**Northern Ireland’s economy post-Brexit:**

**Is North-South reunification the answer?**

Dr. Eoin Flaherty

Lecturer in Sociology,

School of Social Sciences, Education, and Social Work,

Queen’s University Belfast,

Northern Ireland,

United Kingdom.

e.flaherty@qub.ac.uk

eoin.flaherty@ucd.ie from August 30th, 2016

Word count: 1833 (ex ref); 2115 (inclusive)

Keywords: United Kingdom; Europe; Economic Sociology

JEL Classification: N94 Europe: 1913-; P16 Political Economy; D72 Political Processes

Northern Ireland’s position within the economic and political union of the U.K. has always been tenuous. The territory remains divided internally by a unionist-nationalist political cleavage, of those who wish to remain part of the United Kingdom, and those who favour reunification with the southern Republic of Ireland. With substantial trade connections to the Republic of Ireland and Britain, the region remains economically dependent on its neighbours, as it continues to negotiate its political resolution. Legislatively, its government occupies a position subject to the influence of Westminster, with more limited local powers residing in the locally-elected Northern Irish Assembly. The complexity of this position has been sharpened by Brexit, casting great uncertainty on the future of Northern Ireland, as the integrity of the wider union has been questioned, in light of majority remain votes in Northern Ireland (56%) and Scotland (62%)[[1]](#footnote-1). Lacking the economic capacity to ‘go it alone’ in a post-Brexit Europe, it has been suggested that the unification of Northern Ireland and the Republic of Ireland could provide a multinational-driven economic windfall in the form of increased inward investment receipts (KLC Consulting, 2016). The possibilities of this resolution are evaluated below, but some context is first needed. Article three of the 1998 Belfast Peace Agreement[[2]](#footnote-2) recognises the special interests of the Southern Republic in the affairs of Northern Ireland, and the possibility of future unification of both territories with majority consent. However the devolution of power to the Northern Irish Assembly in the post-Belfast Agreement era has seen the suspension of the assembly on various occasions due to political deadlock. Meanwhile, legislative authority on many core economic issues remains with Westminster (matters of export control, international trade, taxation, and currency for example). As such, the region poses a number of uniquely difficult questions relative to other regions of the U.K.

Northern Irish economic growth in the post-conflict era has been hampered by continuing low economic productivity, dominance of small-medium enterprises, and poverty rates amongst the worst in Western Europe. Although the population of Belfast briefly overtook that of Dublin in the nineteenth century thanks to buoyant industries in shipbuilding and linen, de-industrialisation hit the region especially hard, with little evidence of a wide-scale transition to services and technology as happened in the Republic of Ireland. During the peak conflict years of the 1970s and 1980s, public employment in security services and public administration produced a disproportionately large public sector, in order to shore up domestic demand (Smyth and Cebulla, 2008, p.179). This dependence on public employment persisted to the turn of the century, and whilst the region failed to embed itself in domestic and international supply chains, its heavy dependence on subsidies from Westminster remained. By 2008, the public sector accounted for 60% of regional GDP, compared to 35% in the Republic of Ireland (Smyth and Cebulla 2008, p. 182). High public sector dependence is generally not matched with quality private sector employment. In 2013, rates of those on low pay (earning below a ‘living wage’ of £7.45) stood at 16% of full-time, and 43% of part-time workers, with real wages falling consistently since 2009 (Nevin Economic Research Institute, 2014).

Brexit lays bare the particularly troubling nature of Northern Ireland’s external dependences beyond Westminster, and into Brussels. The European Regional Development Fund currently provides over half a billion Euro in funding to Northern Ireland. With an investment cycle running from 2014-2020, the programme provides for a number of development goals central to resolving the productivity gap, including investment in research and development, firm growth and competitiveness, and capital financing. Many programmes involved in conflict resolution and mediation have benefitted from European funding, as has local research and development infrastructure, through the participation of universities in European funding programmes. The European Territorial Cooperation Programme currently provides 229 million Euro, with policy objectives aimed at promoting cohesion between communities, particularly amongst young people. The implications of Brexit thus stretch far into the social, political, and cultural life of the region.

