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**New Ulster
Political
Research Group**

TWO ECONOMIC PAPERS

by

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ACKNOWLEDGEMENTS

The New Ulster Political Research Group wish to thank Mr. John Simpson of Queen's University of Belfast and Senator Dr. T. K. Whitaker (former Governor of the Central Bank of Ireland) for these two economic papers.

It must be pointed out that the N.U.P.R.G. by including these papers in our "Documents for Discussion" are not claiming that either Mr. Simpson or Senator Whitaker are supportive of all our arguments. Both gentlemen have been kind enough to give the N.U.P.R.G. the permission to include these papers to prove that a negotiated independent Ulster is, with certain conditions, economically viable.

Senator Whitaker's paper was presented at a Seminar in Glencree in January 1977 in reference to another group's submission on independence. That group's title has been deleted in this submission to avoid confusion.

Table 1: Estimates of Financial Assistance to Northern Ireland from the United Kingdom Exchequer

£ M.

	For A Agriculture	For Law and Order (1)	For National Insurance	Other Finance (2)	Total (3)
1966-67	25	-	14	12	51
1967-68	30	-	17	16	63
1968-69	31	-	13	30	75
1969-70	31	-	15	38	73
1970-71	37	-	14	36	87
1971-72	31	-	22	73	125
1972-73	25	-	22	135	181
1973-74	30	18	30	204	282
1974-75	41	100	43	211	396
1975-76	27	147	38	36	578
1976-77	33	167	56	385	641
1977-78	29

1. Excludes any items of military expenditure
2. Grant in aid and other smaller items
3. Totals may differ from the sum of the individual items, due to rounding of individual figures.

The Finances of the Northern Ireland Government

In the year 1968-69 the Northern Ireland Government received grant assistance from the United Kingdom Government of £75m. By the year 1976-77, the comparable figure for grant aid had risen to £641m, and was then the equivalent of nearly 40% of all public sector revenue in Northern Ireland.

These figures illustrate the dramatic change in Northern Ireland's public sector finances over this short period. Of course, the main cause has been the need to pay for the civil unrest. Also, a contributory factor has been the general economic recession throughout the United Kingdom.

Two initial comments seem appropriate. First, these figures can be used to make the somewhat ironic statement that Northern Ireland could not easily have paid for the "troubles" on its own. Second, they are frequently used to indicate how non-viable (or subsidised) Northern Ireland is.

However, a more careful approach is merited. The recent figures need to be broken down into two parts. First, the element which represents the level of grant aid that would be needed in a "peaceful" Northern Ireland and second, the element which is [hopefully] temporary to offset the cost of the "troubles."

For the evidence on the viability of a peaceful Northern Ireland, the figures for the 1960's are relevant.

As a proportion of total public sector (Stormont and local government) revenue, the transfers of assistance, over and above the taxes and other payments by Northern Ireland people and companies operating in Northern Ireland, were quite small. The figures were:

1963-64	16%
1964-65	16%
1965-66	15%
1966-67	15%
1967-68	16%
1968-69	17%
1969-70	15%

The Discussion Paper published by the Northern Ireland Office in 1974 showed that these levels of assistance were probably lower than the assistance to Scotland. The figures show that a peaceful Northern Ireland received about one-sixth of its revenue from the United Kingdom Exchequer.

This level of assistance was hardly surprising. By agreement with Westminster, Northern Ireland was able to spend on the same basis as spending was undertaken in Great Britain and in addition, extra spending was undertaken because of Northern Ireland's leeway in some government services and its leeway in standards of living and employment. If Northern Ireland had managed to generate full employment the scale of assistance would have been lower, and the problem of balancing the accounts of the Northern Ireland Government, without assistance, looks more manageable.

Of course, the implicit problem of the viability of the Northern Ireland public sector is whether, in peaceful conditions, Northern Ireland could generate full employment. Would the efficiency and competitiveness of the industrial, commercial and agricultural sectors be adequate to obtain orders and sell the output on a scale which would generate higher levels of employment? With full employment, the scale of public sector spending might have been maintained without appreciable changes.

If the Northern Ireland public sector spending of the 1960's was not excessively out of line with the taxes and other revenue raised (a shortfall of 16%) the position in the 1970's has deteriorated. The scale of assistance from the United Kingdom government has increased (as a percentage of total revenue):

1970-71	16%
1971-72	20%
1972-73	25%
1973-74	24%
1974-75	35%
1975-76	39%
1976-77	38%

The change from 16% to 38% is mainly the cost of the troubles; partly the cost of the recent economic recession in the United Kingdom. The increase of just over 20% represents a transfer of over £300m per annum (at 1976 prices). (A precise allocation of the extra 22% would give a figure of £338m.)

The direct costs of the 'troubles', including police, prison and compensation for injury and damage, accounted for extra spending of nearly £130m in 1976. Of course, the direct costs are only a part of the financial costs of the 'troubles'. The other indirect costs are (1) the loss of tax revenue because of the erosion of the economy (the lost income tax and indirect taxation from some of those who are now unemployed or have emigrated) and (2) the extra government spending to maintain, or replace, various public services (extra housing expenditure, areas of need, spending

on urban area problems, extra provision in the educational sector, etc.). These indirect costs are not easily measured, but are probably costing over £120m per annum.

