending per head in NI is higher than the UK average but is similar to that in the Republic. What differs is how the public sector is financed. In Northern Ireland between a third and a half of public spending is financed by a 'subvention' from the UK Exchequer. The large subsidy is due to both the higher public spending per head in NI compared with GB but also lower per capita tax revenues. NI tax-payers contributed revenues at 84.5% of the UK per capita rate. This reflects lower average incomes but it was higher than Wales (79%) or the North East (80%). Spending per head on all public services in 2018/19 was 21% higher than the UK average and was the highest of any UK region. Annual expenditure is largely set by the Barnett Formula. Although little known by the public in NI this is a key influence on prosperity and has no equivalent in the Republic.

The high degree of financial support from the UK government contrasts with the Republic where public spending is necessarily fully funded from local revenues. With Ireland now a net contributor to the EU budget there is no external source of financial support. The need to balance the books on public spending makes Irish Government spending a more political issue than in the North where the Assembly and Executive are responsible for spending but not for raising most tax revenues. Most spending decisions in NI are made by the Assembly which can choose how to allocate its block grant but only a minor amount of tax revenue depends on local decisions. In the case of NI's large social security budget the level of spending is dependent on local demand and is outside the Barnett Formula. Benefits are set at UK rates within a nationally uniform system. The role of the NI Assembly in social security is largely one of administration. In the South the structure and rates of social security are a local and a much more political issue.

Health provision

The standards of public provision differ North and South. The available evidence suggests that one system does not consistently do better in health outcomes than the other. However, for some population health measures, including life expectancy and infant mortality, Ireland has performed better than Northern Ireland in recent years. Ireland has the third longest waiting times in the OECD for hip and cataract operations and the fourth worst for knee replacements, but it nevertheless has generally shorter waiting times than NI. Northern Ireland is infamous for its waiting lists which are very much longer than the UK average, which itself is less favourable than the OECD average. However, the much longer waiting lists do not mean that unmet medical needs are greater in NI than in the Republic. The problem in the South is not waiting lists but rather the cost of treatment and of medicines in a health system in which patients bear more of the costs than in the NHS which is largely free at the point of delivery. A number of studies have shown that health outcomes are worse in NI than in the Republic for a range of chronic and activity-limiting conditions. The reasons for this are unclear since risk conditions including smoking, unhealthy diets and obesity are if anything more prevalent in the Republic.

Educational standards

Education also differs both in organisation and outcome. The Catholic church is more heavily involved in running Southern schools than in NI where there are two systems: the 'controlled' state schools and a selective secondary system for both controlled and maintained (Catholic) sectors. Take-up of education is more favourable in the South at all ages and the outcomes are a little better, measured by international PISA scores for 15 year-olds. Like the other UK devolved regions, NI has not been able to achieve a sustained improvement in PISA scores comparable with that in England.

University provision is similar in both parts of the island. The Republic has one university, Trinity College Dublin, in the world top 200. Queens University Belfast is in the 200-250 range and Northern Ireland students also have full access to the world-class system of GB. Northern Ireland has 3.6% of its resident population in HE in the UK or Ireland:[8] the equivalent figure for the Republic is 4.4%. This may partly reflect differences in university tuition fees, which are 70% higher in NI.

Economic outcomes

The Republic of Ireland has a generally faster growing, although more volatile, economy. It also has higher unemployment and, surprisingly, lower living standards measured by consumer spending and public expenditure per head.

In both jurisdictions economic growth is heavily influenced by the growth in population and hence of the labour force. Population growth in the South is driven by a higher birth rate but has been strongly influenced by bouts of economic success and failure. The disastrous economic policies of the 1950s and those associated with the banking collapse of 2008 caused large migration outflows. The booms, particularly after joining the Eurozone in 1999, had the opposite effect. In Northern Ireland a steadier growth in population was dampened by a short-lived outflow in the worst years of the Troubles in the early 1970s, although the 30 years of the Troubles had a much less damaging impact on the NI economy than is generally believed. Between 1950 and 1998, population growth had

8. https://www.northernireland.gov.uk/news/higher-education-statistics-published#:~:text=Of%20the%2066%2C245%20students%20enrolled,%25%20from%20non%2DEU%20countries.

been similar in both jurisdictions at close to 25%, albeit with contrasting fluctuations and different causes in the intervening years. Since 1998, Southern population growth has been twice as fast as in NI, despite the setback associated with the banking crisis: half due to natural increase and half to migration.

Employment growth has followed the same patterns as for population and for the same underlying causes of economic boom and bust and the Troubles. Growth tends to be faster in the Republic but the disastrous banking crisis had a huge impact with the loss of 16% of jobs over five years. Despite the resumption of rapid expansion, the negative impact on the labour market has lasted right up to the present. Unemployment has been continually higher than in NI and employment rates lower. Growth in jobs in NI has been slower than in the South but more stable and faster than that in GB. A large public sector compared with GB has provided stability as has financial support for parts of the private sector[9]. In recent decades unemployment in NI has been lower than in GB but employment rates are always lower with a higher proportion of people receiving sickness benefits and not seeking work.

Living standards

The many differences between the two economies all influence living standards which, surprisingly to many, appear to be higher in the North than in the South. Comparisons are not straightforward mainly due to the huge distortion of the Republic's national accounts caused by the movement of profits of multinational companies seeking to avoid tax. A conventional comparison of living standards would involve comparing per capita GDP, but headline GDP is close to meaningless as a measure of the output of the Irish economy. Simple comparisons implausibly suggest Irish living standards are double those in GB or NI. Even the revised modified Gross National Income measure (GNI* - pronounced 'GNI-star') is inflated. A more direct measure including spending by consumers and by government on behalf of consumers (known as Actual Individual Consumption or AIC), places Ireland well below the UK using a common exchange rate and allowing for price differences. Comparisons between the Republic and Northern Ireland are even more complex, but allowing for differences in housing costs those comparisons suggest that living standards are around 10% above those in the Republic. Despite having lower wages than in GB, Northern Ireland maintains consumption levels close to the UK average due to lower taxes, lower prices for goods and services and especially for housing, as well as higher spending on individual public services than the GB average.

Conclusions

The two economies have as many differences as any two neighbouring economies in Europe. The term 'all-island economy' thus has little meaning. The Republic has taken advantage of independence to diverge from the UK and is sometimes described as the world's largest tax haven.

9. The impact of grant support for industry was particularly important in the UK recession of 1991 when high interest rates led to a large loss of jobs in GB. In NI, where firms were less indebted due to the availability of capital grants, few jobs were lost and it is estimated that the relative gain in NI was 50,000 jobs, making this one of the most significant (if unremarked) events in NI's postwar economic development and much more significant than anything related to the Troubles.

Northern Ireland is, in contrast, highly integrated with the rest of the UK economic union and dependent on the UK to support its large public sector. The two have different strengths and weaknesses but perhaps surprisingly, it is Northern Ireland which has the higher living standards and generally the lower unemployment. Comparisons of such things as productivity and living standards are made difficult by the distortions in Irish GDP figures and many commentators appear to have been misled about the prosperity of the Irish economy. Conversely, the shadow of the Troubles in Northern Ireland and ongoing sectarian problems predispose commentators to believe that the Northern economy is weak and in need of heavy support from the UK Exchequer. Though Northern Ireland does have an unusually high level of public spending compared to the UK average, all of the UK devolved regions have high levels too. Although no longer having the UK's highest unemployment, nor the Troubles, Northern Ireland's political instability has helped to keep spending high; inertia too plays a role. High public spending in turn maintains a higher population in NI than would be the case if the economy depended on the private sector alone. High public spending does not, however, generate the outcomes that it perhaps should. Healthcare is largely free to users but not necessarily better than the South. Nor are educational outcomes better than in the South although NI has better access to the UK's world-class universities.

The NI Protocol, if it survives, will widen some differences between NI and GB but does not create new similarities with the Republic. The two economies on the island of Ireland will remain as distinctive as before Brexit even if a little more of NI's trade is diverted from GB to the Republic by the new customs barrier at the Irish Sea.

Introduction

The Irish Government likes to claim that there is such a thing as an 'all-island economy', but this is almost the opposite of the truth. The common use of the term 'all-island economy' by senior Irish politicians is no doubt intended to foster a belief in the existence of something the Irish Republic would like the wider world to believe. A more accurate usage would refer to 'the two economies on the island of island'. This usage was formerly commonplace but is now unusual in the Republic of Ireland. The new term can be dismissed as just another irritant which Northern Ireland unionists face from nationalist Ireland but has become more important as the clamour for a border poll on Irish unity grows louder.[10]

The concept of the 'all island economy' was officially introduced into the December 2017 Joint Report which set the parameters leading to the Northern Ireland Protocol now in force. Its protection was an integral part of what the EU demanded as the price for a withdrawal agreement, as set out in paragraph 49 of the Joint Report: 'the United Kingdom will maintain full alignment with those rules of the Internal Market and the Customs Union which, now or in the future, support North-South cooperation, the all-island economy and the protection of the 1998 Agreement'.[11] This issue has increased in prominence since the Protocol came into force in January 2021, with its impediments to GB-NI trade and the consequences of those for businesses and consumers, as well as an apparent dramatic rise in the value of cross-border trade.

The Protocol introduced a customs border for goods flowing between Great Britain and Northern Ireland (but not in the reverse direction). It also applied dynamic harmonisation of EU product regulations in NI (to goods but not services) and tied NI to EU VAT regulations (with VAT rates still set in London but subject to constraints). All of this was to provide a water-tight customs border for the EU at the Irish Sea between GB and NI while maintaining a completely open land border on the island of Ireland.

Unionists see the imposition of a customs border between NI and the rest of the UK plus the imposition of EU product regulations without any democratic input as a constitutional outrage. They fear that the new trade barrier increases the likelihood of an economic united Ireland as a precursor to political unity, something they exist to oppose. Nationalists support the Protocol precisely because they also see it as moving Irish unity and removal of Northern Ireland from the UK a step nearer. They strongly oppose a customs land border on the island, however light, since this would strengthen the separation of North and South.

Following Brexit, the pressure for Irish unity has become increasingly

10. A wide range of articles has been written in recent years in anticipation of imminent unity even to the extent of testing the extent to which the social security systems in the two jurisdictions are compatible. https://www.jstor.org/stable/pdf/10.3318/isia.2021.32b.28.pdf?refreqid=excelsior%3A37f983a0191b036fbceeec9ab3a4ee9a&ab_segments=&origin=

11. https://www.gov.uk/government/publications/joint-report-on-progress-during-phase-1-of-negotiations-under-article-50-teu-on-the-uks-orderly-withdrawal-from-the-eu/ paragraph 49.

intense. In February 2022 Sinn Fein deputy first minister in Belfast, Michelle O'Neill, said that 'nationalists are closer than they have ever been to Irish Unity and now is the time to plan'.[12] The 'Ireland's Future' organisation is planning a 10,000 person rally in Dublin's 3Arena supported by 'major names' from Ireland, Europe and the USA to promote a 'unity referendum'.[13]

The Irish Prime Minister, Micheal Martin established a 'Shared Ireland Unit' in 2020 with £450 million allocated to cross-border projects in the 2021 Budget. The Unit was actually aimed at countering the influence of Sinn Fein in the South rather than a serious attempt at furthering Irish unity and was accepted as such by Northern Ireland's First Minster Arlene Foster who said it was not a constitutional threat[14]. Even so, the issue was written up in the *Belfast Telegraph* (now owned from the South) as 'the growing case for an all-island economy'.[15]

The UK Government regards the Protocol-induced increase in trade across the land border since January 2021 as evidence of a diversion of trade between GB and the Republic of Ireland[16]. This involves firms in Ireland, north and south, switching suppliers from GB to either Northern Ireland, the Republic or elsewhere to avoid administrative costs and delays on goods coming into the island from GB. It also involves some hauliers diverting lorries carrying goods from GB to the Republic via ports in Northern Ireland. There has been an increase in lorry traffic on cross-channel ferries to NI in 2021 compared to previous years as haulage firms avoid what they say is a greater burden of customs administration at Dublin and other ports in the Republic. Diversion of trade is politically important since it counts as grounds for suspending part of the Protocol under the now infamous article 16 of the Protocol.

The Irish Government takes a different view of the increase trade across the land border. For instance, former senior DFA official Rory Montgomery writing in the *Irish Times*[17] opined that the Protocol 'seemed to be having some positive impact in the development of an all-island economy, though apparent growth in north-south trade may be exaggerated'. The possible exaggeration refers to changes in Irish statistical recording of trade with GB. Once the UK left the EU in 2021, the EU (including Ireland) stopped using its internal Intrastat system based on VAT records for trade with GB and switched to a system based on customs declarations. This did not include Northern Ireland since the EU continued using its previous system. However, the switch for trade with GB revealed previously undetected errors on recording trade with Northern Ireland which have now been corrected in the data back to 2016. It is unclear whether the corrections are sufficient since the Irish data still records much less trade than the equivalent HMRC figures for years prior to 2021. We return to this issue in the trade section below.

Montgomery's statement can be taken as representative of Irish Government thinking. Although recently retired he was second secretary general in the Irish Department of Foreign Affairs with responsibility for European affairs and Brexit. He had previously been permanent

12. https://www.bbc.co.uk/news/uk-northern-ireland-60449290
13. https://www.irishtimes.com/news/ireland/irish-news/time-for-a-unity-referendum-making-the-argument-for-a-united-ireland-1.4812139
14. *Belfast Telegraph* Dec. 15th 2020 'The growing case for an all-island economy'.
15. https://www.belfasttelegraph.co.uk/business/ulsterbusiness/features/the-growing-case-for-the-all-island-economy-39869004.html
16. Exports from NI to the Republic of Ireland rose 89% between 2018 and 2021. Imports to NI from the Republic rose by 53% with almost all of the rise taking place in 2021 after the start of the Protocol. Both sets of figures are from the Irish CSO. Equivalent although less reliable figures from HMRC show little increase in goods trade across the land border, nor has HGV traffic across the border increased.
17. *Irish Times* November 20th, 2021, 'Johnson likely to make Protocol deal but Ireland must be wary'.

representative to the EU and ambassador to France. (As a southern protestant his understanding and perhaps empathy for Northern Ireland's unionists was greater than for many in Irish politics). His reference to an 'all-island economy' echoes similar statements by a range of senior Irish politicians. The use of the term causes deep concern among Northern Ireland's unionists and particularly in the Traditional Unionist Voice party which has made inroads into the Democratic Unionist Party vote by highlighting the issue.

The term 'all-island economy' is never used by unionists and even for nationalists seems to mean different things to different people. The Social Democratic and Labour Party MLA Matthew O'Toole, a former Cabinet Office civil servant in London, recently referred to the high volume of cross-border activity including commuting and trading by small firms in both goods and services as evidence of an all-island economy. Business commentators in Northern Ireland frequently confuse the issue by using the term when promoting cross-border activity; for instance, in animal and milk movements in agriculture, to assist the growth of small firms, or to encourage co-operation in R&D[18]. Such border movements and cross-border co-operation are normal and valuable, but constitute interaction between two neighbouring economies and say little about the existence of a single, all-island economy. Interaction is not the same as integration.

Calls for further cross-border co-operation often appear to have a political motive. Purely economic concerns about promoting the NI economy would be more balanced if they were multi-directional, including obvious R&D co-operation with the many world-class universities in GB as well as the rather less well-ranked southern universities. More generally, nationalist politicians appear to be attempting to convince the wider world (and perhaps also themselves) that the island is already united in economic affairs. The implication would then be that the final step to political unity would be small.

In November 2021 the premier economic research institute in Dublin, announced the launch of an 'all-island research project' in collaboration with London's NIESR and the Irish Business and Employer's Confederation (IBEC). This is a three-year project to build a macro-economic model for Northern Ireland linked to similar models for the Republic of Ireland and the UK. The researchers will discover that the macro-economic links between Northern Ireland and the Republic are relatively slight but it is significant that the project was labelled as 'all-island'.

Studies of a putative 'all-island economy' are not new. In 2006 the British Irish Intergovernmental Conference sponsored a 'Comprehensive Study of the All-island Economy'.[19] The sponsor on the British side was the Labour Secretary of State for Northern Ireland, Peter Hain, a supporter of Irish unity. This is perhaps why the study referred to an 'all-island economy' rather than to the two economies on the island of Ireland. In any case, the study had little political or economic impact, but interest in the subject has been greatly revised by Brexit and the Protocol.

The increased use of the term 'all-island economy' can be taken as

18. https://www.belfasttelegraph.co.uk/business/ulsterbusiness/features/the-growing-case-for-the-all-island-economy-39869004.html
19. https://intertradeireland.com/assets/publications/British-Irish-Governmental-Strategy-Study-on-All-Island-Economy.pdf

a political ploy. Irish nationalists and republicans have form in this respect. The renaming of the Irish Free State as 'Eire/Ireland' in the 1937 Constitution was deliberate, to confuse the name of the country with that of the island as a whole. Although the 1948 Act was called the Republic of Ireland Act - by which it severed all British ties and seceded from the Commonwealth - lately Irish authorities have bridled at any usage but 'Ireland', even including 'Eire' (despite this being on Irish stamps). Nationalists and republicans also routinely refuse ever to use the official name 'Northern Ireland' and instead refer to the 'north of Ireland'. This includes senior MLAs, including former Deputy First Minister Seamus Mallon and Sinn Fein's Michelle O'Neill who as Deputy First Minister refused to name the jurisdiction she was governing.

Although it is not the main focus of this report, we might add that what is now Northern Ireland has for centuries had a different history from the rest of the island. Most of Northern Ireland was outside the Pale of Norman and subsequently English dominance of Ireland until Tudor times during which monarchs kept Scottish settlers out of a largely depopulated Ulster. When James VI of Scotland ascended the English throne as James I, he reversed this prohibition and settlers arrived in numbers from Scottish shores only 20 miles or less away[20]. The protestant settlement created the cultural contrasts of today and also through links with Scotland and England led Ulster to industrialise more than a century before the rest of Ireland. While Northern Ireland's distinctive history and economy emphasised continuing links with the UK, the South did not. The problem of the South was not that it was a colony as it is now fashionable to claim, but rather, as Professor J W Foster points out,[21] that it was like Quebec - a Catholic nation sitting uncomfortably within a Protestant state. In this respect it was unlike most of Ulster. Its mainly agrarian economy was also distinctive and permitted a political culture that initially intended that the new nation was to be agrarian in culture, Gaelic in its language and society, Roman Catholic in religion. Although enshrined in the 1937 constitution little of this romantic vision which at various times was heralded by figures such as Padraic Pearse and Eamon de Valera has survived. In particular, the economically damaging aim of a closed non-industrial society was abandoned by the 1960s, but even then the Republic's new economic approach was very different from anything attempted in Northern Ireland.

The remainder of this report assembles the evidence that the accurate description would be 'the two economies on the island of Ireland, rather than a singular 'all-island economy'.

20. Contrary to general belief, most Scottish and other protestant settlers arrived through informal migration rather than via organised 'plantations'. Today two-thirds of Northern Ireland Protestants live in the non-plantation counties of Antrim, Down and Armagh rather than in the plantation counties further west (half of which are in the Republic of Ireland).

21. https://www.briefingsforbritain.co.uk/chits-from-matron-select-pampered-nationalisms/ Foster also writes that 'the Irish state in its early decades was actually employed in forging a society as different as possible from England which it regarded as immoral and infidel, and from Northern Ireland which Taoiseach Eamon de Valera regarded as an alien garrison whose Ulster-Scots industrial prowess merely proved. Ireland was to be rural (agricultural in economy and agrarian in culture), Gaelic in its language and society, Roman Catholic in religion - all enshrined in the 1937 constitution'.

Structure of the Two Economies

In fact, there are two radically different economic models on the island and surprisingly little trade between them. The South's economy is the world's largest tax haven.[22] Its growth has been heavily dependent on low rates of corporation tax in attracting multinational firms especially from the USA both to locate in Ireland and to funnel their global profits through Ireland. The Republic has been a member of the Eurozone since 1999 and remains fully part of the European Union.

Northern Ireland is not a national economy and is instead a region fully integrated into the United Kingdom economic union. Currency, tax rates, excise duties, social security systems, government spending regimes, interest rates, credit and banking rules and business law all differ from those across the border. For these reasons, economic business cycles in NI follow those in the UK while those in the Republic do not. Even in cases of global downturns, like the banking crisis of 2008, the severity of the crisis differed considerably. Although outside the European Union, Northern Ireland remains de facto part of the EU Customs Union in most respects and is within the EU's single market for goods but not services and subject to EU regulations for goods. However, it is legally part of the UK customs union and retains some benefits from any trade agreements signed by the UK with countries outside the EU[23]. More importantly, NI's public sector is heavily supported by large financial flows under the Barnett Formula for distributing government spending. As a net contributor to the EU, the Republic of Ireland has no equivalent channel of financial support for its public services. Continued EU funding for NI under PEACE and INTERREG schemes is tiny compared to support from Whitehall.