The situation in Northern Ireland can be read as both threat and opportunity. With a majority remain vote in Scotland lending support to Scottish secession, such an event would cast serious doubt on the future subvention of Northern Ireland by Westminster. The possibility of reunification, in such a case, could be hastened by shortfalls in access to E.U. structural funds essential for promoting greater international supply chain integration in Northern Ireland. Despite ongoing political cleavages between unionists and republicans, the possibility of a cultural shift in outlook is not unthinkable at present, as staunch unionist politicians including Ian Paisley Jr. endorse applications by Northern Irish citizens for Republic of Ireland passports (Payton, 2016). Current survey evidence suggests divided opinion in the event of a vote for Northern Ireland to become part of a united Ireland, with 40% of respondents to the 2014 Northern Irish Life and Times Survey reporting they ‘…would happily accept the wishes of the majority”, and 35% stating they ‘would not like it but could live with it if you had to’[[3]](#footnote-3).

Opportunities for a successful reunification campaign also rest in unionism’s lack of a consistent policy stance on the position of Northern Ireland within Europe. During the Brexit campaign, senior members of the Democratic Unionist Party, and the Northern Ireland Secretary of State both endorsed leaving the E.U. In the event of a move toward Scottish secession, it is likely a future Scottish ‘remain’ campaign may not be able to draw on the threat of potential currency devaluation, given the impact Brexit has had on the value of the pound, and on subsequent British growth forecasts. This will merely underscore the value of joining the Euro to Northern Ireland, with the prospect of more competitive exports. Regardless of the way forward, the socio-economic conundrum in Northern Ireland remains: how to foster outward-looking enterprise, whilst maintaining working conditions, standards of pay, and reducing inequality. The real danger is that Northern Ireland stands to suffer more from the well-documented effects of heightened service employment, economic globalisation, financialisation, and increased multinational investment. Given the low baseline position of the region in terms of wages and working conditions, civil society faces particular challenges in forestalling the potential impacts of such stressors – in terms of collective bargaining representation, precarious employment, and inequality.

Conventional wisdom suggests that greater foreign direct investment (FDI) is the only solution to the region’s economic troubles. In making this claim, commentators often point to the experience of the Republic of Ireland, which capitalised on an FDI-led economic boom in the 1990s, leading to a record phase of growth known as the ‘Celtic Tiger’. This potential of FDI to yield similar benefits for Northern Ireland is elaborated in a recent report on the economic impact of North-South unification (KLC Consulting, 2016). Factoring an estimated annual fiscal transfer of 4.9 billion GBP from Great Britain, low value added, and a small private sector, the report posits a number of post-unification economic scenarios. Accordingly, the authors suggest a medium-term growth payoff due to cost savings from harmonisation of functions of government, and attraction of multinationals to the North, by adopting the Republic’s corporate taxation regime.

There are a number of issues with this scenario, based as it is on the experience of the Republic of Ireland. In a small open economy heavily dependent on FDI, transfer pricing is rampant (Flaherty and Ó Riain, 2015). Ireland’s Gross National Income is 14% less than its Gross Domestic Product, and in multinational-dominated sectors such as pharmaceuticals, per capita gross value added is over double the European average, suggesting strong distortion of real growth figures (van Egeraat and Barry, 2009, p. 28). Estimating the likely outcome of Brexit for Northern Ireland is thus seriously hampered in the first instance by inadequate measures of economic performance, making it difficult to predict the impact of FDI-led growth on the real economy. Regardless of indicator, such a scenario could only be effective in an economy which adequately policies corporate tax enforcement – a task at which the government of the Republic of Ireland has failed dismally. Gaining special dispensation to lower Northern Ireland’s corporate tax from the UK rate of 20%, in line with the Republic’s 12.5% rate has been a core policy goal of the Northern Executive. The Republic’s tax enforcement is decidedly light-touch however, with reports of individual deals with select multinationals, and the possibility of Apple alone owing between nine and eighteen billion dollars in foregone corporate tax (Oliver, Brunsden, and Boland, 2015).

Most worrying of all are the implications of adopting a social and economic model from a territory which has failed so dismally to translate the gains of one of the world’s greatest economic successes into greater equality of opportunity and outcome. Market income inequality in the Republic of Ireland rose five per cent from 2007-2011, whilst the share of individuals with less than fifty per cent median income rose eight percentage points over the same period (OECD, 2014)[[4]](#footnote-4). As the economy returns to growth, so too have the inequality-enhancing fiscal policies which sustained the fortunes of top earners during the boom years: reducing the tax base, incentives for private construction, and a programme for government geared toward greater privatisation of public services (Flaherty, 2014). Given that Northern Ireland contains some of Europe’s most deprived regions, and some of the worst unemployment rates in the United Kingdom, a growth agenda which does not given central importance to reducing inequality whilst amplifying its institutional stressors, is worrying.

