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for cultural, economic and social relations

**Towards an all-Ireland
Economy: The business
opportunities and
political obstacles**

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I am very flattered to be invited to speak to this important meeting of the Irish Association. The Irish Association is an admirable society of individuals who have worked quietly over the years towards improving inter-regional and inter-community understanding on this island.

But I have to confess to being something of a fraud! It is now almost five years since I have carried out any serious, basic research on either Northern Ireland or on the economics of North-South co-operation. I started this research in 1990, and during that eventful decade I immersed myself in North-South issues. In order to do that, I also had to immerse myself in Northern issues, and this was not always greeted with the welcome north of the border that one might have hoped for.

I designed my first major North-South project in a way that I naively thought would insulate me from politics. Why not, I thought, try to construct computer-based economic models of both the Northern and Southern economies that not only reflected the internal workings of both in isolation, but also opened up the possibility of examining North-South interactions? But no sooner had I drawn the attention of my Northern partner institution - the then Northern Ireland Economic Research Centre - to the importance of the so called "subvention" (i.e., the net contribution of the British exchequer to fund Northern Ireland public expenditure), than relations became strained to the point of non-existence. This puzzled me, since I regarded the existence of a large subvention as an economic phenomenon that simply had to be included in any model of the Northern Ireland economy, just as the study of the public sector borrowing requirement (PSBR) was an important aspect of the economy of Ireland. The difference between the two was that whereas the South had to finance its PSBR out of its own resources, the North suffered no such direct constraint (since it was the aggregate UK PSBR that was crucial, not the public sector deficits of the UK regions).

My final contribution to research on North-South issues was to participate vigorously in the great debate on Strategy 2010, a policy strategy document that was intended to guide the North into the new century under devolved government. I think that it is fair to say that we won all the battles, but lost the war! This debate - a kind of last ditch, kamikaze suicide project - finally convinced me that my future as a research economist lay elsewhere, away from the hot-house, heavily political environment of Northern Ireland and the contested issues of North-South co-operation.

Since the late 1990s I have spent most of my time collaborating with economist colleagues and policy makers in the former Communist centrally-planned countries and regions of Eastern and South-Eastern Europe. But Northern Ireland was always on my mind, as a kind of personal failure, the reasons for which I never fully



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for cultural, economic and social relations

understood. My work in Eastern Europe gave me a very interesting perspective on events in Northern Ireland.

It surprised me that the new EU member states and their regions were familiar places - at least in economic terms - since Europe has now become a patchwork of dynamic regions within which Ireland sits very comfortably, but from which Northern Ireland is largely absent. John Hume's vision of a Europe of regions has become an exciting reality, but unfortunately Northern Ireland remains inwardly focused.

Some of these European countries and regions had been mortal enemies but had worked to reconcile within the European family. Much of my work in Poland - for example - was carried out in co-operation with colleagues from Wroclaw, the main city in the region of Dolnoslaskie (or Lower Silesia). Before 1945, this had been German territory. Even within Kosovo, the power-sharing parliament of the Kosovar Albanian majority and the Serb minority functioned within the UN Protectorate (UNMIK).

Since most of these countries and regions were very poor (with standards of living of less than 25 per cent of the EU average in the case of the Balkans) the extreme importance of strategic economic planning in a flat, global world was clear to all. And the fact that policy errors or policy neglect seldom goes unpunished was also clear, as Romania and Bulgaria found to their cost when they were excluded from the 2004 enlargement process.

I also developed a certain pride in the wisdom and knowledge of Irish policy makers from the early 1960s, who recognised the failure of protectionism and saw that our future lay within the EU, out from under the shadow of Britain, and who carved out a role for us that linked foreign direct investment from the USA to make Ireland a major supplier of high technology goods to Europe.

My previous work on economic modelling in Northern Ireland proved to be a very useful introduction to the challenges of working on the analysis of the economy of Kosovo, as it prepared for statehood. Other regions - East Germany, the Italian Mezzogiorno, the Spanish regions - presented similar policy research challenges. More recently, I have worked on the 16 Polish regions, which have radically different income levels and development potentials. Somehow, the economies of Ireland and Northern Ireland had by accident been an ideal training ground for work in Europe. Work that had failed to germinate on this island bore fruit in Europe.