Although the Irish Government strongly opposed a customs border on the island following Brexit (as did the EU for somewhat different reasons), we should notice that an economic border already existed. While customs posts and customs checks disappeared between Northern Ireland and the Republic after the 1992 Maastricht Agreement, a currency border remained and was reinforced when Ireland joined the Eurozone in 1999. Also, an excise border continued with large-scale incentives for smuggling petrol and diesel fuel and tobacco. When excise duties on fuel differed significantly in 2001/2 the scale of fuel smuggling (often in disguised milk tankers) reached such a peak that many legitimate garage forecourts in Northern Ireland lost business to new retailers selling cheaper illegal fuel. A lack of alignment on excise duties is just one difference between the two economies. Differences in exchange rates, consumer prices and VAT rates lead to relatively large amounts of cross-border shopping,

22. References to Ireland as a 'tax-haven' are viewed as 'provocative' by some senior figures in the Republic. See for instance Senator Martin Mansergh (former government minister and special advisor to the Taoiseach) in his review of the Idea of the Union in History Ireland. https://www.historyireland.com/the-idea-of-the-union-great-britain-and-northern-ireland/

23. If new UK trade agreements lead to tariff reductions with tariffs more than 3% below the EU's common external tariff, then NI does not share these.

usually in the direction of Northern Ireland. Border towns like Newry gain a good deal of income from this trade.

Sterling: Euro Exchange Rate (Euro per £)

Source: Bank of England

Although by doing so it reinforced a commercial border on the island, the Republic, in contrast to its current all-island preoccupation, did not hesitate to join the Euro in 1999 despite the political implications. Fluctuations in the Sterling-Euro exchange rate have been large and affect the relative competitiveness of companies north and south to a much larger extent than applying the EU's common external tariff to most goods or the non-tariff barrier costs of customs administration. The average exchange rate was €1.4-1.8 per pound before the banking crisis of 2008 but generally less than 1.2 since then. The resulting lower prices in Northern Ireland's shops lead to a substantial degree of cross-border shopping by southern consumers, some of whom travel long distances for what they see as bargains. Current estimates are that supermarket prices in the Republic are 20% higher than Northern Ireland.[24] An average family living near the border can save almost €2,000 annually by shopping in Northern Ireland. Current excise duties are similar north and south for petrol but higher in the South for tobacco. In the latter case this contributes to higher prices in the South. Excise duties can and do change in annual budgets and can converge or diverge, subject to fiscal policy in each jurisdiction.

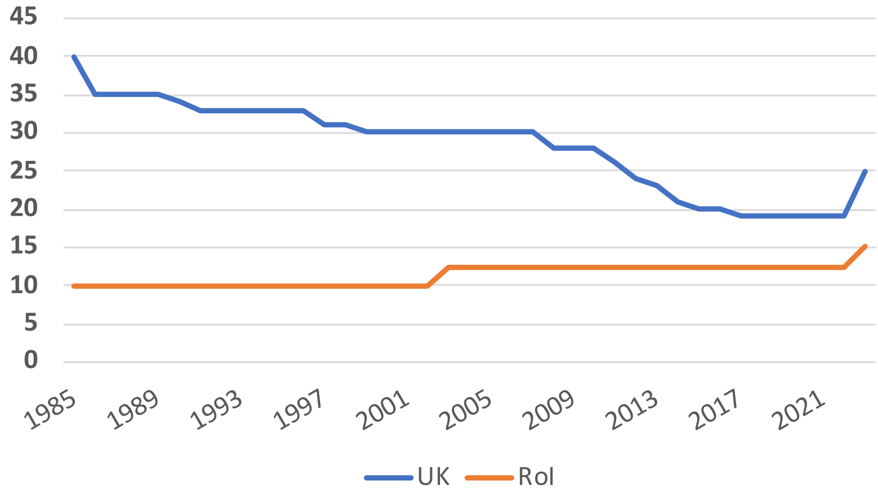
Income tax

The income tax systems of the UK (and hence NI) and Ireland look superficially similar but the outcomes are sharply different, marking another contrast between the two economies. Both have two main tax bands of 20% and 40% (in the UK there is also the 45% rate which kicks it on incomes above £150,000). However, the bands kick in at lower levels in the Republic leading to a much higher overall tax take. The upper band

24. North and South: a tale of two grocery bills (irishtimes.com) A more up to date comparison of Ireland with the UK is at Eurostat December 2021, "File: Price level indices for food, beverages and tobacco 2020 (EU=100) Update". The index number for food prices was 119.5 in RoI but 89.5 for the UK.

at which the 40% rate applies starts in Ireland at £32,200 (in sterling) for a single person and £40,000 for a married couple with a single earner. This compares with £50,230 in the UK, irrespective of marital status. The upshot is shown in the chart below.

Corporation Tax. Headline Rate %



Sources: OECD Details of Tax Revenue - Ireland (oecd.org) **CSO National Income and Expenditure. HMRC, Disaggregated Tax and NIC Receipts. ONS regional Household Consumption Expenditure.**

Close to 15% of household income in Ireland is taken in income tax, compared to 12% in the UK. Because average pre-tax incomes are lower in Northern Ireland it has around half the income tax take of the Republic and is also below the UK average. In the UK, including NI, employees and the self-employed also pay national insurance contributions with a further contribution from employers. This is a significant tax - three-quarters as large as the income tax take. The Southern equivalents, Universal Social Charge (USC) and Pay-Related Social Charge (PRSI) are charged at similar rates but have thresholds for payments which help low-earners.

Ireland is in the top third of OECD economies in its taxation of personal income (13th out of 39). The top rate is 52% when the 40% band is added to USC and PSRI payments of 8% and 4% respectively. Ireland is particularly highly taxed for high earners. A KPMG study[25] calculates that someone earning £130,000 (sterling) in Ireland will have an effective tax rate of 43%, the same as in high-tax Germany, 9% more in tax than in the UK, 39% more than in the USA and twice as much as in low-tax Singapore. The highest rate of tax in Ireland at 52% kicks in at only £61,000 (sterling) compared with the UK and NI highest rate of 47% kicking in at £150,000.

However, the Irish tax system is one of the most progressive in the OECD and low earners pay less tax than in most other rich countries. Someone on £22,000 (sterling) will pay 12.5% in Ireland compared with

25. https://www.irishtimes.com/business/personal-finance/is-ireland-a-high-tax-country-for-workers-1.4782265

14.8% in the UK and well below France (23%) and Germany (29%).

Corporation tax: Ireland as a tax haven

One key tax which has for decades been very different between the UK and the Republic of Ireland is corporation tax. This is of macro-economic importance because it is a major factor in the location of multi-national companies. The Republic has had low corporation tax rates since 1957. Originally established as tax relief on manufactured exports, the low tax rate of 10% was later applied to all manufacturing companies. In 1986 the EU agreed to the application of the low rate to the International Financial Services Centre (IFSC) in Dublin, hence starting the inflow of international financial services firms into Ireland. When this sectoral selectivity was declared illegal by the EU it was extended to all sectors in 2003 at 12.5%.

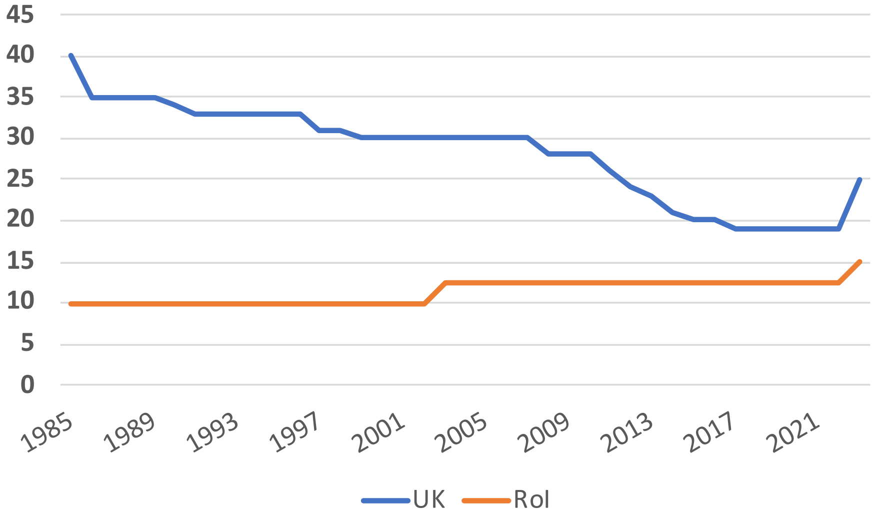
It is the combination of Ireland's low corporation tax rate with a range of additional tax rules that allow firms to avoid paying tax on their profits that makes Ireland a tax haven.[26] From the 1980s Ireland made use of tax-avoidance measures like the so-called 'double-Irish' arrangement to facilitate tax avoidance. Under OECD rules firms with intellectual property are allowed to convert this into an (intangible) asset and charge it out to subsidiaries in low tax economies like Ireland. Under Irish tax rules such firms must have a physical presence in Ireland although this is often nominal. Pfizer in Cork can, for example, import a huge amount of intellectual property from its US parent and add this to the cost of producing its pharmaceuticals. This generates a large profit in Ireland which can then be taxed at a low rate. At one stage the profit made in Ireland by Coca Cola bottlers was over a million euros per employee.

From 2013 when Ireland refused to implement the EU Accounting Directive, the legal system has permitted an expanded range of such 'base erosion and profit-shifting' (BEPS) measures; together with Section 110 Special Purpose Vehicles, these allow companies to avoid most tax and to pay as little as 0-2.5% on profits. Multi-national companies, mostly from the USA, have a huge incentive to register and declare most of their global profits in Ireland. The Irish 'capital allowances for intangible assets' scheme, for instance, allowed the Apple Corporation to claim around $45 billion per annum in relief against corporation tax after transferring $300 billion in intellectual property from Apple Jersey to Apple Ireland. Many of these schemes allow companies to avoid filing company accounts and in some cases Ireland's Central Statistics Office (CSO) has suppressed data to avoid identifying firms involved in large asset transfers.

Despite the headline tax-rate of 12.5%, it is estimated that the effective corporation tax rate in Ireland is 4.5%.[28] As a result, large multi-national companies now contribute 80% of corporation tax in Ireland. Even with such low effective rates, this tax accounts for 16% of all tax revenues in the Republic. The tax avoidance schemes are mainly of value to American-owned firms due to the worldwide taxation system employed in the USA. The territorial system used in the UK and most other countries makes Ireland less attractive as a tax-haven and explains why few financial firms moved from London to Dublin following Brexit.

In 2016 the EU fined Ireland $13 bn for under-taxing Apple but this fine has been resisted and no documents in Ireland record the relevant transactions.[26] After many years of attempting to crack down on tax havens, an OECD agreement in 2021 set a minimum rate of 15%. The Republic will thus now raise its rate from 12.5% to 15% for multi-national companies but intends to retain the 12.5% rate for locally-owned firms. It is unclear how this will affect the various tax avoidance schemes.

Corporation Tax. Headline Rate %



Sources: HMRC. EY Ireland https://eyfinancialservicesthoughtgallery.ie/wp-content/uploads/2014/11/Historical-Development-and-International-Context-of-the-Irish-corporate-tax-system-2.pdf

In Northern Ireland the corporation tax rate, like most tax rates, has always been at the UK rate and there are no profit-sharing (BEPS) schemes equivalent to those in Ireland. Until the banking crisis of 2008 the UK rate at 30% was almost three times as high as the Irish rate. This meant that the Republic was able to attract proportionately many times more multi-national companies than any part of the UK, including Northern Ireland. Initially, these were mainly manufacturing firms, but increasingly financial and other service sector companies have also located in Ireland for tax reasons. UK rates have fallen since 2010 to the current 19% in an attempt to be more competitive in attracting foreign direct investment (FDI) but are due to rise again to 25% in 2023, mainly to recoup revenues after Covid. Rates of 25% to 30% are common for major advanced economies and hence, even with a new 15% tax rate, Ireland will continue to look very attractive as global firms continue to attempt to minimise their world-wide tax outlays. After a period of tax-competitiveness, the UK plans to move back into the mainstream, thus abandoning its advantage.

Unlike all other UK regions, Northern Ireland has the potential to set its own corporation tax rate but has chosen not to do so. It this sense it is

26. https://www.thetimes.co.uk/article/revenue-kept-apple-tax-deal-from-cabinet-c33r330mg. In 2019 Politico reported Ireland shielding Facebook and Google from the new EU GDPR regulations. https://www.politico.com/story/2019/04/24/ireland-data-privacy-1270123

retaining an important difference from the Republic of Ireland. Legislation to devolve corporation tax powers to the Northern Ireland Assembly went through parliament ten years ago but the powers have thus far not been used. The reason is that the Treasury requires compensation for the estimated loss of tax revenue and will deduct this from the Northern Ireland annual subvention if the tax is devolved. The need for this deduction related to EU state aid rules: the so-called 'Azores judgement' stated that tax concessions could be given to firms in a region but only if there was no net transfer of funds from the centre (which would constitute a state-aid to the region).

Ireland can levy corporation tax at one the world's lowest rates because Ireland receives no financial transfer enabling it to do so. There is little logic in this rule since firms are still helped by low taxes irrespective of fiscal transfers between a state and its regions. In Ireland's case it is not obvious that there is any loss of government revenue when corporation tax rates are reduced and hence no need for any subsidy to the state as a whole. In 2003 when the 12.5% tax rates was extended to apply to all sectors and not just to manufacturing, corporation tax revenues rose even though the tax rate had just been reduced for most of the economy.

The Azores ruling still applies in Northern Ireland because the Northern Ireland Protocol continues to apply EU state aid rules to goods sectors. Even so, a case could be made to reduce corporation tax rates in Northern Ireland without the Treasury imposing any large charge on the NI subvention. At the very least any charge set by the Treasury could be set in line with what revenue actually accrued to the NI Executive after a change in the corporation tax rate in Northern Ireland. In this case the deduction from the subvention would depend on the outcome after applying a low tax rate in NI and the risk of financial loss removed from the NI Administration. Whatever the fiscal arrangements, it would be difficult for the EU to resist a tax concession in a state outside the EU under circumstances in which a neighbouring EU member state had equally low rates. In any event, the current situation is that sharp contrasts in tax rates continue to exist, leaving the Republic as a tax haven able to attract large amounts of FDI while Northern Ireland remains a region of the UK with a much lower ability to attract foreign investment. It thus remains one of the key contrasts between the two economies.

A move to bring corporation tax rates into line across the Irish land border would certainly remove a major difference between the two economies, but serious barriers make this unlikely. The deduction from the Barnett Formula to compensate the Treasury for losses in tax revenues would currently include not only losses of corporation tax revenues themselves, but also associated losses from other taxes. For instance, it is expected that some farmers and other small businesses will change their status to corporations to reduce their tax bills. As a result, even if the impact on corporation tax revenues is estimated correctly, NI would lose more from the Treasury's reduction to the subvention than it would recoup from corporation tax revenues even if the CT rate remains unchanged.

The Treasury can be expected to strive for the best deal for the UK

Exchequer and hence the worst deal for NI. One associated issue is whether the Treasury takes account of potential increases in income tax, VAT etc. resulting from the faster economic growth expected in NI following a reduction in CT tax rates. Without a specific adjustment to the Barnett Formula these gains will flow directly to the Treasury and will not benefit NI.

If the tax was fully devolved to NI, the decision on what should be the new CT rate for NI would be made by the NI Assembly. The optimal reduction in the rate will depend on calculations of the projected gains to employment and incomes, and hence CT revenues, from faster economic growth in NI. These gains can then be set against expected direct losses of CT revenues. The main gains targeted via a reduced rate of CT in NI are expected to come from a greater flow of new FDI firms into NI, although there may also be some gains from existing firms in NI. Any reduction in the CT rate in NI will also lead to a windfall gain to existing firms from lower tax, irrespective of whether they increase their investment as a result of lower tax. The Assembly could consider whether some or all of the windfall gain should be recouped, for instance via higher business rates perhaps in terms of removing some or all of the 70% rates relief for manufacturing firms. Recouping the windfall gains would greatly reduce the tax revenue losses associated with a reduction in the tax rate. Whether the NI economy ended up looking more or less like that of the Republic would then depend largely on Assembly decisions, but also on changes to corporation tax in the Republic following the recent international agreement on the tax.

Foreign direct investment (FDI)

The Republic has attracted investments from a great majority of the world's top global firms. The foreign-owned client companies of Ireland's Industrial Development Agency (IDA) employ one in eight people working in the South but more significantly account for 68% of Irish exports.[27] The IDA calculate that over 460,000 jobs are connected directly or indirectly with these firms. Foreign-owned firms continue to pour into the Republic, even during the pandemic. Around 250 new foreign-owned investments a year were recorded by the IDA in recent years including some 100 firms new to Ireland. These resulted in a rise of 15,000 jobs in the foreign-owned sector in the last pre-Covid year (2019).

For comparison, Northern Ireland has attracted around 34 new projects a year employing some 1,400 people.[28] In total there are an estimated 1,100 foreign-owned firms in Northern Ireland employing around 50,000 people. This amounts to 6% of total employment in NI - around half the level in the Republic. The Republic's advantage is, however, less than expected from these figures. Each year a proportion of the stock of foreign-owned business closes for a range of reasons. Once the stock becomes large, the loss of jobs in closures becomes substantial. A large flow of new FDI is thus needed to replace the losses before any net increase can be achieved.

27. The IDA Annual Report - IDA Ireland
28. Dodds welcomes increase in Foreign Direct Investment projects in Northern Ireland | Department for the Economy (economy-ni.gov.uk)

Traditionally most FDI jobs in the Republic were in manufacturing. Although manufacturing employment in foreign-owned Irish manufacturing is still growing, 16% over the last 5 years, manufacturing jobs now comprise less than half (44%) of all Irish FDI jobs. Almost as many jobs in foreign-owned firms are recorded as being in the information and communications sector which includes call centres. In Northern Ireland just under a quarter (23.6%) of jobs are in firms owned outside NI, including GB. This is not directly comparable with the IDA-supported FDI jobs in the Republic since it includes supermarkets and other non-assisted businesses which are externally owned. However, if we focus on the sectors in which firms generally receive financial support in NI (i.e. manufacturing and financial, professional and scientific services), then externally-owned firms in these sectors employed 90,000 people in NI (11.6%) in 2021 but not all of these are supported by NI's investment agency INVESTNI.

Total Employment by Sector in IDA Ireland Supported Companies 2020

	Number	%
Manufacturing: of which	**112240**	**43.6**
Pharmaceuticals and Food	*34187*	*13.3*
Computers, Electronics and Optical Equipment	*21050*	*8.2*
Medical and Dental Instruments and Supplies	*36304*	*14.1*
Other Manufacturing	*20699*	*8.0*
Financial Services	**29419**	**11.4**
Information and Communication	**99357**	**38.6**
Business and Other Services	**16378**	**6.4**
Total	**257394**	**100.0**

Source: IDA Annual Report 2020

In both NI and the RoI manufacturing accounted for a minority of jobs in these externally-owned sectors in receipt of government financial support. Manufacturing comprised 40% in NI and 44% in the Republic. The big difference between the two areas is in the information and communications sector which accounted for 39% of financially-supported jobs in the Republic but only 3% in NI. In contrast, other private services (financial, professional and business services) accounted for only 18% of the supported foreign-owned jobs in the Republic but 47% of jobs in externally-owned firms in NI were in these sectors.[29]

29. The latter contrast may be due to no-comparability of the statistics between NI and the RoI. In both cases the figures include only foreign-owned firms. For the RoI they also include only firms receiving IDA support. For NI it is not clear that all of the 90,000 jobs receive financial support from InvestNI. InvestNI has an annual budget for financial support of £150 million but has always been less transparent than the IDA in its summary statistics on supported firms.

