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*In J.T. Michael's
handwritten notes
with thanks
J.Lynch
16/11*

Financial Implications of Ending Partition

Terms of reference: We were asked to assess the financial implications of a settlement of the Partition problem on the basis that:

- (i) a Parliament and Government representative of the thirty-two countries would perform the functions now performed in relation to Northern Ireland by the United Kingdom Parliament and Government;
- (ii) the standard of social and economic services in Northern Ireland would be maintained at the British level or, as a minimum, at the level existing at the time of the settlement.

How we set about the exercise: We decided that we should, first of all, attempt to establish the extent at present of Northern Ireland's financial dependence on Britain. Annex I shows how we did this. In view of the substantial amount of financial assistance which Northern Ireland receives from Britain as shown in Annex I, it seemed to us that there could be no question of people in the Republic being asked to undertake the obligation of maintaining economic and social standards in Northern Ireland while the standards they had were appreciably less. We attempted, therefore, to assess the "gap" that exists in economic and social standards between North and South. Annex II sets out the ways in which we tried to do this. ~~In the time available, we were not able to do~~ more than indicate, in crude terms, the order of magnitude of the "gap".

Annex I and Annex II together may be said to represent the direct and indirect "costs" involved in any solution of the Partition problem. So far as closing the economic and social "gap" between ourselves and the North is concerned,

this depends on the rate of our economic development and this is not the place to pursue that topic. Apart from the financial gap, however, there are important policy differences between North and South which would need to be examined in depth. We would see this as one of the important fields for examination in the context of the wider exercise designed to draw up a policy for ending Partition. When the differences had been identified and examined, policy in future might be directed (other things being equal) at minimising these differences with a view to eliminating or reducing the difficulties that would arise if and when Partition ended. As regards the financial arrangements that might be agreed between ourselves, Northern Ireland and Britain in any settlement of the Partition question, so long as there is a substantial "gap" in standards between North and South any attempt to specify the types of financial relationship on the lines, for example, of the Government of Ireland Act, 1920 serves no useful purpose. There is no particular reason why Britain should agree to foot the present bill in a situation in which Northern Ireland was cutting her political links with Britain, although since the "loss" of Northern Ireland would give tremendous relief to the British Exchequer, Britain could certainly afford to be generous. In Annex III we have, therefore, confined ourselves to indicating the possible ways in which some of the direct costs involved in ending Partition might be met by sources other than the Irish Exchequer.

K.M.
2

Annex IExtent of Northern Ireland's Financial Dependence on BritainConclusionsDirect Assistance:

	£m.
(1) Social Service Agreement	10.3
(2) Agriculture Act, 1957	1.8
(3) National Insurance	17.0
(4) National Health Acts	.1
(5) Regional Employment Premium	10.0
TOTAL	39.2

Indirect Assistance:

(1) Estimate of the extent to which the Northern Ireland contribution would fall short of the actual cost of services of the kind at present supplied by the U.K. to Northern Ireland (e.g. defence of Northern Ireland, diplomatic representation, contribution to U.K. National Debt, <u>agricultural subsidies</u> , etc.).	35.0 - 40.0
(2) Estimate of the Amount by which the present yield of Reserved Taxes is inflated by the present method of calculation (i.e., on basis of population ratios).	12.0 - 16.0
TOTAL	47.0 - 56.0

Total Direct and Indirect Assistance: £86.2m. to £95.2m.

Footnote: The Budget for 1968/69 would increase this assistance to £96m. - £106m. However, some part of the difference is attributable to back-payment in respect of Supplementary Benefits included in the anticipated direct assistance under the Social Services Agreement which has now been amended.