THE IRISH ASSOCIATION
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It was also a great pleasure to work in countries that looked at Ireland as an EU success story. Indeed, one had to spend a lot of time correcting an excessively optimistic view of Ireland's performance, and draw attention both to the long period of under-performance and the great luck that Ireland had with a very favourable world environment from the mid-1980s to the end of the 1990s. When I gave a lecture two years ago in South Africa entitled "From Farming to Software in Four Decades", my audience thought that I was three decades wrong, and that the so-called Celtic Tiger had materialised only in the 1990s, a mistaken view that fails to understand the long, slow, bumpy process of change in Ireland.

So, when I refocus my attention on North-South issues, I see things now in a very different perspective.

I have a growing sense of frustration at the complete lack of solid political progress in Northern Ireland, and am ever more conscious of how this lack of progress is damaging and impeding economic renewal and reform.

I experience a sense of total disbelief at a Secretary of State for Northern Ireland, who can give a speech that starts off by describing how extremely serious Northern economic performance is; but who ends with describing it as "an increasingly modern, thriving part of the UK". Here in Ireland we have Ministers who make speeches on the one theme (how bad we are) or the other (how good we are), but never both at the same time!

But worst of all is the great sense of sadness that so few of the bright expectations of the 1990s, on the path from the Downing Street declaration to the Belfast Agreement, have been realised, as violence faded and new island vistas opened.

Back in the 1990s it was hard to get any economic researchers to commit to serious and extended work on North-South issues. I have pondered on this problem, and am driven to the following conclusion.

There was, and remains, a kind of glass ceiling in most North-South research activities. Stay below it (at arms length, working on local community-type issues), and North-South work seems to function;

But dare to go above the invisible ceiling, and perhaps take Sir George Quigley's island research agenda seriously, and people run for cover, funding mysteriously dries up, tempers become frayed, calls are not returned.



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From a perspective of dynamic European regional developments and enlargement, to look at Irish North-South progress is to see a continued process of fracture and dysfunctionality. My fear is that learned interchanges of any importance to our future lives on this island are less honest and less profound now than they were in the period before the 1970s, when our Chairman Professor Gibson, Dr Garret Fitz Gerald, and others debated North-South issues openly, vigorously and intelligently.

As I look at the two regional economies and their respective policy-makers, I see people who have very different concerns, who share very little common ground, and who see different opportunities and threats.

In the case of Ireland, its strategic policy orientation towards the future is relatively benign at present and could be characterized in terms of five key issues.

- a) The continued creative use of its modest but significant scope for national policy-making autonomy against a background of a progressive ceding of elements of macroeconomic fiscal and monetary policy autonomy to the institutions of the EU.
- b) The continuation of the crucial policy orientation of the past decades concerning openness to inward investment using a mainly tax-based system of industrial incentives and associated improvements in physical infrastructure and human capital.
- c) Further modernization of the industrial base through targeted foreign direct investment in high technology areas as well as through steady expansion of indigenously-owned industry.
- d) A likely continuation of the process of "decoupling" of the Irish economy away from the earlier heavy dependence on the UK as a result of its sustained systematic and pro-active orientation towards participation in EU policy initiatives.
- e) The pursuit of steady improvement in economic performance with the aim of building on the recent rapid convergence in order to sustain a standard of living equal to that of wealthier core economies of the EU as well as bringing about greater social equity.

The strategic policy context for Northern Ireland is more difficult to characterize with any degree of precision since the region has only recently experienced a sustained period of peace and is mired in a protracted process of designing and implementing major changes to its system of political and economic governance. Nevertheless, from a strategic point of view the region faces major policy challenges and will have to address some potentially serious issues.



- a) The continuation into the medium term of a situation where the region has very limited regional policy-making autonomy combined with a lack of political consensus as to the wisdom of seeking out and using greater policy autonomy in the context of the Belfast Agreement.
- b) The continued dependence on a narrow range of policy instruments (particularly in the area of indiscriminate grant-based industrial incentives) that have not proved particularly effective in the past.
- c) Difficulties in modernizing its manufacturing base away from its traditional specialties, e.g. textiles and clothing, towards higher value-added products.
- d) A continuing dependence on Britain as the main external sales destination. Although this has been a benefit during the past few years, when the major economies of the EU suffered slow growth, it may prove to be potentially undesirable in the longer term if the UK remains outside the euro zone.
- e) Economic peripherality within the UK, a relatively low standard of living among the UK regions, combined with the possible perpetuation of dependence on external financial aid in the form of the "subvention", with consequential lack of dynamism in the regional economy (i.e. a Mezzogiorno problem).