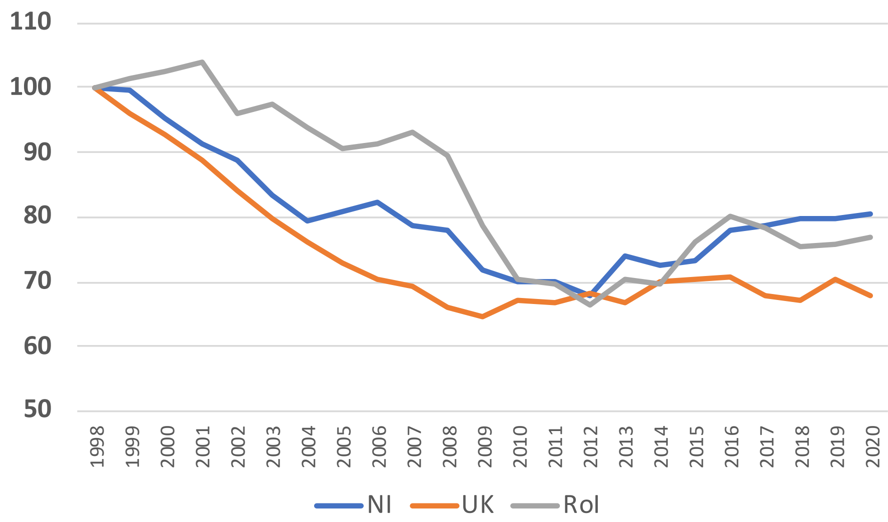
Employment in NI by Location of Company Ownership, 000s, 2021

Broad Industry Group	NI	Other
Agriculture, forestry & fishing	12	0
Production	61	36
Construction	34	4
Motor trades	11	3
Wholesale	20	7
Retail	46	45
Transport & storage (inc. postal)	18	9
Accommodation & food services	47	6
Information & communication	11	12
Finance & insurance	6	12
Property	11	1
Professional, scientific & technical	25	11
Business administration and support service	31	20
Public administration and defence	42	5
Education	74	0
Health	121	9
Arts, entertainment, recreation and other s	24	4
All Industries	594	184

Source: IDBR https://www.nisra.gov.uk/publications/current-publication-and-idbr-tables-1

Despite the advantage of a much lower rate of corporation tax, there is little evidence that the manufacturing sector in the Republic grows faster than in NI with its grant regime and lower labour costs. This can be seen in the chart (on page 30) which tracks the total number people employed in manufacturing in each area. Over the last quarter century, employment in manufacturing has fallen by close to 20% in both Northern Ireland and the Republic (and by more in GB). Both parts of Ireland lost jobs during the recession associated with the banking crisis of 2008 and since then both have seen a similar percentage rise in the numbers of jobs. The long-term decline in manufacturing employment, caused by rapid rises in productivity and by offshoring, appears to have ceased throughout the British Isles. Northern Ireland traditionally outperformed the Republic in the growth of locally-owned firms including SMEs and this may still be the case. With lower wage costs than in GB or the Republic and with a continuing range of financial subsidies (including low levels of business rates), Northern Ireland's manufacturing sector has been growing for some time.

Employment in Manufacturing (1998=100)



Sources of data: CSO, NISRA, ONS

We would also be interested in comparative levels of productivity between the two areas but this is almost impossible to assess. The distortions in profits in the South render any reasonable assessment of profits impossible. In NI the opposite situation tends to under-represent profits and hence the value of total output and productivity. This occurs when foreign-owned firms are cost-centres, and profits are assigned elsewhere (including into tax havens).

Industrial composition

Perhaps surprisingly, Northern Ireland has a manufacturing sector which is as large as that in the Republic in relation to its size. Both have 46,000 jobs in manufacturing per million people. It is true that the Republic's manufacturing sector looks much larger than that in Northern Ireland if measured by output. However, as already noted, the value of output in the South's industrial firms is hugely distorted by tax planning by foreign-owned firms. While foreign-owned firms employ 44% of those in the South's manufacturing, they account for 91% of the value added (i.e. of the wages plus profits). As a result, value-added per employee in the South's manufacturing is an implausible six times higher than NI's £66,000.

The Republic has a higher proportion (21%) than NI (15%) in high-tech sectors if we define these as chemicals, pharmaceuticals, computers and electronics. However, if we add aircraft and missile production, where Belfast has over 6,000 jobs in Bombardier and Thales,[30] while the Republic has very few, then NI has a slightly higher high-tech sector in proportion to its size.

30. Thales production includes the NLAW anti-tank missile importantly supplied to Ukraine to fend off the attack by Russia.

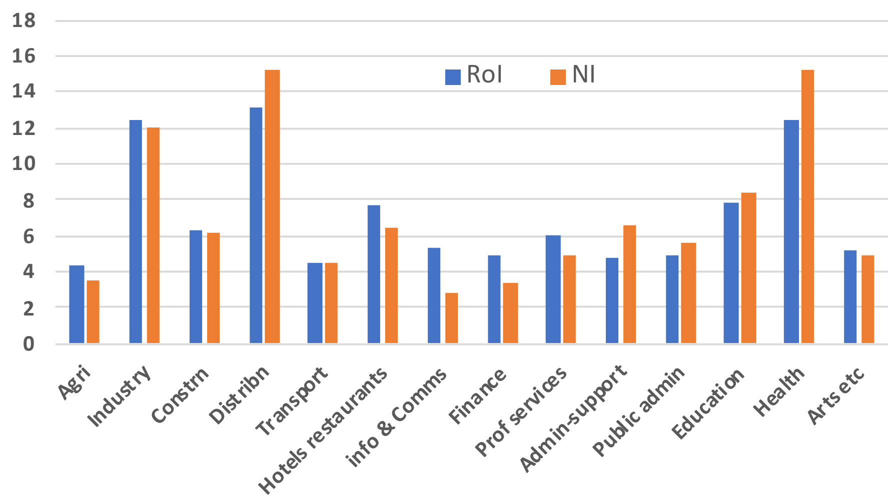
Employment in Manufacturing (% of Mfg total)

	RoI	NI
Food, Drink, Tobacco	24.1	24.5
Textiles and clothing	1.7	3.0
Wood Pdts	4.5	6.9
Paper & Print	4.3	4.1
Chemicals & Pharma	12.6	6.0
Rubber & Plastics	4.3	7.1
Building Mtls	4.3	5.6
Metals & Mtl Goods	8.8	11.0
Computer & electronics	10.4	9.0
Machinary	5.9	7.3
Transport Equipment	1.5	13.2
Other Mfg	17.6	2.3
Total	100.0	100.0

Sources: CSO census of Industrial Production. NISRA Employees jobs + self-employed

Just over half (57%) of all of all jobs in foreign-owned firms in the South are now in modern professional services. Most of these are in computer services, including programming, but almost a fifth are in financial and business services. While Northern Ireland has been successful in attracting legal, insurance and cyber-security firms, with these drawn by a supply of low-cost graduate labour and grants, the numbers are low compared with the South or with southern England. Taking information, communications, finance and professional services together, these sectors account for 16% of all employment in the Republic and 11% in NI.

Employed People (% of Total)



Source: CSO Main LFS Main release table 3a https://www.nisra.gov.uk/publications/quarterly-employment-survey-historical-tables-september-2021

Northern Ireland famously had a large public sector but the gap with GB has been narrowing. Employing 24.5% of all those at work, NI's public sector is only a little larger than that in GB (21.8%) but is almost twice as large proportionately as the South (12%).[31] This is partly a matter of ownership since important parts of the education, health and social services in the Republic are run by charities, including the Catholic church, rather than by the government. If we take the main sectors in which government is heavily involved, i.e. public administration, education and health and social services, these employ 29% of those at work in the North and 25% in the South (and 30% in GB). In Northern Ireland, 80% of those working in these three sectors are in government employment, but in the South it is only half.

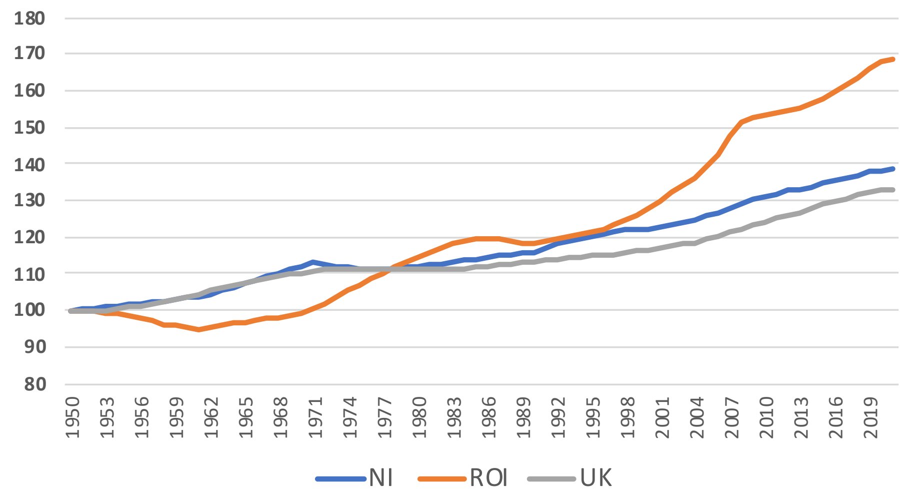
The more successful tourism sector in the Republic can be seen in the larger employment in the hotels and catering sector. Northern Ireland's tourism was devasted by the Troubles and damaged by the decline of domestic seaside holidays in the UK but is steadily recovering aided by grants for hotel construction, the growth of cruise holidays and the enduring salience of attractions like the Giant's Causeway and Titanic Belfast; most recently it has been boosted by the *Game of Thrones* studios and various film locations. Proportionately larger employment in wholesale and retail distribution in NI reflects both cross-border shopping and the tendency for goods imported by the Republic from GB to be routed via distributors in Northern Ireland. This tendency appears to have been accentuated since Brexit and by the new rules brought in by the NI Protocol. Tourism was badly affected by the Covid pandemic in both jurisdictions in 2020 and 2021 but is recovering slowly in 2022.

31. Public service of the Republic of Ireland - Wikipedia

Economic Performance

The consequence of different economic, fiscal, and monetary policies north and south, and to some extent also of cultural and political contrasts, has been differences in the growth of population and the economy. Most obvious is the much faster growth of population in the South than in Northern Ireland. Over the last 70 years, the number of people in the South has increased by 69% to its present 5 million. Northern Ireland's population grew by 40% to just under 2 million, at a rate faster than GB but much slower than the Republic. The disastrous protectionist and inward-looking economic policies of the Republic in the 1950s led to a huge migration outflow, mainly to GB. A recovery in the 1970s coincided with particularly high levels of 'Troubles' violence in the early 1970s which led to a short-lived decline in the population of NI followed by a longer period of slow growth until the early 1990s when levels of violence, although continuing, were more limited. By the end of the Troubles in 1998 population growth had been about the same over the long half century since 1950. It is since 1998 that the Republic's population growth has pulled ahead.

Population (1950=100)

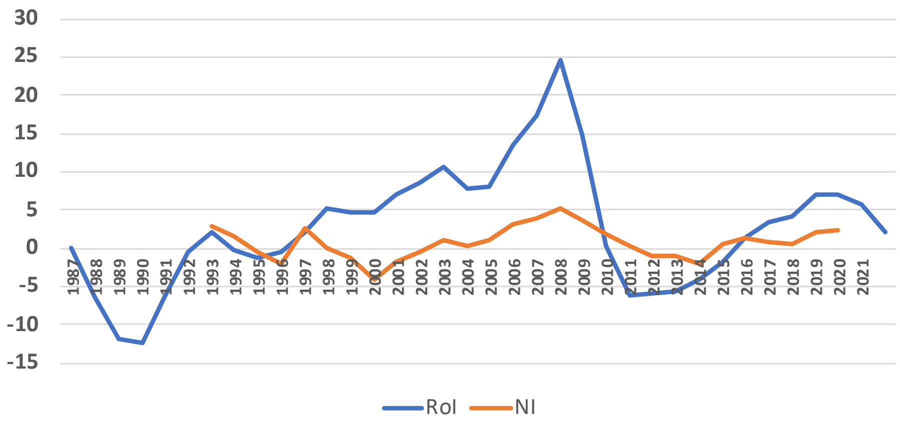


Sources: CSO https://data.cso.ie/ **NISRA Population statistics**

The fall in interest rates associated with Ireland joining the Eurozone led to a huge construction boom and at its peak a quarter of the South's workforce was in construction. After years in which migration flows into the Republic were either negative or zero, a large sustained inflow began and this reached its peak after ten Eastern and Southern European countries joined the EU in 2004. The collapse of the construction boom in 2008 and the associated recession led to several years of migration outflow which had a much larger impact than in Northern Ireland where migration has been more moderate with less obvious booms and busts.

Over the last quarter century, the population of the Republic has expanded on average by 1% per annum and in Northern Ireland at half that rate. Around half of the difference was due to migration and half to natural increase. With a hitherto almost wholly Roman Catholic population, birth rates in the South (albeit, rapidly secularising from the 1990s onwards) were higher than in Northern Ireland where the majority of the population are Protestant or of no religious denomination. The very high birth rates of the 1950s and 1960s have come down over recent decades and there is now much less difference between north and south.

Net Migration per 1000 population

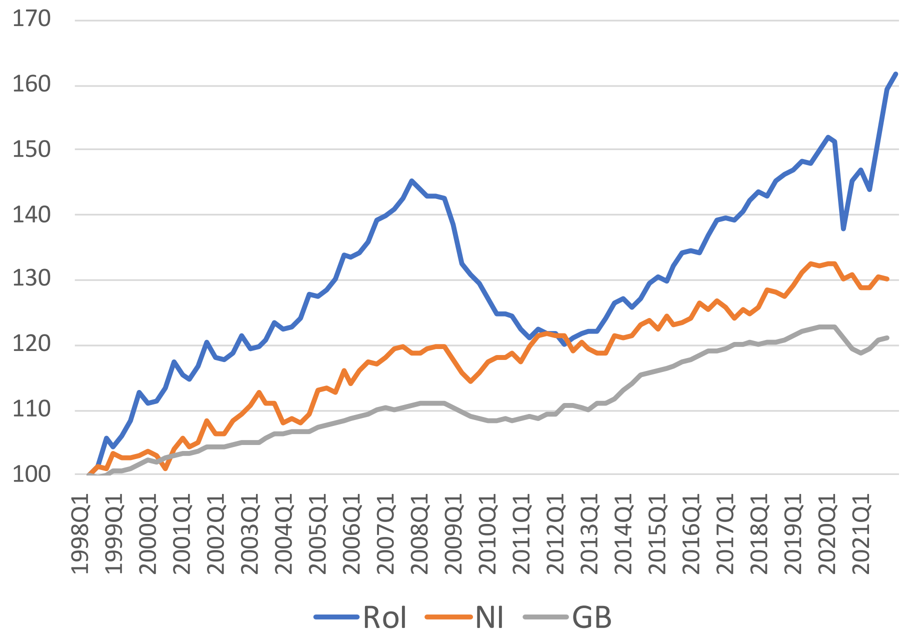


Sources: https://www.cso.ie/en/statistics/population/populationandmigrationestimates/, https://www.nisra.gov.uk/publications/2020-mid-year-population-estimates-northern-ireland/

Employment and unemployment

A faster growth of population provides the potential for more rapid economic growth as long as economic policies are supportive. The boom conditions in the low interest-rate period in the run up to, and membership of, the Euro currency zone stimulated a large jobs boom in which employment rose by 40% between 1998 and 2006, much of it, as already noted, in construction. Half of the new jobs were then lost in the recession which followed the banking collapse. Although the recession was worldwide it was particularly severe in the Republic as the ECB and IMF imposed tough conditions on its loans to restructure Ireland's banks which had become insolvent once the construction boom collapsed. We can note that determined pressure from France and Germany during the bailout to make Ireland give up its low corporation tax rates did not succeed, and it took until 2021 to achieve any real progress on limiting the Republic's role as a tax haven.

Employment (1998=100)

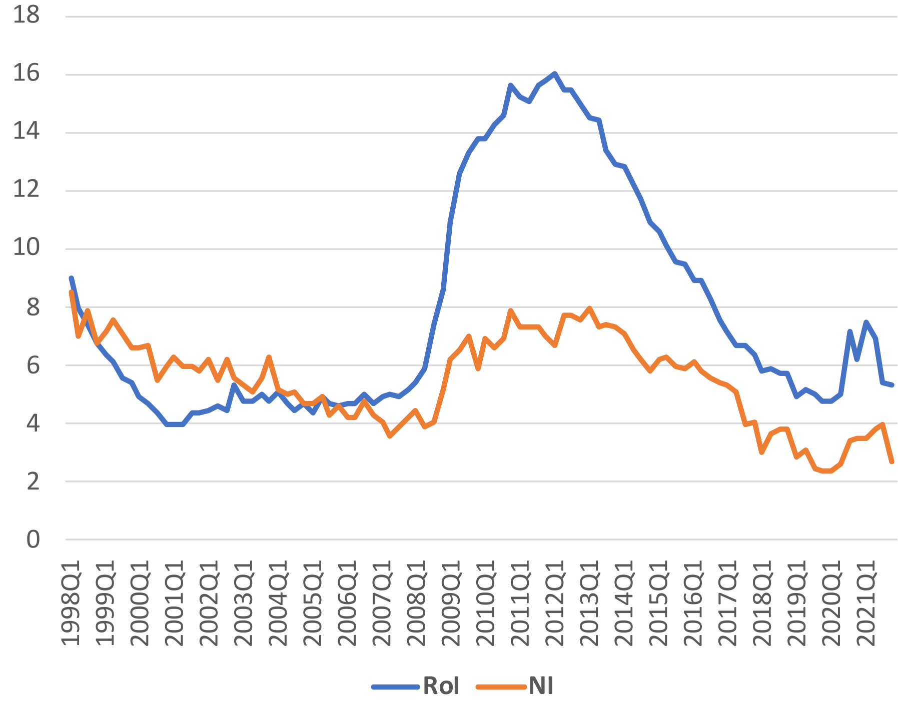


Sources: LFS-Historical-Key-Data-Series-OD21-ODS.ods (live.com) https://www.nisra.gov.uk/publications/quarterly-employment-survey-historical-tables-september-2021 https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/labourmarketstatistics

The labour market in Northern Ireland was much more stable even though it experienced a retrenchment in construction after 2008, albeit to a lesser extent than in the South. Interest rates in the UK had not fallen to the low levels seen in the Eurozone prior to the banking crisis and the reaction of the Bank of England to failing banks was quicker and more effective than from the ECB. The jobs recession in the UK was consequently much shallower and shorter. By the end of 2010, employment levels in NI had returned to those preceding the banking crisis.

Since 2011 growth in jobs in NI has been steady, although less rapid than in the South where the low rate of corporation tax once again stimulated a large flow of foreign direct investment. Both economies experienced a downturn in 2020 as the Covid pandemic led to lockdowns and the closure of workplaces. In the UK, including NI, the successful policy of furloughing led to employees remaining on the books of their employers and hence remaining employed. A different approach in the Republic focused on supporting the incomes of those made redundant and hence the number of those in employment fell sharply but also recovered fast in 2021.

Unemployment Rates (% of labour force)

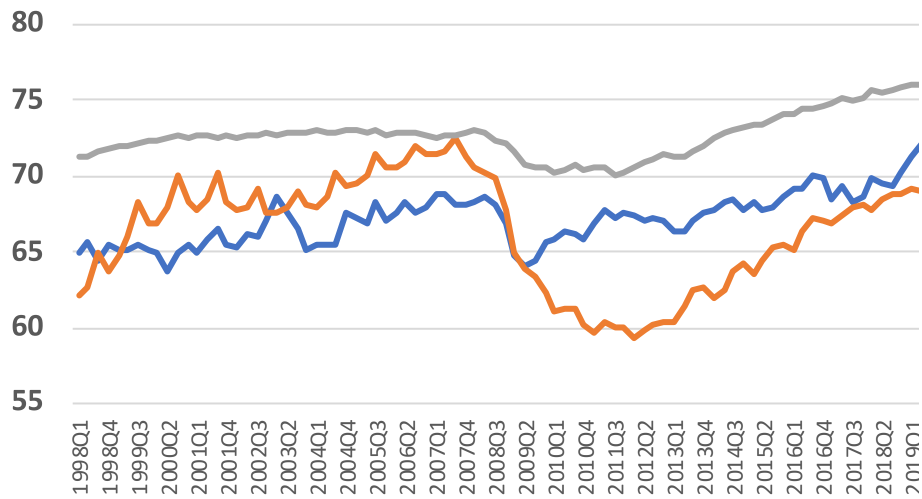


Sources: NISRA ILO Unemployment Rates (15 - 74 years) (Seasonally Adjusted) (%) by Sex CSO: https://www.cso.ie/en/statistics/labourmarket/labourforcesurveylfstimeseries/

The large impact of the banking crisis in the South was most obvious in the dramatic rise in the unemployment rate from 5% to 16% in 2009 and 2010. It was almost a decade before the rate returned to its pre-crisis rate. In Northern Ireland, the banking crisis caused a more muted rise in unemployment from 4% to 8%. By 2019 unemployment had fallen to a little over 2%, well below the Republic and one of the lowest rates among UK regions. After many decades of being the UK's chief unemployment blackspot, this was quite a turnaround. Although the weak regulation of banks was a widespread problem and the cause of the banking crisis, it was worse in the South. Northern banks were badly affected but largely due to their exposure in the South. This exposure has now been reduced with the withdrawal of Ulster Bank from southern markets.