There are many ways in which the situation in Northern Ireland can be read through Polanyian concepts. In terms of the wider politics of Brexit, the opportunities afforded the left in the post-2008 financial crisis era have passed unseized, with the debate over Brexit fuelled by a swing toward insular nationalism. The Northern Irish economy, moreso than any other region of the U.K., remains deeply embedded in local networks of production and finance, underpinned by a cultural insularity which continues to reinforce binary opposition groups along unionist-nationalist lines. Any strategy to deal with this deadlock must therefore acknowledge the inter-relatedness of markets with social-structural, and cultural features of society (Dale, 2010, p.199). At a more fundamental level, the region faces exposure to the disembedding tendencies of global financial capital – whether it remains within a ‘full’ U.K., federal U.K., or United Ireland. This is reflected in the current programme of European Regional Development Fund spending, which seeks to align enterprise funding more with risk capital, and away from the banking sector. With a highly commodified welfare system and extensive low-wage work, the pressures of retrenchment which attend marketisation will likely be severe. At the very least, Northern Ireland is an important case-in-point of the need for closer scrutiny of our measures of economic well-being, and the importance of social and cultural context for evaluating future economic performance. Most of all, it is essential the regions unique requirements and risks are not drowned out by the current emphasis on wider Britain.

**References**

Dale, G. (2010) *Karl Polanyi: The Limits of the Market*, Cambridge, Polity.

Department of Enterprise, Trade, and Investment (2015) *ERDF Investment for Growth and Jobs Programme for Northern Ireland 2014-2020*, Belfast, Northern Ireland Executive.

Flaherty, E. and Ó Riain, S. (2015) ‘The Variety of Polanyian Double Movements in Europe’s Capitalisms’. In Ó Riain, S., Behling, F., Ciccia, R. and Flaherty, F. (eds) *The Changing Worlds and Workplaces of Capitalism*, London, Palgrave Macmillan, pp. 38–57.

Flaherty, E. (2014) ‘Income Inequality from 1960-2012: a brief time-series history of capital and labour’, *Irish Journal of Sociology*, **22**, 88-101.

KLC Consulting. (2016) *Modeling Irish Unification*, [http://prcg.com/modeling-irish-unification/report.pdf]

Nevin Economic Research Institute. (2014) *Quarterly Economic Observer, Spring 2014*, Dublin, Nevin Economic Research Institute

OECD (2014) *Rising inequality: Youth and Poor Fall Further Behind. OECD Directorate for Employment, Labour and Social Affairs*, [www.oecd.org/els/soc/OECD2014-Income-Inequality-Update.pdf]

Oliver, C., Brunsden, J. and Boland, V. (2015) ‘Apple’s Irish tax deal faces further scrutiny by Brussels’, *Financial Times*, December 14th.

<https://next.ft.com/content/119f730e-a019-11e5-8613-08e211ea5317>

Payton, M. (2016) ‘Ian Paisley Jr urges Northern Irish Citizens to apply for Republic of Ireland passports’, *Independent*, June 25th.

<http://www.independent.co.uk/news/uk/politics/unionist-ian-paisley-jr-mp-constituents-apply-republic-of-ireland-eire-passports-a7102761.html>

PEACE Northern Ireland. (2015) *PEACE IV Programme (2014-2020)*, Belfast, Northern Ireland Executive.

Smyth, J. and Cebulla, A. (2008) ‘The glacier moves? Economic change and class structure’. In Coulter, C. and Murray, M. (eds) *Northern Ireland After the Troubles*, Manchester University Press, pp. 175-191.

1. <http://www.electoralcommission.org.uk/find-information-by-subject/elections-and-referendums/past-elections-and-referendums/eu-referendum/electorate-and-count-information> [↑](#footnote-ref-1)
2. <https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/136652/agreement.pdf> [↑](#footnote-ref-2)
3. <http://www.ark.ac.uk/nilt/2014/Political_Attitudes/FUTURE1.html> [↑](#footnote-ref-3)
4. Direct link to data: [www.oecd.org/els/soc/OECD2014-Inequality-Update-Figures.xlsx](http://www.oecd.org/els/soc/OECD2014-Inequality-Update-Figures.xlsx) [↑](#footnote-ref-4)