The fact that the Northern and Southern strategic policy orientations are so out of alignment is likely to continue to have disruptive consequences for planning and executing any desire to "complete" the island's economy. There remains the possibility that, in the absence of explicit and concerted North-South co-operative initiatives that might emerge from restored Northern self-governing institutions, there will be a tendency for a continuation of the previous process of essentially separate development of the two regions and an inability to secure island economy synergies, even as conventional North-South trade continues to expand. In the absence of such initiatives, freely designed and entered into willingly, there is likely to be a lack of focus and urgency in addressing the related problems and consequences of policy mismatch on the island.

My European research experience suggests that with strategic postures so far apart from each other, certain consequences will follow inevitably:

Any attempt to detach the Northern Ireland economy from the UK fiscal union (by, say, granting it a different tax regime), would require an extraordinary degree of policy sophistication, flexibility and commitment that has been completely absent from the discussion to date.



THE IRISH ASSOCIATION
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The arguments that I advanced on the basis of my earlier research - that greater North-South links could produce island-wide synergies and beneficial spillovers - almost certainly no longer hold, as Northern Ireland had drifted further into a public-sector dominated, post-industrial pattern of dependency.

Whatever interest and enthusiasm there was in Ireland to grant the North-South dimension a special place in our policy making, has now largely dissipated, and been replaced by more outward-looking global concerns and preoccupations. In this respect, Northern Unionists should not misinterpret (or fear) the recent commemoration of the 90th anniversary of the 1916 rising. This was no backward looking nationalistic self-indulgence. Rather, it was a statement of pride in what our state has given back to the world in the service of our armed forces on UN peace-keeping duties, in the quiet, effective role that we try to play in being good Europeans, and in providing substantial aid to less developed countries. The contrast with the 50th anniversary is a dramatic measure of how the state has evolved and matured. My guess is that most of the 1916 leaders would have preferred the 90th to the 50th.

If I understand the drift of recent political developments correctly, the two governments appear to be using the threat of ruling Northern Ireland through a kind of British-Irish condominium in order to concentrate minds in a recalled Assembly in Stormont. It is a tragedy that it has come to this. If I were a Unionist, I would be furious. If I were a Nationalist, I would be fearful. But since I am only an economist, and there is likely to be little demand for such advice in the foreseeable future, I can turn my focus elsewhere and be very glad that the rapid development challenges of the new EU member states will continue to give me professional employment for years to come.

Note added after the contributions of the five MLA representatives from the UUP, the DUP, the SDLP, Sinn Féin and the Alliance Party.

The contributions of the five political representatives illustrated how very difficult it is for them to agree any economic facts or strategies in Northern Ireland. When everything is disputed or contested, no progress can be made.

As I reflected on this discussion after the conference, I tried to imagine a strategic economic statement for the island that might assist in focusing discussion between the parties. My initial thoughts were as follows:



[1] The primary focus:

Within Ireland and Northern Ireland, under present and any presently conceivable constitutional arrangements, the primary focus of economic policy-making must be internally directed at the local strengths and weaknesses of the respective regions:

To policies (to the extent that they are available or could be modified).

To institutions (governance, universities, research institutes, schools, etc.).

To businesses (their needs, their entrepreneurial capabilities, be they locally or externally owned).

[2] The secondary focus:

While local strengths and weaknesses are addressed, careful attention must be paid to external opportunities and threats. For Ireland, the most important external influences are, and will remain, the USA, the EU and other global economies. For Northern Ireland, the most important external factor is currently Britain. Other global influences tend to affect Northern Ireland via their effects on Britain and British policy reactions to them.

For both regions, the North-South economic dimension is a secondary factor. It may have some power to boost performance in both regions, but could never replace either the primary focus on internal policies, institutions, and business characteristics, or the other main external factors to both regions.

Only when all parties agree to formulate serious policy initiatives broadly within the context of such a framework can some progress be made.

The challenge for northern Unionists would be to show how greater Northern dynamism could realistically be brought about through building on the British link, to the neglect or the down-playing of the North-South island dimension.

The challenge for northern Nationalists would be to refocus on the internal problems of the Northern economy in a UK context, and to accept the unpalatable truth that the North-South connection would at best be a secondary force for economic progress and development.

My judgement is that Irish policy makers have already internalised something broadly along these lines, but face a delicate political task of balancing support for Nationalist political and cultural ambitions with the inescapable logic of the hard economic facts of life.