One of the reasons for the low unemployment in NI is the relatively high number of people of working age who are economically inactive. Despite the low rate of unemployment, the chart opposite shows that NI has a low economic activity rate. In fact, it is the lowest of any UK region.

Employment Rate (% of16-64 agegroup)



Sources: CSO https://www.cso.ie/en/statistics/labourmarket/labourforcesurveylfstimeseries/ **NISRA/LFS** https://www.cso.ie/en/statistics/labourmarket/labourforcesurveylfstimeseries/

Many of the inactive subsist on sickness payments. The relevant social security schemes have gone under a range of names, Invalidity Benefit, Incapacity Benefits and currently Employment Support Allowance (ESA), but all have been attractive to those who are unable to work, or prefer not to. The take-up of such benefits has been high across the UK in areas such as former coalfields where a legacy of ill-health was combined with a shortage of jobs. Take-up has always been high in Northern Ireland[32] despite little evidence of unusually severe health problems especially in west Belfast and other strong republican areas where respect for the British state is low. There is evidence that schemes have been less rigorously policed in Northern Ireland than in GB. One of the weaknesses of the funding system for social security across the UK is that there is a reduced incentive for local officials to limit the take-up of sickness benefits. Additional funding for sickness benefits supports demand in local economies like Northern Ireland where there is only very limited responsibility for tax raising to fund local public spending.

In the Republic, employment rates were above those in NI prior to the banking crisis and by 2008 were close to the UK average. The recession of 2009/10 led to a fall in employment rates as unemployment rose, and by 2010 only six out of every ten people of working age were in employment. It has taken a decade for the labour market to fully recover, but as the pandemic ends the employment rate has returned to its former peak and is now once again (a little) higher than in Northern Ireland. It is not easy to compare numbers on sickness benefits. CSO data suggests that 51,000 people in the Republic received invalidity benefits in 2010[33] and also that 0.9% of employees (18,000 people) were classified as long-term sick in the Republic in 2016.[34] For Northern Ireland the Labour Force

32. https://www.google.com/search?q=nisra+longterm+sickness+benefits
33. Recipients of Illness,Disability,Caring payments - CSO - Central Statistics Office
34. https://www.cso.ie/en/releasesandpublications/er/ibeca/illnessbenefitsemploymentandcommutinganalysis2016-2017/

Survey records 100,000 people as long-term sick and claiming benefits in 2020 (i.e. about one in six of those classified as economically inactive in NI). It appears that long-term sickness is a much larger phenomenon in NI than in the South. If so, this is likely to be a result of the social security system than of actual illness. Some of this may reflect the NI Troubles of 1969-1998, but most of the 47,000 people recorded as injured in the Troubles would have been too old to appear in the sickness benefits (ESA) by 2020 since the benefit group applies very largely to the under-65s.

Output and productivity

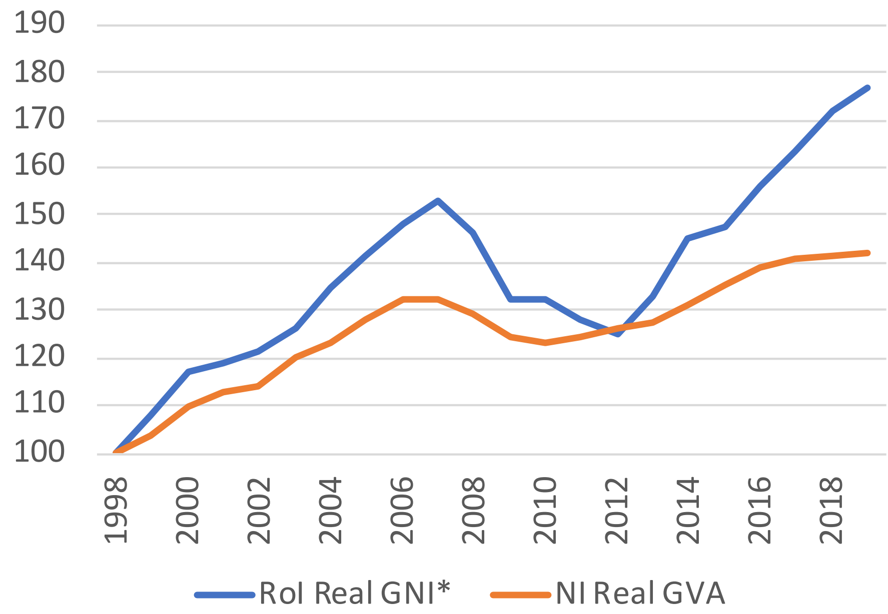
Claims that Ireland is the richest or fastest growing economy in the western world are a commonplace. EU league tables frequently appear with Ireland in second place only to its fellow tax-haven Luxembourg. These claims are completely erroneous. As we will show, Irish living standards are well below the OECD and UK averages and are not even above the level of Northern Ireland which is one of the UK's poorest regions. Journalists and economic commentators are misled by one of the Republic's most notable features – the distorted nature of its national accounts' headline measures of output and productivity. The highly exaggerated measures of GDP stem from profit-shifting by multi-national firms and ultimately from the low rate of corporation tax. There is no equivalent for Northern Ireland, which as part of the UK has national accounts largely undistorted by profit-shifting.

The traditional way of adjusting GDP to record who owns the income rather than where it is produced is to remove from GDP what are called 'net factor incomes from abroad'. This involves subtracting the profits of foreign corporations and wages of foreign workers earned in Ireland and adding in the profits and wages of Irish companies and workers earned abroad. If EU subsidies and taxes are also subtracted, the result is Gross National Income (GNI) which measures the incomes accruing to Irish companies and workers wherever these are earned. In 2018 the CSO in Ireland calculated that 'net factor incomes' to be subtracted from headline GDP amounted to a huge €70.6bn, or just under €15,000 per head of population. By 2019 this figure had risen to €17,000 per head. As a result, Irish GNI was 23% smaller than GDP whereas in most advanced economies the two would be similar in magnitude. For OECD countries, the GDP and GNI differ by less than 2%.

Even this adjustment greatly exaggerated the true size of the Irish economy and the CSO was led to make a further adjustment unknown anywhere else in the world. Following a massively distortionary and wholly implausible 35% increase in Irish GDP in 2015, the CSO introduced a measure termed 'modified GNI' or GNI* ('Gross National Income star'). This measure subtracted the profits of 'redomiciled companies', i.e. firms which moved their headquarters to Ireland without any real activity in Ireland. This removed a further €5bn from the national accounts. A much larger reduction of €54bn (€11,000 per head) was made to remove the depreciation on foreign-owned intellectual property and aircraft leasing. Multinational companies had registered much of the value of their brands and intellectual property in Ireland for tax reasons, reflecting Ireland's very low corporation tax rate of 12.5% and its lenient taxation of intellectual property. These registered assets are capital and do not count as GDP or GNI, but international rules determine that the depreciation of these assets does count. It was, for instance, the decision of the global aircraft leasing industry to register its assets in Ireland that led to the huge increase in GDP in 2015. There is no equivalent of GNI* in the UK (or in most other countries) since there is no need for such an adjustment except in tax havens.

To get some sense of actual output and productivity we use 'modified gross national income' (GNI*) As argued below, even GNI* is not a good measure of living standards but it will suffice here as the best available measure of economic activity in the South.

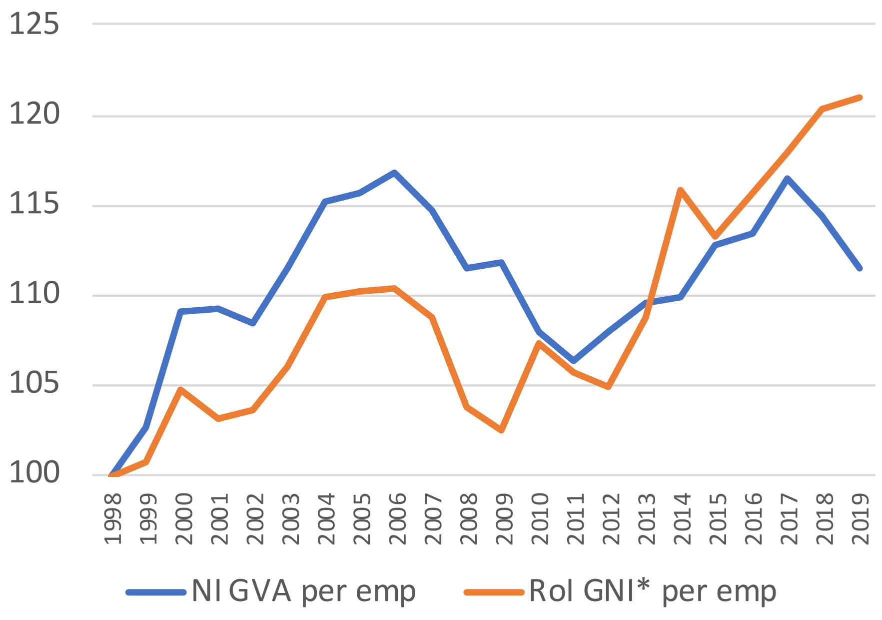
Real national Income 1998-2019



Sources: CSO Modified GNI; NI is GVA https://www.ons.gov.uk/economy/grossvalueaddedgva/datasets/nominalandrealregionalgrossvalueaddedbalancedbyindustry

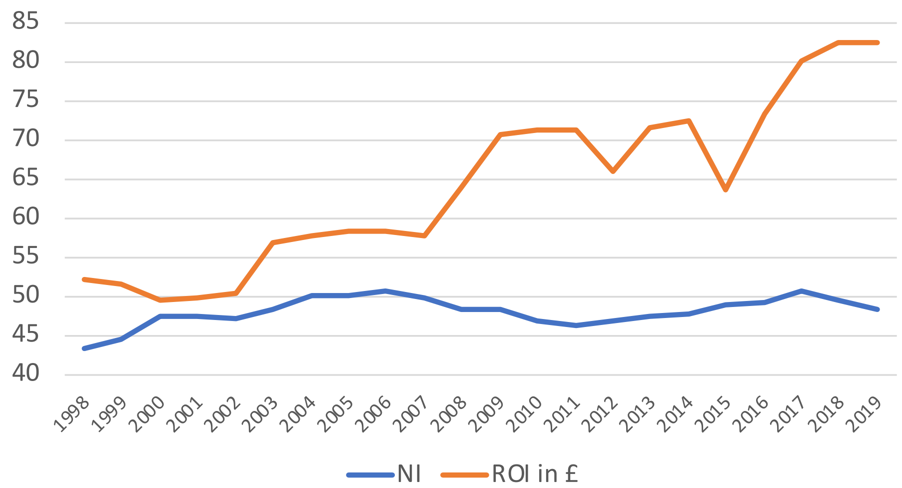
The Republic has, generally, faster growing output than Northern Ireland but it is also more volatile. If we take the period from the end of the Troubles in NI, then the South's economy grew faster until the eve of the banking crisis in 2007 but then contracted by 18% over the next five years. By 2012 the growth in the South since 1998 was equal to NI where the banking crisis caused a much smaller contraction. Since 2012 output in the South has once again grown much faster than in NI. The expansion in output is largely matched by employment in each area, with the result that productivity growth (as measured by GNI* in the South and GVA in the North) is similar in each case.

Output per employed person (1998=100)



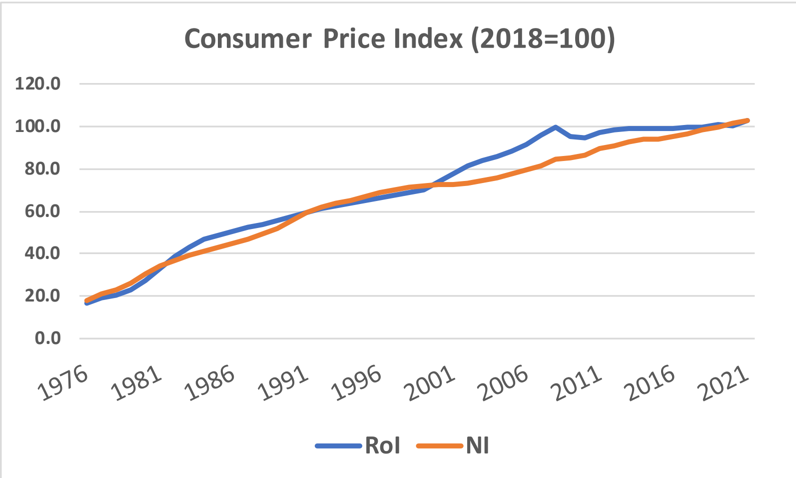
Sources: Sources: CSO Modified GNI; https://www.ons.gov.uk/economy/grossvalueaddedgva/datasets/nominalandrealregionalgrossvalueaddedbalancedbyindustry; **CSO** https://data.cso.ie/; Quarterly Employment Survey Historical Tables September 2021 | Northern Ireland Statistics and Research Agency (nisra.gov.uk)

Sterling value of output per employed person £000 pa 2019 prices



Sources: CSO Modified GNI; https://www.ons.gov.uk/economy/grossvalueaddedgva/datasets/nominalandrealregionalgrossvalueaddedbalancedbyindustry; **CSO** https://data.cso.ie/; Quarterly Employment Survey Historical Tables September 2021 | Northern Ireland Statistics and Research Agency (nisra.gov.uk) **Note: ROI GNI* per employed person converted to sterling with average sterling: euro exchange rate in each year**

Since output per employee was similar, measured in Sterling, at the beginning of the current century, the similarity in growth rates would suggest that the value of output per employee would have kept in step, but this is not the case. Measured in Sterling, with euro-denominated output converted at current exchange rates, output per employee in the South was over 60% larger than in NI by 2019. While real growth measured in home-country currency differed little, the value of Southern output measured in Sterling was boosted by the 25% depreciation of Sterling in 2008/9 associated with the banking crisis.[35] A currency depreciation usually reduces the price of exports of goods and services with the opposite effect on imports. This raises the volume of exports and improves the trade balance but has an indeterminate impact on living standards.



Sources: CSO and ONS

The effect of the exchange rate movements was to make imports from the Republic more expensive in Northern Ireland while the Republic's imports from NI became cheaper. It is possible that changes in prices in each country offset some of this impact but there is little evidence of this. Prices in the Republic rose faster than in the UK or NI in the decade preceding the banking crisis, but have stagnated since then.

35. A second substantial depreciation occurred in 2016 after the Brexit referendum in 2016 but this merely unwound an appreciation which had occurred in the preceding two years.

Why is Cross-border Trade so Low?

Given their close proximity, cultural affinities including a common language and the general lack of any tariff or non-tariff barriers, the amount of trade between NI and the Republic of Ireland is small. Only 5-6% of all sales of good and services produced in NI are exported to the South. Moreover, a third of even these sales comes from the wholesale and retail sectors in NI. Much of this is fuel and vehicles, including second-hand vehicles, not produced in NI.[36] This means that under 4% of goods and services actually produced in NI go to the South. In sharp contrast, close to 85% of sales are to customers in the UK, mostly within NI itself. These proportions may have increased a little due to trade diversion following the introduction of the NI Protocol in January 2021, although the data are not consistent on this. This scale of trade might be contrasted with Scottish exports to the rest of the UK. The Scottish input-output tables of 2018 show that 13% of Scottish output (and 14% of goods) is exported to the rest of the UK. This much larger level of trade reflects the much larger size of the rest of UK market compared with the small market of the Republic of Ireland. The table below shows that Northern Ireland's exports into the rest of the UK were proportionately similar to those of Scotland.

Sales from NI Firms by destination (% of total sales)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
NI Sales	66.7	66.3	65.9	65.8	65.5	64.8	66.8	67.7	68.3	68.4
GB Sales	18.5	18.7	18.7	19.7	20.5	20.9	17.6	15.4	15.2	16.3
ROW Exports	6.1	6.4	6.3	6.0	5.9	6.0	6.7	7.1	6.7	6.0
IE Exports	**5.4**	**5.5**	**5.8**	**5.3**	**5.0**	**4.9**	**5.8**	**6.0**	**6.4**	**6.1**
REU Exports	3.3	3.1	3.4	3.2	3.2	3.3	3.1	3.9	3.4	3.3
Total Sales	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

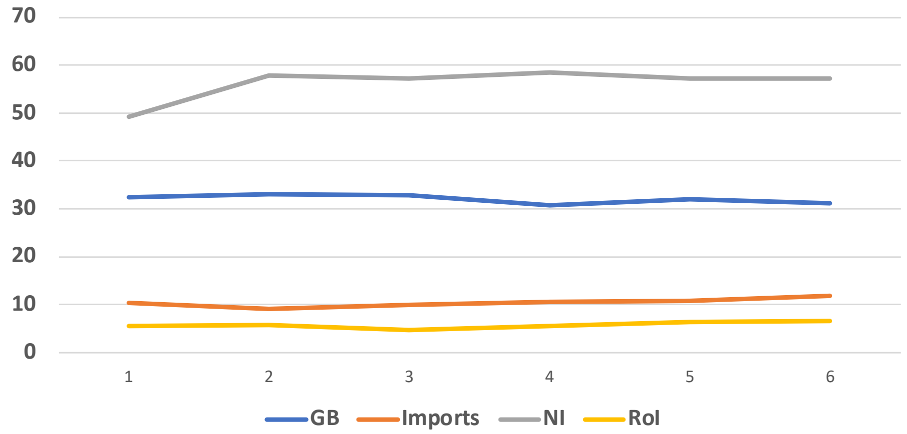
Source NISRA BESES NB excludes farming, banking and insurance.

Similarly, firms and individuals in NI bought only around 6% of their purchases from the Republic until 2021. The great majority (88%) of purchases were from within the UK, including a third from GB. This is the context for discontent about the NI Protocol. The Protocol allows NI's

36. Response by NISRA to a question submitted via DEXEU committee on the NI Protocol.

trade with the Republic and EU to continue without tariff or customs impediments, and allows 'unfettered' exports from NI to GB. However, imports from GB to NI are now subject to customs procedures and Sanitary and Phyto Sanitary (SPS) checks on food products. Some claim that this gives NI producers the best of both worlds with unfettered exports to both the EU and to GB. However, the export trade with the EU is relatively small. The much larger volumes of imports from GB have new customs barriers and, in some cases, also tariffs. Northern Ireland's firms and consumers thus face higher costs on their imports which have to be reflected in the price of exports which then become less competitive.

Purchases of Goods & Services by Source (% of purchases)



Source: NISRA BESES

Is the Protocol creating an all-island economy?

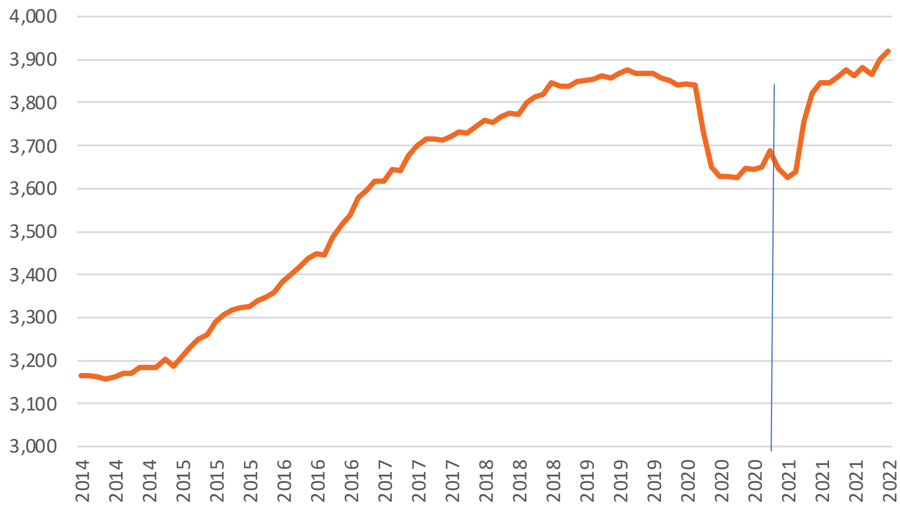
The Protocol has resulted in an apparently remarkable increase in goods trade across the Irish land border as recorded by Irish (but not UK) sources and this has been welcomed by Irish politicians as progress towards an all-island economy.[37] The Irish CSO records a 65% rise in exports from NI to the Republic in 2021 and a 54% increase in imports from the Republic.[38] However, it is unclear what this means. Equivalent data from HMRC shows no rise in the value of exports from NI to the Republic in 2021. Indeed, the value of NI exports to the Republic in 2021 were lower than in any year since 2017 using HMRC data. In addition, the CSO data shows that it is largely the value of cross-border trade which has risen. Volumes have increased by much less;[39] NISRA data on HGV traffic across the border suggests no increase in 2021 relative to earlier years other than a recovery from the Covid dip of 2020.[40]

The two sets of trade figures are generated on a different basis. The CSO figures record trade on an origin and destination basis while HMRC's figures record the place of dispatch. The CSO continue to use VAT returns to record trade with NI as was the case prior to the Protocol. The CSO have stated that some Irish imports from NI were wrongly recorded before

37. https://www.newsletter.co.uk/news/politics/varadkar-Protocol-has-boosted-all-island-economy-and-that-shows-it-is-working-3502009
38. Goods Exports and Imports December 2021 - CSO - Central Statistics Office
39. The CSO record an increase in the volume of NI exports to the Republic in 2021 of 24% over the level of 2018. The equivalent increase in imports to NI from the Republic is 34%. Increases in volumes of this magnitude are not consistent with the NISRA HGV traffic data which shows little increase.
40. https://www.nisra.gov.uk/publications/traffic-counts-vehicles-fifteen-main-northern-ireland-ireland-border-crossing-locations

2021 as coming from GB and the data has been revised back to 2016 but not earlier.[41] HMRC data is collected from UK firms often operating from multiple sites within the UK, and involves some allocation of trade to individual regions. The CSO figures are thus generally viewed as more accurate but this may not be the case.