On top of this, the economic recession has produced special schemes to aid agriculture (the Meat Industry Employment Scheme), to aid industry (the Temporary Employment Subsidy) and to aid the electricity industry. These probably account for, on average, some £50m per annum.

These rough figures indicate how far the Northern Ireland Exchequer is facing such massive problems because of the civil unrest. Given a stable province, the hope must be that these figures would fall dramatically. Every reduction of unemployment by 1,000 would reduce the cost to the government in benefits, and increase its tax revenue, by something like £3m per annum. A fall in unemployment of 30,000 would therefore directly save something approaching £90m per annum.

A peaceful Northern Ireland, which could generate full employment producing goods that were purchased willingly by others, would look very much less dependent on financial support than Northern Ireland is at present.

AN INDEPENDENT NORTHERN IRELAND
GLENCREE SEMINAR - FEBRUARY 1977
SOME FINANCIAL AND ECONOMIC CONSIDERATIONS

T. K. Whitaker

May I say at the outset how much I welcome the fact that new political possibilities of a peaceful settlement in Northern Ireland are being explored and that we are not content to stay frozen in the old moulds.

While I shall concentrate in my few remarks on financial and economic aspects of an independent Northern Ireland, it will be impossible not to relate these to more fundamental, and important, political and constitutional considerations.

It is, fortunately, not the financial and economic effects of a unilateral declaration of independence that I have to consider: these, I believe, would be disastrous. There are many who fear that the effects even of a negotiated independence would be intolerable but I question whether this need be so. Economic viability, without serious diminution of standards, is possible for an independent Northern Ireland on certain assumptions.

Realisation of these assumptions will present difficulties and, as I shall tend to concentrate on these, perhaps I should begin by acknowledging that independence may also have positive aspects of an economically helpful kind, always assuming that most of the minority and majority support it; it could break the divisive pull of opposing allegiances, it could reduce violence and tension, it could give a new focus to loyalty, it could generate peaceful co-operation and a sense of community, it could give Northern Ireland appropriate legal and administrative systems, it could lift the feeling of dependency and confer a new and honourable status on Northern Ireland as a participant in the European Community.

The Green Paper of 1972 said "Northern Ireland cannot expect a form of independence which would guarantee substantial continuing financial economic and military aid from the United Kingdom but which would otherwise confer upon it virtually sovereign status. No United Kingdom Government could be a party to such a settlement".

I would interpret this primarily as a warning not to expect a continuing subvention if independence represented a reversion to a one-party domination. I simply do not think such a hard line would make any sense in a situation where, as the Paper envisages, a negotiated independence would be based on community-wide consensus in Northern Ireland - on a realistic prospect of a "new common allegiance". The Paper rightly, in my view, argues that a continuing subvention would be a small price for the British to pay to lift the burden of Northern Ireland from their shoulders.

My friend, Professor Norman Gibson, having written that "independence outside the U.K. without long-continuing massive economic support from it or some other source would be economically disastrous for all of the people of Northern Ireland [a view with which I am inclined to agree] goes on to say "and I see no reason whatsoever to expect such support to be forthcoming". It is in this latter respect I disagree with him - I have always seen many solid reasons why such support should be forthcoming for a well-based solution of the Northern Ireland problem.

Without going all the way with the extreme thesis that Northern Ireland inhabitants regard all outsiders, whether British or Irish, as aliens, I think we have all in this island a sufficient degree of non-Britishness and of business acumen not to let Britain off the hook, indeed, allow her to gain financially from a permanent solution of the Irish Question. It will be asked why Britain should accept a continuing liability of this kind. There is the negative answer that she would be much better off than if the status quo were to continue. She would be relieved of a continuing drain on manpower and finance on the security front which has greatly swollen the cost of her involvement in Northern Ireland. Of even greater importance, the enormous embarrassment, domestic and international, caused by this running sore in a so called United Kingdom would be ended with honour and grace. Again assuming a stable settlement agreeable to London and Dublin (as the Paper acknowledges to be necessary) there would be a bonus of goodwill and more beneficial economic relations.

I have no doubt that all this would warrant a long-term commitment to maintain the value of the net amount currently being transferred to Northern Ireland from the British Exchequer for non-military purposes. My idea of "long term" is twenty to twenty-five years, so I would be even more demanding than the Paper, which suggests fifteen years.

As to the amount, the Paper mentions £300 million a year but I think the figures published by Professor Gibson (and I have not yet had time to examine the criticisms of these figures handed to me this morning) suggest that in 1975-76 the revenue raised in Northern Ireland fell short of central government expenditure there by about £650 million. One would need to deduct not merely the "extra expenditure caused by civil disturbance" (put by the Paper at £125 million), but a large slice of capital expenditure as well, in order to reduce the gap to £300 million. In any case would a wise man, in the present inflationary age, not insist on some regular upward review or indexing formula to preserve the value of the annual subvention in real terms?