HGV Traffic (000s rolling 12-month total) at 15 NI-IE border crossings



Source: NISRA: ://www.nisra.gov.uk/publications/traffic-counts-vehicles-fifteen-main-northern-ireland-ireland-border-crossing-locations

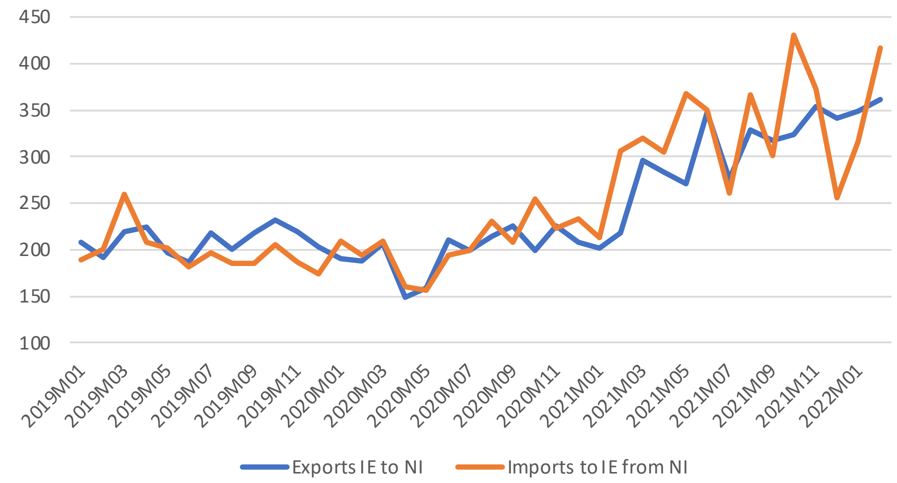
HMRC recorded almost twice the value of NI exports to the Republic in 2018 as the CSO. It thus looks as though the under-recording of NI exports to the Republic by the CSO may have been large up to 2018, and it is possible that the CSO revisions are not large enough. If so, any comparison of CSO data on NI exports to the South in 2021 with those in 2018 will show an exaggerated growth. The large representation of chemicals, including pharmaceuticals, in the additional trade strongly suggests a diversion of trade[42]. Far from indicating strong growth of cross-border trade in 2021 the HMRC figures for this period show a decline of 5%.

Another reason for questioning the accuracy of the sudden rise in cross-border trade shown in the chart above is the fact that lorry traffic across the land border shows little increase in 2021 over 2018 or 2019. It is possible that the cross-border trade figures have also been distorted by a diversion of trade occurring as a result of Brexit; some hauliers have attested to the diversion of consignments from GB via NI ports instead of going directly from GB to Ireland and if the HGV traffic is a little raised on previous years; this might suggest that the volume of locally generated exports to Ireland are down, not up. A large part of the increase in the value cross-border trade in 2021 is pharmaceuticals and may be a temporary Covid phenomenon.

41. https://www.cso.ie/en/releasesandpublications/in/gei/informationnoteonrevisiontotradewithnorthernireland

42. 33% of the annual increase in NI exports to the RoI recorded by CSO in 2021 was in chemicals (mainly pharmaceuticals). CSO records an increase in goods exports from NI in 2021 over 2020 as €1556m. Of this, €519.7m were in chemicals (and €179m in pharmaceuticals). This increase in chemicals exports was equivalent to 88% of the 2020 GVA in chemicals in NI as recorded by ONS regional GVA statistics. Assuming a 2.5:1 ratio between gross output and GVA for UK chemicals (based on the ONS Input-output table) this would imply that the increase in NI chemicals exports to the RoI in 2021 was equivalent to 31% of gross output in 2020. This would indicate either a very large increase in gross output or alternatively a large diversion of trade towards the RoI. The fact that the pharmaceuticals trade with the Republic has only emerged since Brexit reinforces the idea that trade diversion is occurring. We have no data on other trade from NI and hence cannot check that any diversion has occurred, or if it has occurred where it was diverted from. NISRA's Index of production shows output of chemical products rising by 61% between 2019Q4 and 2020Q4 but then falling back in 2021 to remain 27% above the 2019Q4 level (Northern Ireland Quarterly Index of Production (nisra.gov.uk)). A further 11% of the increase from 2020 to 2021 was in fuels (petrol and electricity) and 19% in food products (of which 6% was dairy products)

Trade in Goods (Euro M)



Source of Data: CSO Ireland

Until the recent post-Brexit diversion of trade, only 1% of the Republic's output of goods and services went north. Even now it is only a little over 2%. This is partly because of the huge tax-related distortions in Irish national accounts which lead to Ireland reporting its aggregate exports worth an implausible 120% of GDP. In more normal economies like the UK, exports comprise around 35% of GDP. As a small region we can expect exports from NI to be larger than from the UK as a whole, which is more self-sufficient. This is indeed the case and external sales from NI (i.e. exports plus sales to GB) accounted for 41.5% of GDP in 2019.[43]

The main structural factors limiting again large volumes of cross-border trade are that both economies produce similar things especially in agriculture and there is less need to trade. In addition, both markets are tiny by European or global standards and large firms in both jurisdictions need to look outward across the world not across the Irish border. Few if any anti-tank weapons made by Thales are sold in the South and Northern Ireland represents a miniscule market for the niche drugs that are increasingly a speciality for pharma companies in the Republic. Even so, on a per capita basis, Northern Ireland producers buy and sell more to the Republic than to GB. Proximity thus makes a difference but the small size of the Irish market means that the volume of trade is not large.

Our conclusion is that the volume of trade across the Irish land border is low, for obvious structural reasons. The increase in such trade in 2021 is uncertain, and in any case leaves the volume of cross-border trade at a low level. Inter-regional trade within a national economy would be much larger. The volume of trade gives little indication of an all-island economy.

43. NISRA's BESES survey records external sales in 2019 at £22.3 billion. ONS records GVA in NI in 2019 as £48.3 billion. This has been increased by 12% (using the UK ratio of GDP to GVA) to obtain an estimate of GDP in NI of £54.3 billion.

Living Standards North and South

One result of the unusual economic model in the Republic of Ireland, based on low corporate taxation, is that the hugely distorted macroeconomic statistics in the South disguise the true level of living standards. Many commentators are misled by the distorted Irish national accounts into believing that Ireland is a much richer economy than it really is. Much of the income included in these figures are paper profits of multinational companies registered in Ireland for tax reasons but conferring limited benefits on the local economy.

The view presented here is that living standards, properly measured, include spending by households on their own consumption plus 'individual' spending by government on services consumed directly by households (e.g. education, health and social services, transport etc.). This measure referred to as Actual Individual Consumption (AIC) or sometimes 'total consumption' is widely used and is calculated by Eurostat.[44] Since it is easier to compare living standards at national level, we firstly compare the Republic of Ireland with the UK at national level, and then compare Northern Ireland with the UK average. Putting the two together gives us a comparison of NI and the Republic.

Ireland compared with the UK

Starting with a comparison of Ireland with the UK, the table below shows how different measures of output in the Republic give sharply different views on living standards in the two countries. Each measure is converted at both current exchange rates and purchasing power parity (PPP). The figures are for the latest year in which the data was unaffected by Covid.

If data on GDP per capita is compared at current exchange rates, then Irish living standards appear close to double those of the UK which is completely implausible[45]. The comparison looks a little better when expressed in terms of purchasing power parity, allowing for the high prices in the Republic. If repatriated profits are removed, as in Gross National Income (GNI), the gap between the UK and Ireland shrinks further but is still much too large to be plausible. The removal of other distortions[46] in 'Modified GNI' (GNI*) brings Irish living standards down close to parity with the UK when expressed in purchasing power parity.

44. cd3fcb0f-faee-d0ce-0916-9be3ac231210 (europa.eu)

45. Frequently used international comparisons such as spending on education or health expressed as a percentage of GDP are similarly distorted. In such comparisons Ireland appears as an outlier.

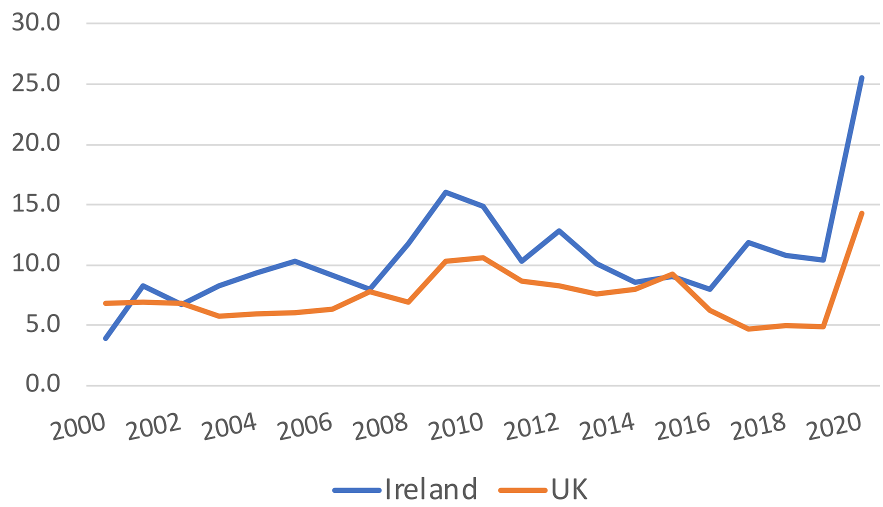
46. The modifications are the removal of depreciation on aircraft leasing and intellectual property, much of which is registered in Ireland by global companies. Also removed are the wages and profits of redomiciled companies in Ireland (which have little physical presence in Ireland).

Ratio of Ireland to UK in 2019

	Exchange Rate	PPP
GDP per capita	1.88	1.67
GNI per capita	1.47	1.30
Modified GNI per capita	1.14	1.01
Household Exp per capita	0.91	0.81
AIC per capita	0.89	0.84
Household disp inc per capita	0.92	0.81

Sources of data: CSO (Ireland), ONS National Accounts, OECD (PPP measure) AIC at PPP is from Eurostat https://www.cso.ie/en/statistics/nationalaccounts/nationalincomeandexpenditureannualresults/

Household Saving Ratio % of disposable Income



Source: CSO, ONS

Even GNI* does not directly measure the incomes and expenditure of households since it includes some company profits. GNI* is also very different from household disposable income; indeed, it is almost twice as large. Since our focus is on households and their expenditure, it is the latter that concerns us. Household disposable income in Ireland is well below the UK level, especially when measured at purchasing power parity. Since savings ratios are higher in Ireland than in the UK (or NI), this means that expenditure by households in Ireland must be further below the UK level than are disposable incomes. This is indeed the case, and the table above shows Irish consumer's expenditure per head at only 81% of the UK level at purchasing power parity. When government spending on behalf of households is added in, as it is in the AIC measure, then Ireland is 16% behind the UK.

Some Irish academics claim that Actual Individual Consumption 'is not a conventional measure of living standards'.[47] However, it is used by Fitzgerald and Morgenroth (2020) and also by Bergin and McGuiness[48] who say that it is 'a useful indicator of the level of goods and services that individuals enjoy'. Both Eurostat and OECD publish international comparisons on this basis. Former Irish Central Bank Governor, Patrick Honohan states that AIC is 'an alternative aggregate national indicator of household welfare used in international comparisons'. The conclusion to Dr. Honohan's article[49] on Irish living standards is worth repeating in full:

> *Ireland is a prosperous country, but not as prosperous as is often thought because of the inappropriate use of misleading, albeit conventional statistics. There is less consumption per capita than in the United Kingdom, and on this metric we are closer to New Zealand, Israel and Italy, than to the United States, Switzerland or Norway (which is where the GDP comparison would put Ireland). The same conclusion is drawn if GDP is replaced with the Ireland-specific GNI* indicator. Using GDP as a measure can mislead analysis of such matters as debt, carbon-intensity and inequality.*

Most recently, Professor Fitzgerald, writing in the *Irish Times* in January 2022, claimed that Irish living standards were 10% above the EU average and 15% above the UK.[50] This, he said, was due to Ireland 'having opened its economy to the world, joined the EU, and invested in a highly educated population'. There was no mention of low corporation tax. In a subsequent letter[51] to the *Irish Times* this claim was modified to claim that it was incomes per head that were higher in Ireland. While consumption was significantly lower than the UK, he said that this was 'because Ireland chooses to save more of its income for use in future than does the UK'. In a subsequent private communication, Professor Fitzgerald now agrees the figures in the table above for household consumption, individual government consumption and total consumption (equivalent to AIC) are correct[52].

The AMECO database gives a 15% higher value for individual expenditure at Purchasing Power Parity by government in Ireland compared with the UK. While overall per capita spending by government was at similar levels in both the UK and Ireland, more of Irish spending was classified as 'individual' rather than 'collective'. Only the former is included within the AIC measure of living standards, while collective spending (such as defence, spending abroad, debt interest etc.) is excluded. For the UK, 66% of government current spending is classified as 'individual' compared with 79% in Ireland. The main difference is much higher spending on defence in the UK[53].

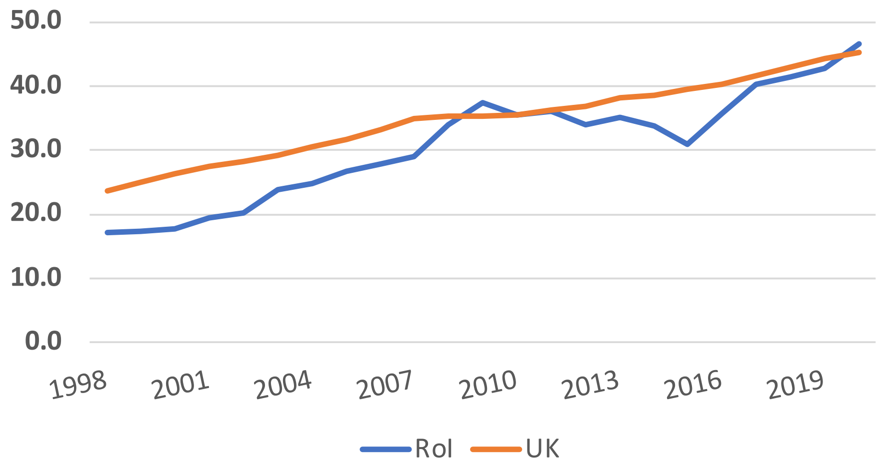
Using the standard definition of individual government services thus places Ireland 19% higher than the UK at current prices and exchange rates. The EU_AMECO adjusts this to 16% above the UK at purchasing power parity, indicating that the cost of providing public services is significantly higher in Ireland than in the UK. All of this tells us that living standards

47. Professor J Doyle Comparing living standards north and south of Ireland (qub.ac.uk)
48. Bergin and McGuinness 2021 Who is Better off? Measuring Cross-border Differences in Living Standards, Opportunities and Quality of Life on the Island of Ireland on JSTOR
49. Is Ireland really the most prosperous country in Europe? (centralbank.ie)
50. This appears to be based on modified GNI (GNI*) rather than on the more direct AIC measure.
51. Measuring standard of living (irishtimes.com)
52. Using EU's ADECO database as the source of data https://dashboard.tech.ec.europa.eu/qs_digit_dashboard_mt/public/sense/app/667e9fba-eea7-4d17-abf0-ef20f6994336/sheet/f38b3b42-402c-44a8-9264-9d422233add2/state/analysis/
53. Whether defence should be included within a definition of living standards is debatable and in any case as a neutral country, Ireland receives free-rider benefits from the defence capabilities of the UK, USA and arguably some EU countries.

measured by the combination of household consumption and individual government expenditure (AIC) are much lower in Ireland than in the UK. Eurostat says 16% lower and the EU_AMECO database says 19%. The reasons for the difference between these two sources are unclear.

While nominal wages in common currency appear similar in Ireland, living standards are reduced by the high price levels for goods and services in Ireland and by higher income taxes. The Eurostat comparative price level index[54] puts Ireland as the most expensive country in the EU with average prices 40% above the EU27 average. In 2019 Irish prices were also 13% above the UK average rising to 17% in 2020. This puts Ireland on a par with Denmark, although Fintan O'Toole judges the quality of many Irish services inferior to those in Denmark.[55] Irish living standards are also depressed by fees charged for many public services including over £40 for a visit to a GP, and £300 a year for a primary school pupils expenses, including books. O'Toole cites an average cost of childcare at 28% of a mother's income, a level twice as high as the EU average. The price comparisons above do not include house prices which are around 6% lower in Ireland than in the UK in common currency. However, mortgage costs in Ireland are the highest in the EU at 2.73% in July 2021[56] (compared with an EU average of 1.28%). This is around 40% higher than the UK average mortgage rate.[57]

Compensation of employed persons £000



Sources of data: CSO and ONS national accounts. Includes earnings of employees, employers social contributions and self-employed earnings all divided by total employment of employees and self-employed.

Northern Ireland compared with the UK

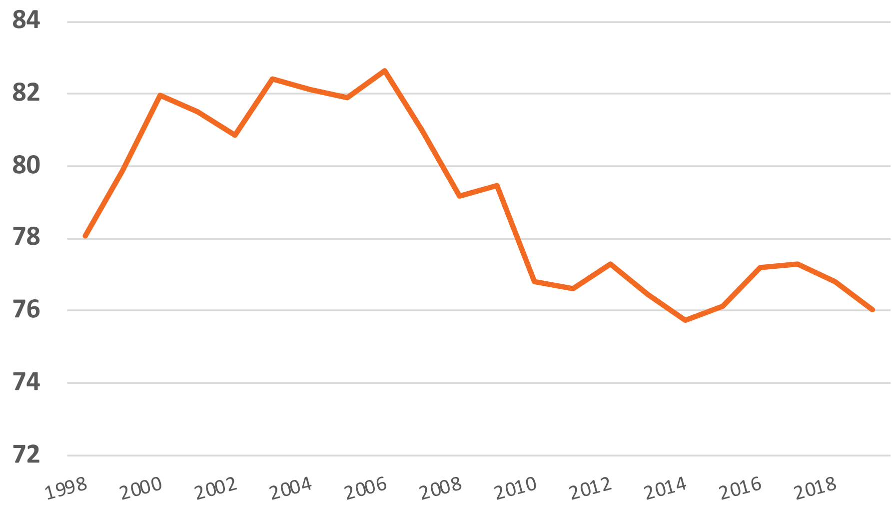
Having established a comparison of living standards between Ireland and the UK at national level, we can now proceed to comparing Ireland (i.e. the Republic of Ireland) with Northern Ireland. This involves first establishing how Northern Ireland compares with the UK's national average. This is

54. Statistics | Eurostat (europa.eu)
55. https://www.irishtimes.com/opinion/fintan-o-toole-the-cost-of-living-in-ireland-is-inflated-by-bad-politics-1.4810043
56. https://www.irishtimes.com/business/financial-services/ireland-returns-to-top-of-euro-zone-league-for-mortgage-rates-1.4668332
57. https://www.statista.com/statistics/814493/mortgage-interest-rate-united-kingdom/

an easier task than the national comparison of the previous section since there is a common currency and a relative uniformity of prices (with the important exception of housing costs).

Northern Ireland is commonly described as one of the UK's poorest regions alongside Wales and the North East of England. This is generally based on figures for the value of what is produced in each region. This data is for Gross Value Added (GVA) which measures the value of what is produced in each region or alternatively the sum of earnings, profits and rents. It is equal to GDP less indirect taxes (mainly VAT), and any regional relativity in GVA is likely to be mirrored by GDP since VAT rates are the same across all parts of the UK.

GVA per head in NI (UK=100)



Source of data: ONS Regional Gross Value-added https://www.ons.gov.uk/economy/grossvalueaddedgva/datasets/nominalregionalgrossvalueaddedbalancedperheadandincomecomponents

In the most recent data (for 2019), GVA per head in Northern Ireland was 76% of the UK average (excluding the continental shelf oil and gas). This is a little higher than Wales or North East England or some sub-regions including Merseyside, but below all other regions. It is lower relative to the UK average than before the banking crisis and before the 1998 Good Friday Agreement. The lack of improvement since 1998 surprises some commentators but shows that the NI economy and indeed the impact of the Troubles (which had much less impact on the NI economy than many would imagine) are generally poorly understood.[58]

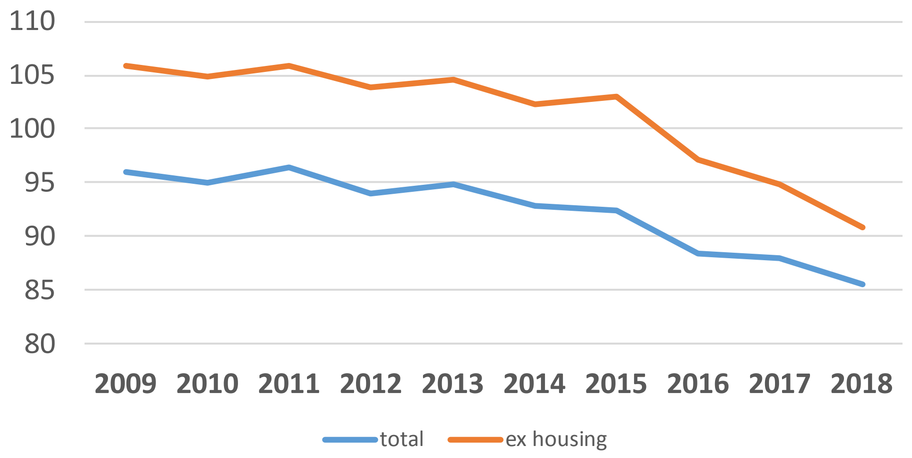
Living standards are, however, not the same as the value of production. To measure living standards in NI we will use the same concept as for the national comparisons, i.e. actual individual consumption, consisting of household expenditure plus 'individual' government spending on behalf of households. In addition to the wages and salaries and self-employment incomes earned from the production of goods and services in NI, household

58. One measure of performance during the Troubles is employment in manufacturing. Northern Ireland did a little worse than the UK average in the 1970s but much better in the 1980s. Manufacturing employment in NI then actually expanded in the 1990s up to the Good Friday Agreement in 1998 while it fell in GB. After the GFA, decline set in again, but more slowly than in GB. Over the whole period of the Troubles, 1969-98, manufacturing employment declined significantly less in NI (34%) than in GB (44%). This can be put down to a lower cost base and government financial support especially for new FDI.

incomes include social benefits and pensions plus unearned income in the form of rent interest and dividends. Disposable income is equal to gross income, less taxes and social contributions and interest payments of debts. Living standards then depend on how much of disposable income is spent on consumption (rather than saved for future spending).

Household consumption in Northern Ireland is estimated to be close to 85% of the UK average.[59] The chart below shows the relative position measured in current prices. The position of NI is a little better than this because prices of consumer goods and services are a little (2.4%) lower than the UK average.[60] The larger difference is in the cost of housing which is around 30% cheaper in NI compared to the UK average.[61] The lower cost of housing in NI does not indicate a lower quality or quantity and hence a better indicator of living standards is consumer spending excluding housing costs. The chart below shows that, until recently, consumer spending excluding housing costs in NI was above the UK average. In other words, households in NI got as much or more housing than the rest of the UK with more money left over to buy other goods and services. However, the latest estimate suggests a value of a little above 90% of the UK average.

Household Spending in NI (% of UK)



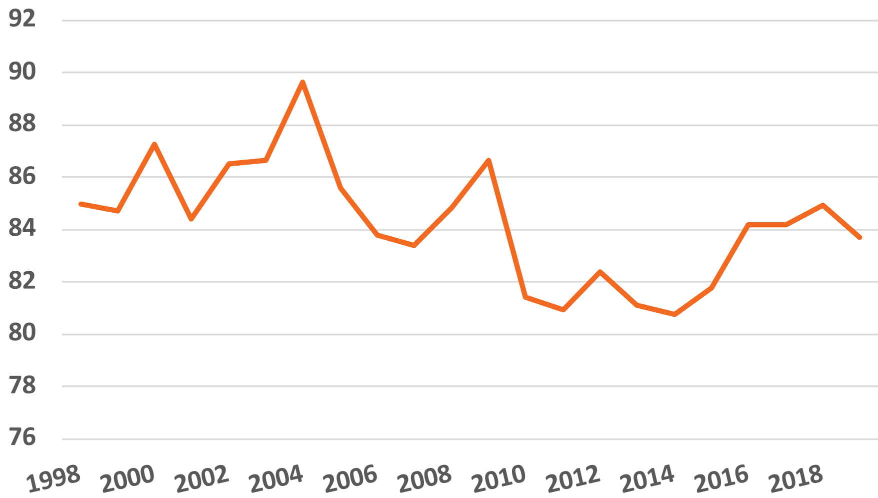
Source of data: ONS Regional Household Final consumption Expenditure (experimental Statistics) 2020.Tab1 https://www.ons.gov.uk/economy/grossvalueaddedgva/datasets/nominalregionalgrossvalueaddedbalancedperheadandincomecomponents

The chart on household consumption also indicates that Northern Ireland's relative spending has deteriorated since 2015. This deterioration does not have an easy explanation. The data underlying the chart is experimental and depends on small annual samples of less than 500 people from ONS's detailed Living Costs and Food Survey. The ONS experimental data show no deterioration in the relative position of NI in household disposable income, which stays close to 82% of the UK average right up to the latest

59. ONS Regional Household Final consumption Expenditure (experimental Statistics) 2020.Tab1
60. The last ONS survey of consumer prices in the regions was for 2016 (**Relative regional consumer price levels of goods and services, UK - Office for National Statistics**) The ONS calculation is that consumer prices in Northern Ireland are 2.3% below the UK average. Housing costs are 30% lower and combining the two (with a 20% weight for housing) gives aggregate prices in Northern Ireland at 8.1% lower than the UK average.
61. https://www.ons.gov.uk/economy/grossvalueaddedgva/datasets/nominalregionalgrossvalueaddedbalancedperheadandincomecomponents

data for 2018. Similarly, wages, the largest component of household income, remains at 84% of the UK average, which is what it was at the start of this century (see chart below). It may be that the data for earlier years is the less accurate since in the later years the sample size is double that of the earlier years. Imprecision in the data is likely to also be the cause of reported negative savings rates for NI in every year except the last (2018), unlike all other regions. The final year's data has a savings ratio of 2.8% which, although half the UK average, is closer to a range of regions outside London and the South East.

Earnings per employee (% of UK average)



The second part of the AIC measure of living standards is government spending on individual (i.e. non-collective) goods and spending. Northern Ireland is the most generously treated UK region in individual government spending and receives 15% more per capita than the UK average.[62] Adding household consumption together with individual government consumption gives a value for NI in 2019 of 91% of the UK average. Allowing for the 2.3% lower prices in NI gives a price-adjusted value of 93% of the UK average. If we exclude housing costs the value rises to 98.5% of the UK average. We can conclude that real living standards in NI are only very slightly below the UK average.

Northern Ireland living standards compared with the Republic of Ireland

Our conclusion is that living standards in Northern Ireland are close to those of the UK even if household spending in NI is not precisely measured. At the same time, we concluded that living standards in the Republic of Ireland are 16-19% below those in the UK. In both cases these are measured as AIC i.e. as a combination of household spending and individual government consumption. Hence, we would conclude that Northern Ireland living standards are also significantly above those in the

62. Public Expenditure Statistical Analyses 2021 - GOV.UK (www.gov.uk) The figure is from table 9.15pf the PESA report and includes total identifiable spending less spending on general administration, public safety and social protection.

Republic.

The largest part of the living standards calculation is household current spending on goods and services. At current prices and exchange rates Northern Ireland's household spending per head is a little above that in the Republic. However, lower prices in the North especially for housing raises the price-adjusted level in the North to somewhere around 13% above the Republic. Unexpectedly, we conclude that real individual government spending is similar North and South. This is based on the AMECO estimate that individual government spending in the South is 15% above the UK level, which is the same as for NI relative to the UK. There are two caveats here. One is that fees are payable for education and health in the Republic unlike Northern Ireland. The second is that we make no estimate for the quality of public services in each area, although some comment is made on this issue in the next section. Taking household spending together with individual government spending (to get Actual Individual Consumption or AIC) we can conclude that living standards in Northern Ireland are close to 10% above those in the Republic.

Public Sectors North and South

Although having common roots a century ago, the provision of public services has diverged substantially since then in health and education, with major UK reforms like the foundation of the NHS only partially reflected in the Republic of Ireland.

Healthcare

Connolly, Brick, O'Neill and O'Callaghan (2022) state that

> *A key distinction between the healthcare systems of Ireland and Northern Ireland is the absence of a universal healthcare system in Ireland. In Northern Ireland, all resident individuals are entitled to a wide range of health and social care services that are almost entirely free at the point of use, including primary care and secondary care, emergency care, rehabilitative and palliative care and prescription items. In Ireland, a majority of the population pay out of pocket for a range of healthcare services, including general practitioner (GP) and other primary care services. In Ireland, there is much greater private provision of healthcare services, and a larger proportion of the population is covered by private health insurance.* [63]

Health outcomes appear similarly poor in both jurisdictions. Connolly et al. conclude that 'the available evidence suggests that one system does not consistently do better than the other. However, for some population health measures, including life expectancy and infant mortality, Ireland has performed better than Northern Ireland in recent years.' [64] Ireland has the third longest waiting times in the OECD for hip and cataract operations and the fourth worst for knee replacements. The UK is nearer to the OECD average but generally below that average and Northern Ireland had substantially longer waiting times than the UK. A BMJ study[65] found that although the UK had pockets of good performance, it had levels of spending on health below the international average, lower numbers of doctors and nurses per head and worse outcomes on cancer. International spending comparisons are, however, skewed by the USA which has high spending but indifferent outcomes. UK per capita spending on health is slightly above the EU average but 26% below Ireland.[66] Since spending per head on health in NI is only 6% above the UK average, this means that health spending in NI is also well below Ireland's.

Connolly et al. (2002) found that:

63. https://www.esri.ie/publications/an-analysis-of-the-primary-care-systems-of-ireland-and-northern-irelandf
64. https://www.esri.ie/publications/an-analysis-of-the-primary-care-systems-of-ireland-and-northern-ireland
65. https://www.bmj.com/content/367/bmj.l6326
66. https://www.oecd-ilibrary.org/docserver/9789264283589-en.pdf?expires=1648298663&id=id&accname=guest&checksum=F6879B280BE8BBDFB65A2E526396023E

- The number of GPs per capita was similar across the jurisdictions; however, no comparable data were available on the number of whole-time equivalent (WTE) GPs.
- there is a lack of comparable data on healthcare expenditure for Ireland and Northern Ireland.
- The available evidence provides somewhat conflicting results about GP utilisation in Ireland and Northern Ireland, with some studies finding higher utilisation in Ireland and others finding higher utilisation in Northern Ireland.
- The proportion of invited participants availing of a range of preventive services (e.g. screening and vaccinations) appears similar across the jurisdictions.
- There are higher levels of unmet healthcare needs due to affordability issues in Ireland relative to Northern Ireland. However, the most common reason for unmet healthcare needs in both Ireland and Northern Ireland relates to long waits to access care.
- Driven by the COVID-19 pandemic and associated curtailment of some healthcare services, both jurisdictions have seen a significant increase in the proportion waiting more than 12 months for both out-patient and day and inpatient services, with this increase particularly evident in Northern Ireland.
- In terms of avoidable hospitalisations, neither system consistently performed better than the other. For example, the hospitalisation rate related to influenza and pneumonia was 30 per cent higher in Northern Ireland, while the hospitalisation rate for chronic obstructive pulmonary disease (COPD) was found to be 18 per cent higher in Ireland. The finding of a higher avoidable hospitalisation rate for influenza and pneumonia in Northern Ireland is somewhat surprising given the higher uptake of flu vaccination among older people in Northern Ireland.

A number of studies have shown that health outcomes are worse in NI than in the Republic for a range of chronic and activity-limiting conditions.[67] The reasons for this are unclear, since risk conditions including smoking, unhealthy diets and obesity are if anything more prevalent in the Republic. There is a possibility that diagnoses differ between North and South but what is clear is that longevity and infant mortality rates have both pulled ahead of NI and GB over recent decades. Both are suggestive of better healthcare in the Republic. The latter has almost 50% more doctors per head of population than NI but a similar number of hospital beds per capita.[68]

There are large number of unmet needs in both jurisdictions but the reasons for these differ. In Northern Ireland the problem is very largely one of excessive waiting times for acute hospital services including operations. Northern Ireland has a spectacular problem by any standards with almost 60% of these requiring operations in 2021 needing to wait more than

67. https://www.esri.ie/publications/an-analysis-of-the-primary-care-systems-of-ireland-and-northern-ireland
68. OECD Regional Economic database.

a year including long waits for first appointments.[69] In the Republic the figure is one third of the NI rate.[70] This is a problem particular to NI where waits of over a year apply to 95,000 people in every million compared with under 5,000 per million in England. The devolved administration has never been able to address this issue despite higher spending per head than in GB and a younger population. The administration has been too willing to bend to popular preferences to keep open small local hospitals and appears not to have had sufficient authority to increase the efficiency of consultants and other doctors to standards in GB.

However, as Connolly et al. noted, the much longer waiting lists do not mean that unmet medical needs are greater in NI than in the Republic. The problem in the South is not waiting lists but rather the cost of treatment and of medicines in a health system in which patients bear more of the costs than in NI's NHS. Connelly et al. cite data from 2019 showing that in the Republic there were more unmet needs due to cost pressures than to waiting lists and that the proportion of people with unmet needs due to cost pressures was three times higher than in NI (where unmet needs were due to travel times or were in dentistry).[71]

School education

As well as different health provision North and South there are also large differences in the organisation of education. The two big contrasts are firstly in the role of the Catholic church which, in an increasingly secular age, continues to run the majority of schools in the Republic and secondly in the largely non-selective nature of Southern schools. The majority of secondary pupils (57%) attend schools run by religious or voluntary groups, mainly the Catholic church. The state pays all teachers' salaries while other costs are largely state-provided with top-ups from families; also some charge fees and accept only salaries from the state. Most other secondary schools are vocational with 93% state funding; 15% of pupils attend comprehensive schools which are fully state funded. There are 51 fee-paying secondary schools in Ireland with 24,000 pupils[72] charging fees of €7-9,000 for day pupils plus boarding costs. The state pays the majority of the cost of teachers in these schools but at a lower rate than in state schools[73].

Almost all Irish primary schools are run by churches, with close to 90% run by the Catholic church. Most pupils attend their local secondary school and schools cannot discriminate on either religious or ability grounds. Most schools have entrance tests but these are to assess capabilities and are not for entrance purposes. The experience of Catholic-run schools in GB or USA is that they produce good results and are often preferred even by non-Catholics. If this positive assessment may also apply to Irish church-run schools, it would help to account for the relatively good results achieved in Irish education.

The education system in Northern Ireland is very largely run by the Department of Education and state funded with a curriculum based on the national curriculum for England and Wales, but under two systems.

69. https://nhswaitlist.lcp.uk.com/ https://www.health-ni.gov.uk/sites/default/files/publications/health/hs-niwts-waiting-times-summary-q3-21-22.pdf
70. The percentage of patients receiving treatment with 12 weeks in 2021 was also higher in the Republic (33%) than in NI (20%)
71. The NI data in this comparison was for 2014 but the unchanging nature of payments for health in the HNS means that it is likely to also hold for 2019.
72. https://en.wikipedia.org/wiki/List_of_fee-charging_schools_in_Ireland
73. https://www.irishtimes.com/news/education/private-schools-say-fees-would-double-if-state-funding-is-withdrawn-for-sector-1.4806471

Controlled schools are run by the five education boards and governing boards and are attended by 42% of pupils. Many were previously protestant church schools and retain the presence of one protestant clergy on the school board. Although frequently referred to as protestant schools, they are almost completely secular even where the name proclaims an affiliation as in Belfast's prestigious Methodist College. Two-thirds of pupils in controlled schools self-describe as Protestant and 10% are Catholic.

The maintained system of Catholic schools has an advocatory body (the CCMS or Council for Catholic Maintained Schools) to advise the Department on standards, management of school estates and teacher appointments. Most of the cost of running the schools comes from the state. Perhaps ironically given the controversies about discrimination in Northern Ireland, the maintained schools had a special exemption from EU rules allowing them to discriminate in favour of Catholic applicants for teaching posts. A third strand of 'Integrated' multi-faith schools attract a minority of pupils and are set up and run by voluntary organisations and funded by the state, the EU and UK charitable foundations. There are currently 65 integrated schools educating 24,000 pupils. Perhaps ironically these are faith schools rather than secular schools. Their main social impact is to allow Protestant and Catholic pupils to be educated together without either group being a minority. There is little difference in curricula from other schools. Although seen as non-denominational, their attraction to many parents is as an alternative to local schools where these are felt to be under-performing.

The more important distinction in Northern Ireland schools is selection in the secondary system. When the school system in GB converted to a largely comprehensive system in the 1970s (ironically completed under education minister Margaret Thatcher), Northern Ireland retained its grammar schools, both Protestant and Catholic. These are selective schools which until 2009 retained the traditional 11+ entrance exam. When the Sinn Fein education minister attempted to ban such exams in 2009 a group of semi-independent grant-maintained schools introduced their own entrance exams and continued as selective schools. Northern Ireland thus resembles a minority of English counties, including Kent, which have maintained a selective sector, and other parts of GB where former direct grant grammar schools became independent. Unlike England and Scotland, Northern Ireland has little private education, probably because of the existence of a state-supported selective system. The selective system remains popular with parents and may be responsible for NI's good performance in GCSE and A-level compared with other parts of the UK. This regional advantage first emerged as GB converted to a comprehensive system. NI had, for instance, the highest proportion of A-level entrants achieving the highest A or A* grades.[74] Selection, however, is likely to be responsible for relatively poor outcomes at the low end of educational performance compared to other UK regions.

Bergin and McGuinness point out that take-up in education is rather better in the South at all ages including among pre-school children and

74. https://www.nationalworld.com/education/a-level-results-2021-how-exam-grades-compare-across-uk-nations-and-regions-with-most-a-and-a-grades-3340876

adults. Breen et al. (1999) argue that this is a long-standing difference reflecting the early industrialisation of Northern Ireland and hence the wide availability of jobs for those with few or no educational qualifications. In the more rural economy of the South, education was one of the few avenues to a higher standard of living.[75] These authors say little about the post-industrial consequences of this phenomenon. Neither the decline of manufacturing jobs in Northern Ireland nor the industrialisation of the South since the 1960s appears to have made a fundamental difference to attitudes to higher education. Working-class attitudes to education do not appear to have fully adjusted to the change in opportunities for employment and in the South the take-up of education remains higher than in North despite the modern plethora of opportunities.

This is still not really an outcome as, for instance, measured by international PISA scores for 15 year-olds. The 2018 PISA scores show both NI and the RoI above the OECD average for all three subjects (science, mathematics, reading). For science and maths there is no significant difference between NI and the Republic (with the latter slightly ahead).[76] Within the UK the recent improvement in English scores, especially in London, means that NI now lies behind England in all three subjects but is ahead of Scotland and significantly better than Wales.[77] None of the UK's devolved regions have been able to achieve a sustained improvement in PISA scores like that in England, suggesting that devolution is not advantageous for public sector standards. The clearer understanding in the Republic that its economic success depends on its educational performance appears to keep educational standards a little above NI, but not above England except in reading. One striking factor in the NI results is that girls outperform boys in every subject. This occurs across the OECD for reading and science but not for maths and in Ireland is only really evident in reading. Equally striking is that boys in the Republic performed significantly better than boys in NI in all three subjects. For girls, the advantage of the South was only clear in reading. In the questionnaires conducted by PISA among schools in NI there were criticisms of the quality of infrastructure and materials but few about the quality of teachers or behaviour of pupils.