However optimistic I might be of persuading the British to make a large annual subvention, I would not, I am afraid, dare to entertain thoughts like those in the Paper of being able, in the early years of the new State, to abolish rates and bring down taxes "to what the people would be willing to pay". This is a pipe dream! (The N.U.P.R.G. agree with Dr. Whitaker on this point.)

So also is any idea that making Northern Ireland a tax haven, so as to encourage "big money" in, would do much to help pay current Exchequer bills, as seems to be expected on page 1 of the Paper. [Again, the N.U.P.R.G. agree with Dr. Whitaker.]

Admittedly private capital expenditure - both by the inhabitants and by external investors - in an independent Northern Ireland would be boosted by a stable settlement, and the new State would have some external borrowing capacity. It would, however, be rash to assume that the present level of direct transfers on capital account from the British Exchequer [which a £300 million yearly subvention would fall short of covering] would not be sorely missed. The vast sums needed for reconstruction and development - including the housing emphasised in the Paper - could be raised only if international sources, such as the World Bank, the European Investment Bank and the EEC Regional and Social Funds, were able and ready to provide large amounts of money on favourable terms. A strong inflow of capital would, in any case, be needed to make good the normal Northern Ireland trade deficit, even with the help of an improvement in invisible receipts. I must say I would see an incompatibility between the huge capital needs of the private and public sectors of an independent Northern Ireland the possibility of giving effect to doctrinaire socialist principles about limiting private investment, as indicated on page 9 of the Paper. [Again, the N.U.P.R.G. agree with Dr. Whitaker.]

Mention of EEC institutions brings me to the need for the new State to be accepted from the outset into the EEC, transitionally as an associate but in time as a full member. Otherwise, facing tariff walls and other disadvantages in trying to export to Britain, the Republic and the Continental EEC area, the position of Northern Ireland industry and agriculture would be unenviable. Admission to the EEC would depend, inter alia, on the goodwill of Britain and the Republic, who would both, therefore, need to be satisfied that the settlement was fair and viable. Even on this basis, there would probably need to be some agreement between all three abrogating use of the veto where the vital interest of any party was at stake. The new Northern Ireland State would have to conform generally to EEC principles and directives.

A Plan - a coherent and integrated set of economic and social policies - would be crucial in the early years of a new State. In a democracy such a plan must be the supreme policy document of the Government. In draft form it must be the subject of intensive consultation with the major economic interests with a view to achieving as wide and deep a consensus as possible as a basis and support for Government action. Such a plan would also be a prerequisite of access to any sizeable amount of external capital. To my mind, all this strongly reinforces the particular need for representative government [a term I prefer to "power-sharing"] in the early years of a new State. Majority rule needs to be modified in the interests of trying

to achieve a co-operative and constructive community commitment to the immensely difficult tasks that would be faced - and not only in the economic and social spheres. There is also, for instance, the need to build up a fully acceptable local security system.

While the Paper does see merit initially in what is called "a government of all the talents" it shows a strong preference for majority rule as the norm. I myself believe that representative rule is, in principle, just as democratic - even more so, perhaps - than majority rule but I would not press this point beyond an initial five-year period on one condition - that Proportional Representation is firmly entrenched in the constitution of the new State as the mode of election of Parliamentary representatives. I am concerned that I see no assurance to this effect in the Paper. Without P.R. there can be no certainty that various interests would be properly represented; no certainty, therefore, that permanent one-party rule - the very negation of democracy - would not be re-established. P.R. would, as polarisation lessened, ensure the presence in Parliament of groupings of different political shadings and offer the prospect of a change of Government by a re-grouping of parties in a coalition. Without a real possibility of a change of Government, "democracy", in the sense experienced in Northern Ireland in the past, would be intolerable.

I shall finish with a few further comments on what seem to me important political conditions of the acceptability and viability of an independent Northern Ireland. The Paper would make the new State responsible for its own defence. To be realistic, adequate defence against possible external attack is not within the capacity of either part of this island on its own. Moreover, any such defence would need to be organised on a co-ordinated basis. This may point towards both Irish States joining NATO or, at any rate, an EEC defence system, if and when such is arranged. [The Republic, it may be recalled, did not accept the original invitation to join NATO as an anti-partition ploy, though expressing agreement with the objectives.] For alleged breach of a Bill of Human and Civil Rights the aggrieved person or body should have a final right of appeal to an international institution e.g. the European Court of Human Rights. Finally, as regards the now notorious Articles 2 and 3 of the Constitution, may I point out that the emergency of a new State in Northern Ireland, with recognition and support from London and Dublin, would put paid to both Articles. Since Article 2, defining the "national territory", is explained as a repudiation of Britain's claim to any part of Ireland, there would be no need for this with two Irish governments between them enjoying sovereignty over "the whole island of Ireland, its islands and the territorial seas". Article 3, with its unrealistic and provocative claim that the Oireachtas and Government in Dublin, constituted on a 26-county suffrage, is entitled to rule Northern Ireland, would be an embarrassing anachronism which we would be in haste to bury and forget.