Higher Education

University provision is similar in both parts of the island. The Republic has seven universities in the *THES* world top 800 rankings with an FTE capacity of 114,000 students or 23 per thousand people. Northern Ireland has two universities with an FTE capacity of 36,000 students (19 per thousand people). The Republic has one university in the world top 200, i.e. Trinity College Dublin at 146th. Northern Ireland's two universities are in the top 800 and Queens University Belfast is in the 200-250 range and is in the prestigious Russell Group of British research universities; but Northern Ireland students also have full access to the world-class system of GB which has 11 universities in the world's top 100, 28 in the top 200 and 81 in the top 600. Both systems have a substantial foreign student body. In NI a third of FTE university students are from outside NI although only 3%

75. R. Breen, A. Heath and T. Whelan (1999) 'Educational inequality in Ireland, North and South' in Heath, Breen and Whelan (eds) *Ireland North and South. Perspectives from Social Science*. OUP.

76. https://www.northernireland.gov.uk/news/higher-education-statistics-published#:~:text=Of%20the%2066%2C245%20students%20enrolled,%25%20from%20non%2DEU%20countries.

77. https://www.education-ni.gov.uk/sites/default/files/publications/education/Achievement%20of%2015-year-old%20pupils%20in%20Northern%20Ireland%20PISA%202018%20National%20Report.PDF

now come from the Republic. Fewer students in Ireland are from outside the Republic and few (1,500) are from Northern Ireland.

Higher education take-up is greater in the Republic than in NI. Including part-time students and those studying HE courses in Institutes of Technology in the South or FE colleges in the North, Northern Ireland has 3.6% of its resident population in HE in the UK or Ireland.[78] The equivalent figure for the Republic is 4.4%. This may partly reflect differences in university tuition fees, which are 70% higher in NI (£4,530 p.a. compared with €3,000 [£2,630] in the South). Both are well below the normal £9,250 in GB.

The Republic thus has wider access to HE courses among its citizens while NI citizens have better access to world top-rated universities through being part of the UK. The Republic has focussed on providing a sufficient quantity of graduate or equivalent educated staff, especially for its foreign-owned firms and guided by the IDA. Northern Ireland also does this, but with less demand from foreign-owned firms, and also has better access to world-class specialist courses.

How High is Public Spending in NI?

On the latest HM Treasury figures, Northern Ireland has a level of public expenditure 21% higher than the UK average and 25% higher than England. The NI Executive and Assembly can decide how to allocate this money over functions and departments, albeit heavily constrained by public expectations on comparability of services with GB and by EU regulations and subsidies. The table below shows how the NI spending decisions affect per capita expenditure relative to the UK average in individual PE programmes.

Northern Ireland has higher, often much higher, per capita spending than GB in all programmes except the small science and technology programme and transport. In some cases, higher expenditure is clearly related to need. For instance, NI has 10% more children of school age than GB. As NI's number of children has come down over time so has spending per head relative to the UK. Education costs are also raised in NI by a more fragmented school system than in England, through the employment of older teachers[79] and by a lower level of private schooling. Another case is agriculture where NI has proportionately over three times as many people working in agriculture as in GB (although income from agriculture is proportionately much less than three times higher).

Public Expenditure per Head in NI (UK =100)

78. https://www.northernireland.gov.uk/news/higher-education-statistics-published#:~:text=Of%20the%2066%2C245%20students%20enrolled,%25%20from%20non%2DEU%20countries.
79. https://dera.ioe.ac.uk/38339/1/Revised%2014%20July%202021%20-%20Teacher%20Workforce%20Statistical%20Bulletin%202020%2021%20%28redacted%29.pdf

https://www.thetimes.co.uk/article/britain-s-teachers-are-youngest-in-developed-world-sn9gpk8q5

	1996/7	2012/13	2018/19
General admin		181	190
Public Order and Safety	222	163	144
Economic Affairs		160	109
of which:			
Economic Development	272	236	119
Science R&D		78	52
Agriculture & Forestry	339	325	343
Transport	75	105	74
Environmental Protection	100	86	83
Housing & Community	225	288	225
Health	111	109	106
Culture & Recreation	49	182	251
Education	138	113	112
Social protection	119	116	123
TOTAL	**135**	**124**	**121**

Source: PESA table 9.16

Other cases are more difficult to understand including higher spending per head on health. NI has a relatively young population and hence avoids some of the high costs of medical and social care for the elderly. The proportion of working-age people with a limiting long-term illness is only a little above the UK average[80] and life expectancy is only a little below the UK average. Northern Ireland has more favourable profiles in these respects than several GB regions with similar levels of health spending. It is true that sparse rural populations raise costs. NI is the most rural of UK regions but the difference from Wales and the South West, both regions with proportionately lower spending on health, is not large.[81]

Spending on police, prisons and justice was understandably high during the 'Troubles', but remains high today even though crime levels are relatively low. A degree of inertia may be at work here. Spending on economic development remained double that in GB until 2014, despite a rate of unemployment only 4% higher than in GB and actually lower than most of northern and midland England. Since then, economic development spending has fallen to much nearer the UK average as unemployment fell to below the UK average and EU rules limited the size of grants paid to private-sector firms. There is arguably still a need to bring higher paying jobs into NI, which has the UK's lowest regional wage rate but much of the economic development budget does not directly address wages.

Is Public Spending in NI Higher than in the Republic of Ireland?

It is not straightforward to compare public spending in Ireland with that in NI or GB partly because of classification issues but also because of different exchange rates and pricing. In measuring living standards, it was argued above that a higher proportion of public spending in Ireland than in the UK was on goods and services individually consumed by the public rather than collective goods and services like defence or debt repayment. Irish government spending on individual items was judged to be 15% higher in the Republic than in the UK.

Here we examine total current spending by government, but

80. The Poverty Site www.poverty.org.uk
81. NI has 41% of its population in settlements of less than 10,000 people. The Holtham Report shows Wales and the South West at 35%.

classification issues are still important. Using the Irish CSO category 'net expenditure by central and local government on current goods and services' (CSO national accounts category 80), and comparing with the same in the UK national accounts, gives close to identical spending per head in 2019 at the current exchange rate. Since prices are generally higher in the Republic, the real value of spending was higher in the UK.

However, the Irish national accounts have an additional category (79b) termed 'final consumption expenditure of government' which has no direct equivalent in the UK accounts. This includes a number of items of government spending for private consumption, including university grants and fees, free transport and school transport, medical services supplied by GPs covered by medical cards, rent allowances to landlords and medical insurance relief. Much of this is categorised as public spending in the UK.[82]

If this extra category is included in Irish public spending, then overall government current expenditure per head was 18% higher in Ireland compared with the UK in 2019, at current exchange rates. Allowing for higher prices, the gap in the provision of services would be somewhat smaller. For a comparison with NI, it is individual rather than collective government spending which is relevant (or in the UK terminology of PESA, regionally identifiable spending). In the section above on living standards, Irish individual spending was judged to be 15% higher than the UK at purchasing power parity in 2019. With identifiable spending in NI at 21% of the UK average, we can judge NI to have a higher level of spending[83] although the gap is not large.

How dependent is Northern Ireland on Public Sector support?

Government services constitute a larger element in living standards in Northern Ireland than in any other UK region but are similar to the South although, as noted above, in the South consumers pay fees to access health and education services which are free in the NHS and UK education system. A major difference between the two jurisdictions is how public services are financed. In the South the full cost of public services is borne by local tax payers, and with Ireland now a net contributor to the EU there is no source of external subsidy. This is not the case in Northern Ireland where local tax payers funded only around half of the cost of public services in 2020. This was inflated by spending to combat the impact of Covid and in a more normal year local tax payers fund around two-thirds of the cost. The remainder comes from the UK Treasury under what is known as the Barnett Formula which, since 1978, has governed the allocation of public spending to UK regions.

In the last pre-Covid financial year (2019/20), public spending in NI (current and capital) was £30.1bn and current receipts were £19.8bn.[84] The net fiscal balance (formerly referred to as the subvention) was £10.3bn or £5,400 per person. A couple with two children is thus effectively

82. For instance, that part of student loans not expected to be repaid are now counted as current public spending. https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/articles/newtreatmentofstudentloansinthepublicsectorfinancesandnationalaccounts/previousReleases
83. The NI figure is a little higher than the 15% above UK value included in the measurement of living standards. The difference from the 21% cited here is due mainly to the inclusion of social protection. This was omitted for the measurement of living standards to avoid double counting with consumer spending (which was partly financed by social security benefits).
84. This excludes any contribution to non-identifiable (i.e. non-regionally specific) public spending such as defence, monarchy and foreign representation and grants. https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/datasets/countryandregionalpublicsectorfinancesnetfiscalbalancetables

receiving a subsidy of £21,600 per family in the form of government services not funded by local taxes. This subsidy is the largest of any UK region in proportion to population and is not based on any assessment of current need. It is, for instance, larger than for regions like Wales (£4,500 per person) or the North East (£4,100 per person) which have lower incomes and higher unemployment.

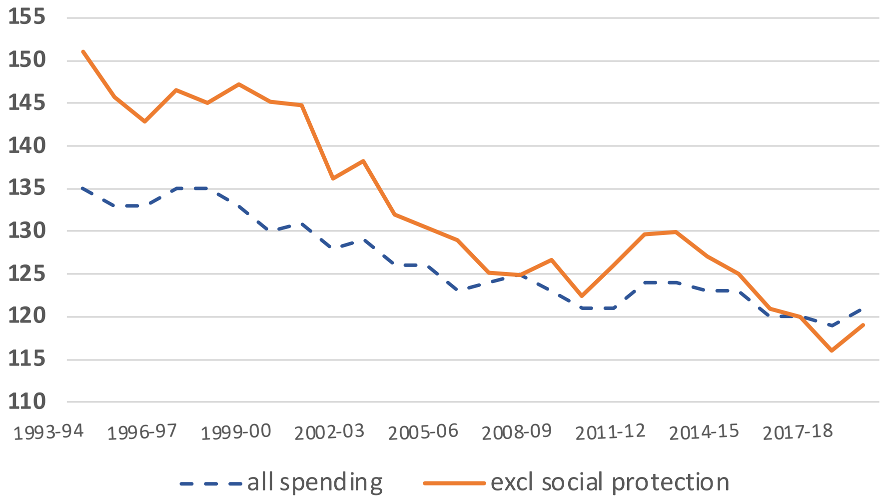
The large subsidy is due to both higher public spending per head in NI and to lower tax revenues per head. NI tax-payers contributed revenues at 84.5% of the UK per capita rate. This reflected lower average incomes and was higher than Wales (79%) or the North East (80%). Spending per head on all public services in 2018/19 was 21% higher than the UK average and was, as already noted, the highest of any region. Most spending decisions are made by the NI Assembly which can choose how to allocate its block grant.

The Barnett Formula

The Barnett Formula is a key financial mechanism in Northern Ireland and there is no equivalent in the South where public financing works in a completely different way with the Dail (Irish parliament) deciding on budgets and spending allocations. This, of course, reflects the obvious and important fact that NI is a (devolved) region in a national economic union while the Republic is an independent state.

The Barnett Formula works by allocating any given addition to English public spending across the devolved regions in proportion to those regions' share of UK population. For instance, if relevant English expenditure rises by £1,000 million and the Northern Ireland population relative to England is 3.4% then NI will get a £34 million increase in its public expenditure. This is transferred as a total 'block' to be spent as decided by the devolved administration and not necessarily reflecting the composition of spending in England. Relevant public spending includes those parts of public expenditure 'identified' as relevant to the regions and hence excluding most of national defence, the costs of monarchy, etc. For Northern Ireland, other costs such as the London Underground and redevelopment aspects of the London Olympics and similar regionally specific costs are also excluded.

Public Expenditure per head in NI (UK=100)



Each of the devolved regions started at the beginning of the Barnett era (in 1979) with a share of UK public spending higher than their share of UK population. Northern Ireland's expenditure per head was for instance almost 50% above the UK average. An annual addition to spending in these regions equal (but not greater than) their share of UK population should inevitably mean that their share of UK spending will fall over time. This effect is known as the 'Barnett squeeze'. Over the last quarter century total identifiable spending per head in NI has declined from 135% of the English level to 121% in the latest data (see chart above). The spending allocated by the Barnett Formula alone (i.e. excluding social protection) initially declined more rapidly, but since 2008 during the period of fiscal austerity the decline has been similar and slower in both cases.

The Barnett squeeze occurs more rapidly when national spending is rising steeply either due to increases in real expenditure or due to inflation. The worst situation for NI is when real spending is stagnant or falling while prices are rising. NI would then be hit twice, once by the real fall which would affect all regions, and secondly by a falling share of national spending due to inflation. In practice the squeeze may be slowed due to special or top up payments such as the special package made by Gordon Brown in 1999 to ease the transition to devolution in Northern Ireland (and granted on the unrealised assumption that Belfast Port would be privatised). Similarly, the extra funding negotiated by the DUP in return for supporting the Theresa May Government in 2017 boosted relative spending in NI. The Treasury agreement on additional spending in NI will have had the same effect, albeit partly offset by extra borrowing by the Northern Ireland government.

The Barnett squeeze also works in reverse. If public spending is falling nationally then NI's share of that spending will tend to rise. This is what happened during the main austerity years and it is why NI's share of UK Barnett 'identifiable' spending per head rose from 22% above the UK average in 2009/10 to 30% above in 2012/13 (see chart above). Since

2015 the Barnett squeeze has operated again despite population in NI growing more slowly than in GB, which in theory would help to keep NI's spending high.[85]

Finally, and importantly, demand-led expenditure (mainly social security benefits and pensions) is not allocated via the Barnett Formula. Instead, finance reflects needs with the same rules and benefit rates applying throughout the UK including Northern Ireland. Social security is administered by the department of the Communities under an NI Assembly minister. This leads to the possibility of a somewhat variant application of the common UK rules, especially in the introduction of fundamentally new systems like Universal Credit.

Social Security Systems North and South

Social security in Ireland has tended to mirror that in the UK but with important gaps and lags. The post-war Beveridge reforms in the UK were partially adopted in Ireland in the 1952 Social Welfare Act although with less complete coverage than in the UK.[86] The Irish welfare system never developed as far as that in the UK and much was left to the Catholic church and voluntary groups.[87] The Thatcher and post-Thatcher reforms introducing conditionality of seeking work and 'the primacy of paid employment' into the UK system after 1985 were not reflected in Ireland until the 2008 banking crisis. Fitzpatrick and O'Sullivan (2021) describe the Thatcher reforms as ideologically driven, and attach pejorative terms, such as 'xenophobic' and 'tribal' to political motives, but the aggregate expenditure data on UK social security benefits (excluding pension) shows rising real spending relative to the number of unemployed until 2005 with the largest fall occurring under the Labour Government in the banking crisis of 2008-10.

In Ireland, the more generous pre-2008 system was viewed politically as no longer sustainable and the changes were part of the financial bailout agreement with the 'Troika' of the ECB, IMF and EU Commission. From 2008, conditions for receipt of benefits in Ireland included undertaking training or participation in work programmes. There was also a greater emphasis on combatting fraud. Substantial cuts in disability, unemployment and other benefits mimicked those of the UK in the 1980s. Most of these cuts have not been reinstated except temporarily due the Covid lockdown period in 2020/21.

Although the devolved government in Northern Ireland had responsibility for social security since its inception in 1921, it famously decided to maintain full parity with UK social security rates as a key part of maintaining the union. Although debate about public spending in Northern Ireland tends to centre on the Barnett Formula, it is important to note that over a third of public spending is not covered by Barnett. Instead, this is 'demand-led' and paid out from Westminster in proportion to need. By far the largest components of demand-led spending are social security benefits and pensions. Together these now amount to over £9bn a year. Social Security spending became controversial over opposition

85. The changes instituted after the Scottish independence referendum have made the Barnett Formula more controversial and placed it under increased scrutiny, with more calls for its replacement. The most obvious replacement would be a system based directly on measured 'needs' for public spending. The examples in previous paragraphs show that it cannot be assumed that a needs assessment exercise would conclude that NI could justify its current level of public expenditure of 25% higher than in England. The Holtham Commission on Public Expenditure in Wales argued in 2010 that after years of the Barnett squeeze the Formula now gives Wales less than would be the case if the formula used for English local authorities were applied instead. The Holtham Commission's report estimated that Welsh spending levels were 14% above those in England. Although Welsh spending levels have not continued to decline relative to England as Holtham anticipated, the level remains below the estimated level of need. A similar exercise to estimate local needs could be undertaken for Northern Ireland, but it is no longer obvious that 'need' in Northern Ireland would be much above the Welsh level at 14% above England.

86. https://www.jstor.org/stable/pdf/10.3318/isia.2021.32b.28.pdf?refreqid=excelsior%3A37f983a0191b036fbceeec9ab3a4ee9a&ab_segments=&origin=

87. https://www.jstor.org/stable/pdf/10.3318/isia.2021.32b.28.pdf?refreqid=excelsior%3A37f983a0191b036fbceeec9ab3a4ee9a&ab_segments=&origin= page 296

within the NI Executive to applying national cuts in benefits, and HM Treasury's threat to reduce the Barnett 'Block' to compensate for higher social security spending in NI.

Social security has always been outside the Barnett Formula and is paid on a demand basis. Although it is administered in NI by the Department of the Communities, the cost of benefits is financed directly from London. However, the austerity reforms and the introduction of Universal Credit in Westminster's Welfare Reform Act of 2012 led Sinn Fein to refuse to accept the cuts. The matter was resolved as part of the 2015 Fresh Start Agreement when the Assembly voted a £585m mitigation package which topped-up benefits for those affected by cuts to disability benefits, the bedroom tax and the introduction of Universal Credit. The introduction of the latter in NI has lagged well behind GB but higher benefits were paid until 2020 despite the suspension of the Assembly from 2017-20. The restoration of devolution with the 'New Decade. New Approach' in 2020 agreement led eventually to the mitigations being extended for a further year.

The current situation is that benefits per head of the total population in NI are almost 50% higher than in GB. This is despite unemployment being lower in NI than in GB. However, benefits are not now closely related to unemployment but are instead largely support low incomes and disability. Northern Ireland has the highest level of payments per capita of any UK region and is a little higher than Wales where unemployment is higher than in NI and incomes are a little lower. The slow roll-out of Universal Credit is evident in the table below and the legacy benefit Income Support is being paid out at twice the GB level. Only Housing benefit is lower than in GB, reflecting lower house prices and rents in NI. State pension payments per head of the population aged over 65 are similar to the GB average as expected. The level of social security payments in NI (excluding state pension) is currently about the same as in 2016 relative to the GB average but is greater than in 2021 (29%), suggesting that the slow roll-out of reforms and the mitigations are leading to a wider gap with GB than can be permanently sustained.

Main Social Security Benefits per capita 2021/22 (relative to GB average)

	NI	Wales
Personal Indepence Payment	2.52	1.81
Attendance Allowance	1.27	1.58
Carers Allowance	2.10	1.44
Universal Credit	0.92	0.97
Income Support	2.18	1.31
Housing Benefits	0.85	0.97
Employment Support Allowance	1.25	1.45
Job Seekers Allowance	na	0.88
DLA	2.37	1.53
Pension credit	1.57	1.19
TOTAL	**1.49**	**1.43**
State pension	1.02	0.96

Sources of data: NI Fiscal Council. The Public Finances in NI Table 5.5 Benefit Expenditure by Country and Region 2018/19

Note: The expenditure is expressed relative to the working-age population except in the case of state benefits

Benefit payments per head of population are similar in Northern Ireland to the Republic of Ireland once exchange rates and prices are taken into account. In 2016 payments per head of population were 13% lower in NI compared with the Republic, but by 2019 were 6% higher. No comparison has been made for 2020 since the changes in support of Covid differed on each side of the border and are difficult to compare and in any case are temporary.

The Sustainability of the Two Economic Systems

The two economic models on the island are now around 60 years old. The low company-tax model of the South evolved from the late 1950s and came into full flower in the 1990s but has recently come under pressure from international organisations wishing to bear down on tax avoidance. In the North, the expansion of the UK welfare state under Labour from the 1960s led to a large 'subvention' with a large proportion of public expenditure being funded from UK rather than local tax revenues. Both economies had much in common while both were members of the EU from 1973-2021. The Northern Protocol has meant that both parts of the island are continuing, at least for the time being, with common EU regulations for goods production and no trade border on the Ireland. The customs borders with GB are, however, now different. For the Republic full customs procedures apply for all trade with GB but not with NI. For Northern Ireland there are little or no customs barriers for west-east trade, but importantly customs declarations and SPS checks apply for goods entering NI from GB.

Northern Ireland's fiscal deficit is large by any standards at 19% of GDP. If non-regionally-identifiable items including national defence and debt interest were added this would rise to 27% of GDP. No independent nation could sustain an annual deficit of this magnitude and the UK deficit prior to 2020 was under 3% of GDP.[88] This deficit attracts attention particularly from Irish nationalists for several reasons. They see it firstly as an indicator of a weak economy and secondly as politically unsustainable; thirdly, they are interested to know whether it is so large as to render Irish unity economically infeasible.

Such critics like to see UK financial support for NI as reflecting the weakness of the NI private sector which is unable to generate enough income to provide a tax base large enough to fund the public sector for NI's population. This is a simplistic way of looking at the situation. NI has a proportionally larger manufacturing sector than the UK average and exports proportionately more than the UK as a whole. Its companies and farms are competitive in national and international markets and are not heavily subsidised with the exception of farming which is heavily subsidised right across Europe and in most other rich countries.

Productivity in NI is similar to that in NE England or Wales and not much below several other English regions outside the South East.[89] The large public sector also provides jobs which have the consequence of

88. Until Covid the so-called Maastricht criteria for fiscal deficits in the EU set a limit of 3% for the annual public sector deficits of member states.

89. It is arguable that the subsidies worth around £20k pa per household actually reduces productivity, for instance by allowing agriculture to continue without farm consolidation.

retaining people who might otherwise have moved to other parts of the UK. As a result, NI's population is larger than can be fully employed by a private sector growing at average UK rates, and hence wage levels tend to be lower than in GB. In part NI is in this situation because historically its high birth rates led to a population growing faster than in the rest of the UK. At the same time, NI's position as part of the UK economic union led to employment growth at rates similar to those in GB. Much lower wages in NI have led to faster growth in jobs but wages were only around 10% lower than GB and both social security and migration provided a floor below which wages would not fall further. Employment did expand faster than GB but not by enough to close the gap with the expanding labour force. The consequence of population growing faster than jobs was a substantial jobs shortfall. Gudgin (1999) showed that between 1971 and 1995 employment in NI grew faster than GB but, even so, there was a shortfall of employment of 166,000 jobs or 46% of 1971 employment.[90] Over half of this shortfall (56%) was resolved by net out migration, largely to GB. Only a quarter of the shortfall was reflected in higher unemployment with the rest resulting in more people inactive and outside the active labour force. The shortfall appeared to do little to depress wages by more than needed to offset the higher costs of peripherality in the UK market. The faster growth of employment instead was due to the lower indebtedness of NI companies (due to higher grant support) in face of the UK recession of 1991/2 when excessively high interest rates drove proportionately more firms out of business in GB than in NI.

The imbalance in the NI economy was largely due to the high birth rates of its Catholic population. The Catholic population of working-age expanded by 61% between the censuses of 1971 and 1991 while the growth rate for other denominations was one third of this (22%). Even though Catholic outmigration was double that of other denominations, almost all of the growth of population of working-age 1971-91 was Catholic.[91] Catholic unemployment meanwhile remained about twice the rate of other denominations. The view of Gudgin and Breen (1996) was that the attachment of Catholics to remaining on the island was greater than for other denominations and hence unemployment would have had to grow to high levels to induce sufficient outmigration to maintain a balanced labour market.[92]

What all this means is that the additional jobs provided by NI's large public sector have helped to maintain a larger population in NI than would be sustained by the local private sector alone. The private sector may be as competitive as in large parts of GB but this does generate enough income to fully fund the public sector in NI. To grow faster it would have needed lower wages, a lower exchange rate or the low corporation tax rates of the Republic. Since it has had none of these things, its economy grows at the UK rate while its labour force has grown at an Irish rate for much of the last few decades.

The UK has for decades financed the subvention with little complaint or public opposition. No government in the last half century has proposed

90. G. Gudgin. (1999) 'The Northern Ireland Labour Market' in Heath, Breen and Whelan (eds), *Ireland North and South. Perspectives from Social Science*. OUP.

91. Gudgin (1999) show that the relationship between employment growth over two decades and the unemployment rate at the end measured across UK local authorities shows that each extra 10% of employment growth reduces unemployment by one percentage points. Northern Ireland alone does not fit this regularity. Instead, its unemployment rate was much higher than expected on the basis of its above average employment growth. The western (and more Catholic areas) of NI were the most out of line.

92. G. Gudgin and R. Breen. (1996) Evaluation of the ratio of rates of Unemployment as a Indicator of Fair Employment. Studies in Employment Equality Research Report No.4. Central Communities Research Unit. Department of Finance. Belfast.

reducing the subvention. The UK is well able to afford this on a sustainable basis because NI is under 3% of the whole UK economy. It is true that the subvention is approximately equal to the annual net payment to the EU which was often cited as a reason for leaving the EU. However, the cost of membership of the EU was objectionable to supporters of Brexit because it was a payment to an organisation which they preferred not to be part of. Although feelings about Northern Ireland among voters in GB are often little more than lukewarm, this has not led to calls for separation. If this did not happen to any serious extent during the difficult years of the Troubles it is unlikely to do so in future. Northern Ireland's economic model might be viewed as in more danger from a reform of the Barnett Formula and a move to needs-based finance. Although the Barnett Formula was originated in 1978 as a temporary measure, it has survived for most of half a century. The main barrier to reform is Scotland rather than Northern Ireland and as long as Scottish separation remains a political possibility, Barnett is unlikely to be changed.

The sustainability of low taxation in the South

Since 1959, the Republic's economic model has been based on low rates of corporate taxation. Originally taking the form of export subsidies for manufacturers, the tax concession evolved into a world-beating low (12.5%) rate of corporation tax for all sectors. Beyond this, firms have been able to reduce the effective rate of taxation to single figures by various tax dodges. This policy has successfully attracted a high proportion of global multi-national corporations to locate some activity in the Republic. In recent years, the impact has spread to allow such firms to reduce their global taxation by channelling profits through Ireland. In sectors like aircraft leasing, virtually all profits across the globe are channelled through Ireland.

Growing efforts by multinational companies to avoid paying tax in high-tax jurisdictions led an international call for global measures to eliminate tax competition. After many years of negotiation on 'Base Erosion' and Profit Shifting' (BEPS) under the auspices of the OECD, agreement was finally reached in 2021 with 138 countries, including all OECD members, signing up to the OECD's Two-pillar Solution.[93] Ireland was a particular target of the agreement and was one of the last countries to sign up. The Solution's first pillar will ensure a fairer distribution of company profits by allocating taxing rights more towards the markets where profits are earned instead of where the company was registered for tax purposes (which was often Ireland). A quarter of the profits of large multinational companies above a threshold of a 10% profit rate will be allocated in this way. Pillar two introduces a 15% minimum for corporation tax for companies earning revenues above €750 m.

The agreement is viewed as weak by many international economists with a higher minimum tax rate viewed as achievable.[94] For Ireland, the result could thus have been much worse and was greeted with some relief. Ireland will now increase its tax rate for large companies from 12.5% to

93. https://www.oecd.org/tax/international-community-strikes-a-ground-breaking-tax-deal-for-the-digital-age.htm
94. https://www.irishtimes.com/business/economy/oecd-tax-deal-a-success-for-ireland-but-loss-for-rest-of-world-say-economists-1.4698564

15% with the rate for smaller firms remaining at 12.5%. Revenues from corporation tax have risen to €21bn in 2021 (22% of tax revenues and 6% of GDP with the share doubling in the last seven years) with much of this coming from a relatively small number of companies.[95] Four-fifths of corporation tax revenues in Ireland come from multinational companies, with only 10 companies accounting for between a third and a half of revenues. The Irish Fiscal Advisory Council estimates that loss of revenue could amount to 5-6% of revenues. Corporate tax revenues have, however, been rising and are volatile and difficult to forecast. It is thus not clear that revenues will actually fall.[96]

Nor is the impact on foreign direct investment easy to predict. Some large multinationals could pull out of Ireland and others which might have located in Ireland may now decide not to do so. It does look, though, that the Irish economic model will survive without serious damage. The EU has for years sought to increase its authority over corporation tax but now looks likely to accept the OECD Agreement which is being incorporated, with some changes, into an EU Directive. A much higher internationally agreed tax rate of 21%, favoured by many economists, would have done much more damage to the Irish model, and the actual outcome can be viewed as a narrow escape.

95. https://data.oireachtas.ie/ie/oireachtas/parliamentaryBudgetOffice/2022/2022-03-04_oecd-beps-and-irish-corporation-tax_en.pdf
96. https://data.oireachtas.ie/ie/oireachtas/parliamentaryBudgetOffice/2022/2022-03-04_oecd-beps-and-irish-corporation-tax_en.pdf

The Protocol and the Political Future

The Northern Ireland Protocol is part of the UK Withdrawal Agreement from the European Union in 2021. It effectively keeps Northern Ireland inside the EU Customs Union and its Single Market for goods. In order to avoid any customs border on the island of Ireland the Protocol imposes a customs' and SPS border in the Irish Sea between NI and GB with checks undertaken at posts in Northern Ireland. EU product regulations apply to Northern Ireland including all new regulations on a continuing basis. EU VAT rules apply to NI, although VAT rates within the margins set by the EU are set by the UK. While NI firms have unfettered access to GB markets (and EU markets), imports into NI from GB are subject to checks and in some cases tariffs.

As argued in an earlier section it is unclear how the Protocol has impacted NI's trade. Irish trade data suggest a significant rise in the generally small amount of trade across the Irish land border but UK data on trade and HGV traffic across the land-border suggest little if any increase. The volume of HGV traffic across the Irish Sea between GB and NI is also above pre-pandemic levels. Some of this may involve trade between GB and Ireland diverted via NI. In general, it is unclear just how much GB:NI trade has been diverted to the Republic or elsewhere, although anecdotal evidence suggests enough diversion to justify the imposition of the Protocol's article 16 (which permits suspension of parts of the Protocol if diversion occurs).

The main change in NI due to the Protocol is thus not to alter the access to Irish or EU markets, since these remain the same as when the UK was an EU member, but to impose some constraints on exports from GB to NI. One estimate of the increased cost of imports from GB due to customs administration is 8%.[97] This may deter some imports and lead to a diversion of trade away from GB sources of imports to NI. It will also increase costs for producers and consumers in NI leading potentially to a loss of competitiveness for NI firms and a loss of real income for NI consumers. The only systematic estimate is that the long-term impact on the NI economy will be a loss of 2.5% of GDP.[98]

The Protocol in its current form means that the Northern Ireland economy retains some of the key similarities that it had when both the UK and Ireland were members of the EU, chiefly in having free movement and the same regulations for the production and distribution of goods. However, this merely maintains the position prior to Brexit, and cannot be deemed to create an all-island economy in itself. The relative position

97. G. Duparc-Portier and G. Figus (2021) The impact of the new Northern Ireland Protocol: Can Northern Ireland enjoy the best of both worlds? Regional Studies. https://www.tandfonline.com/doi/full/10.1080/00343404.2021.1994547

98. Duparc-Portier and Figus (2021) op cit.

has changed, in that regulations in NI will over time be closer to those in the Republic than to those in the UK. Rather than forming an all-island economy, the Protocol could be said to change the nature of one of the island's two economies, with Northern Ireland having a hybrid economy – part in and part out of the EU. This certainly creates some divergence between GB and NI, but this is not the same as creating an all-island economy. If an all-island economy did not exist prior to Brexit, and it did not, then there are no grounds for asserting that such an economy exists post-Brexit.

Although the Protocol came into legal effect in January 2021 it has never been fully operated. A number of grace periods meant to ease the transition have been extended, essentially unilaterally by the UK. These apply to supermarket goods (which themselves constitute around 60% of imports from GB), medicines and parcels (including those from Amazon etc). The Protocol has become so politically controversial that it seems unlikely that the grace periods will ever end. The main point of controversy concerns the lack of any democratic input from NI on EU regulations applying to NI, and on the fact of customs administration and checks within the UK between GB and NI. The underlying reality as always in Northern Ireland is the question of whether Protocol moves NI in the direction of a politically united Ireland. NI Unionists are strongly and increasingly opposed to the Protocol on these grounds and have suspended the NI Executive and Assembly in protest. The position of the largest unionist party, the DUP, is now that the UK and EU can have either the Good Friday Agreement institutions (including the Assembly) or the Protocol but cannot have both.[99]

The UK Government position was described in the July 2021 Command Paper, 'The Northern Ireland Protocol. The Way Forward'.[100] This outlined a reformed Protocol in which customs procedures would not apply to goods from GB destined for NI but could apply to goods travelling from GB to the Republic via NI. A two-track system of regulations for goods production in NI would allow companies to operate under either EU or UK regulations (the vast majority are currently identical but may diverge in future). The VAT rules would revert to the UK system and the role of the ECJ in arbitrating on disputes would be removed. This is close to what is sometimes called 'mutual enforcement' under which both the UK and Ireland would use legislation to enforce each other's regulations for goods crossing the land border in Ireland.[101]

Both the EU and more directly the UK Government are now in a quandary. The Protocol has been decisively rejected by the pro-Union parties in Northern Ireland The undemocratic nature of the Protocol puts the EU at a moral disadvantage and partial ameliorative measures are unlikely to gain unionist acceptance. The EU have thus far resisted attempts to replace the Protocol. Two ways forward are possible. One is for the UK to invoke article 16 of the Protocol and suspend important parts of the Protocol to force a meaningful negotiation on substitute arrangements. The second is for a continuation of the current stand-off in which large

99. Lord Dodds. The Protocol must go. BriefingsforBritain. https://www.briefingsforbritain.co.uk/the-Protocol-must-go/

100. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1008451/CCS207_CCS0721914902-005_Northern_Ireland_Protocol_Web_Accessible__1_.pdf

101. J H H Weiller, D Sarmiento, Sir J Faull, An Offer the EU and UK cannot refuse. https://verfassungsblog.de/an-offer-the-eu-and-uk-cannot-refuse/

parts of the customs arrangement on the Irish sea crossing are disapplied. The latter could potentially drag on indefinitely. A vote on the Protocol is due in the NI Assembly in 2025, but without a functioning Assembly even this may not be possible.

Conclusions: Is integration Occurring?

Looking at UK statistical publications of a century ago produces a slight shock to see data for such things as unemployment rates listed for Cork and Limerick alongside Ebbw Vale, Lanark or Sunderland. This is a reminder that what is now the Republic of Ireland was then a fully integrated part of the UK even to a greater extent than is now true for Scotland, Wales or, of course, Northern Ireland. It is common for Irish commentators to refer to pre-partition Ireland as a colony but this was not true any more than Wales or Scotland were, or currently are, colonies. All of the island of Ireland was part of a single all-British-Isles economy. All of the rules and laws of the UK applied across the entire archipelago. There were, of course, differences in the composition and productive capacity between Ireland and GB, and between Ulster and the rest of Ireland, but so there were, and are, between many other parts of the UK.

What was a single all-archipelago economy before 1921 diverged into two contrasting economies as Ireland used its independence to take divergent paths from the UK. For several decades the Republic pursued trade protection and economic self-sufficiency including a trade war with the UK for much of the 1930s. The results were seriously lagging living standards[102] and high levels of out-migration, especially in the 1950s and chiefly to GB. It was at this point that policy changed, under the direction of the inspired head of the Irish Department of Finance, T.K. Whittaker.[103] From the late 1950s, the policy was to encourage exports from efficient firms facing open competition including from foreign companies locating inside Ireland. The seeds of the modern Irish dependence on foreign direct investment were born as a low profits tax was introduced, initially for exporters. Independence also meant a freedom to pursue cultural preferences including a continuing large role for the Catholic church in education and social security as both developed through the 20th century.

Ireland's economy remained tied for many decades, as it always had been, to the GB market. This was why it was imperative for Ireland to join the EEC in 1973 once the UK had decided to do so. Mutual membership then led to a standardisation of several aspects of economic governance with free trade, customs-free borders and common commercial regulations especially after the Maastricht Agreement of 1992. This common context led to a significant degree of similarity between the economies of Ireland and Northern Ireland, but equally between Ireland and the UK or Ireland and any other EU economy.

102. As Lee states, Ireland's living standards at independence were equivalent to those of Denmark but by the 1950s had fallen far behind (despite not being directly damaged by WW2): J.J. Lee (1989) *Ireland 1912-85: Politics and Society.* CUP.

103. Anne Chambers (2014) *T. K. Whittaker: Portrait of a Patriot.* Transworld Ireland.

There are few if any current references to an all-British Isles economy nor were there many during the period of joint membership of the EU. The reasons are, of course, political. The references to an all-island economy are politically driven and part of the persistent pressure for Irish unity. There is no equivalent political pressure for a united British Isles and hence no political advantage in referring to an all-archipeligo economy. A country that takes the name of the whole island,[104] and contains an aspiration for an all-island state in its constitution, not surprisingly finds advantage in persuading itself and outsiders that there is a single integrated economy on the island. As argued in this report, this is wrong. There are two quite distinct economies on the island with a surprisingly low level of trade between them. The strong integration for Northern Ireland is with the rest of the UK. A much larger volume of trade occurs with GB than with the Republic of Ireland. Currency, laws, taxation and public administration including social security systems are those of the UK. Road signage is British, the health service is the NHS and the national broadcaster is the BBC.

While the Northern Ireland Protocol does little to immediately move the NI economy in the direction of an all-island economy it has a psychological impact in creating a customs border between NI and GB and potentially creating a divide in the regulation of the production of goods. If the Protocol were to survive in the manner agreed in 2019 it would not create an all-island economy but would arguably create something of a divide between NI and the rest of the UK. If commercial regulations in GB were to diverge from those in the EU, as many Brexiteers intend that they should, then the context for the production of goods in NI would steadily take on greater similarities with the Republic and the rest of the EU than with GB. This process is already under way as the EU steadily introduces new and modified regulations which are not adopted in GB. However, the Protocol seems unlikely to survive and hence this process may not go far. If it does survive, then the NI economy will be less different from the Republic than would have been the case without the Protocol but little less different than has been the case for decades.

All of this is, of course, relevant to the issue of a border poll on Irish unity. For such a poll to take place, the Secretary of State for Northern Ireland (a UK Government Minister) would under the Good Friday Agreement need to be persuaded that a majority of the NI electorate was in favour of Irish unity. Opinion polls in NI suggest widely divergent views on the degree of support for Irish unity but most polls show such support in the range of 20-30% of the electorate.[105]

The one economic difference likely to impinge most on support for Irish unity is the comparison of living standards and cost of living across the border. The evidence of this report is that membership of the UK has maintained NI's living standards at a higher level than those in the Republic. Some have pointed out that voters rarely vote to become poorer. This is not quite right in national questions where sovereignty or national identity are at stake, but nevertheless living standards will always

104. Since the constitution of 1937.

105. The polls recording most support for Irish Unity (at up to 45%) are those run by the LucidTalk organization. These draw their samples from a voluntary on-line panel of around 13,000 people. Such volunteers are likely to have more interest in constitutional issues than has the wider population and may thus be unrepresentative of all voters.

be of relevance. The fact that the Republic of Ireland has not managed to overtake living standards in one of the UK's poorest regions, even after 60 years as a tax haven, is likely to be at least one reason why half of Northern Ireland's Catholics regularly tell the Life and Times survey they would prefer to remain in the UK rather than join a united Ireland. It may also account for the rise of Sinn Fein in southern politics.[106]

Despite all of the post-Brexit excitement about the imminence of a border poll, the conclusion of this report is that the very substantial differences between the economies on the island will remain largely intact. The Northern Ireland Protocol will not change this even if it succeeds in driving a wedge between the economies of NI and GB. This, however, looks unlikely. The Protocol is not politically stable and is unlikely to last in its current form. Whatever replaces it will need to reduce trade barriers and differences between NI and GB without changing such barriers between NI and the Republic. In Tony Blair's Balmoral speech in 1997 he predicted that NI would remain part of the UK for the lifetime of anyone in the audience for the speech. Since the audience included a 12 year-old boy this implied the continuation for the union for most of a century. The poll evidence is that this prediction remains accurate. As long as NI remains in the UK, the differences between the two economies on the island are likely to persist and the persistence of the differences will in turn undermine any drift towards Irish Unity.

106. In the latest Irish polls Sinn Fein had the largest support with almost as much support than the next two parties combined. https://www.politico.eu/europe-poll-of-polls/ireland/

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