Why Northern Ireland is Different

In many ways the economic and social problems faced by Northern Ireland are no different to those faced by other 'post-industrial' parts of the United Kingdom. It has levels of persistent poverty and deprivation rates similar to those of south Wales, the north-east of England, or even certain boroughs of London.

However, Northern Ireland has something else. The legacy of 30 years of violence was not simply eradicated with the signing of the Good Friday Agreement in 1998. Whether we call it a 'post-conflict society' or 'a society coming out of conflict' Northern Ireland has struggled to overcome a litany of problems embedded in our society by the cancer of sectarianism.

These problems have a financial cost or a 'Troubles Premium'. It means additional public spending in Northern Ireland is simply unavoidable. It is non-discretionary spending like depreciation of assets or interest on loans or payments to bondholders.

We have identified six key elements which make up the Troubles Premium. These are structural deficiencies inherited from the period of conflict that necessitate greater state spending. There is no private actor that can fulfil this role nor is there any 'market solution'. Ignoring these problems is not an option.

The six contributors to the Troubles Premium are:

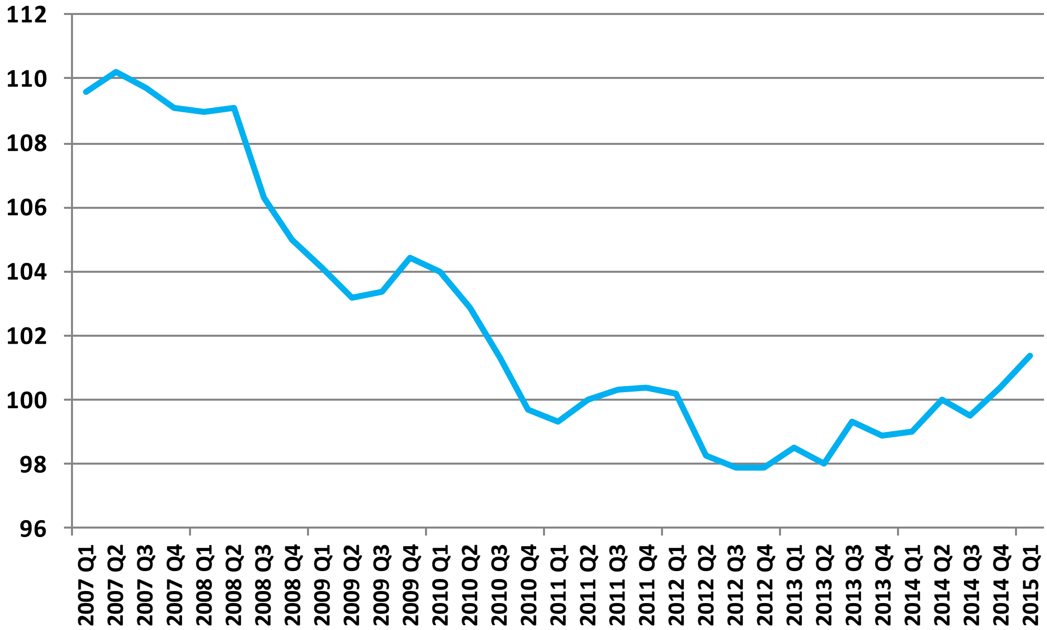
- **Poverty**
- **Investment**
- **Security**
- **Sectarianism**
- **Public Services**
- **Mental health**

A fragile peace process can only withstand a certain amount of pressure. We are deeply concerned that the progress made over the past two decades will be severely set back by a process of externally imposed austerity which is ignorant of these legacy issues.

The Ordinary Economy of Northern Ireland

The Northern Ireland economy experienced a sharp downturn in output during the recession and despite recent UK trends the Northern Ireland Composite Economic Index remain over 8% below its pre-crisis peak.

Northern Ireland Composite Economic Index 2007-2015



Northern Ireland continues to face a range of structural challenges that hamper the region's economic performance. These issues are long standing and have been widely documented – most recently in the Northern Ireland Executive's Economic Strategy (NIES) *Priorities for Sustainable Growth and* Prosperity which summarises that:

• Northern Ireland living standards have persistently lagged behind Great Britain, with the main factors being lower levels of employment and productivity;

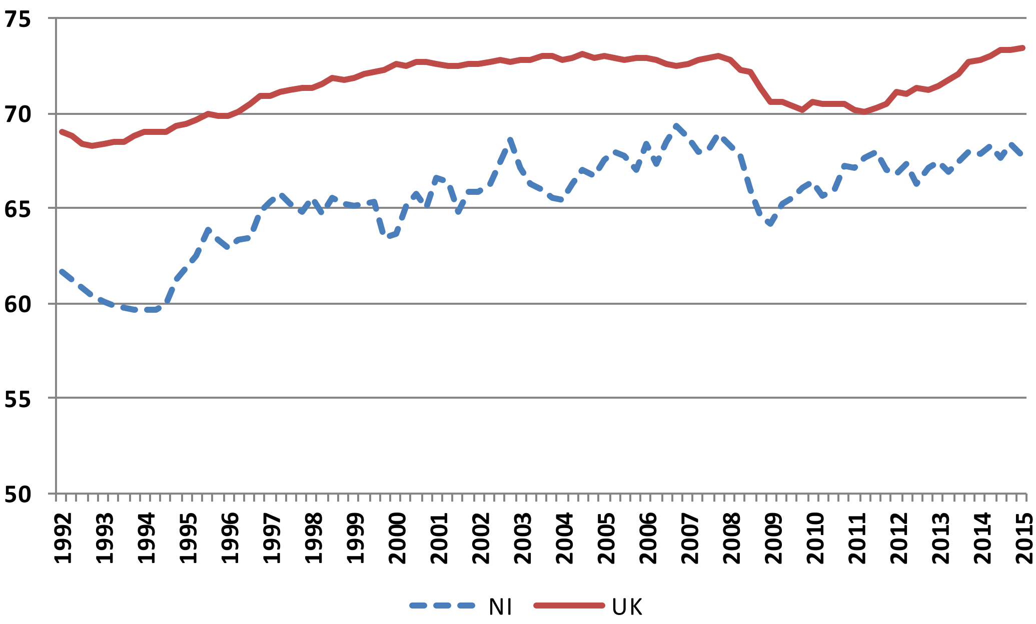
• Growth in output and jobs has tended to be in relatively low value added areas, which has resulted in average wages remaining significantly below the UK;

• There is an over reliance on the public sector as a driver of economic growth in Northern Ireland, a consequence of an underdeveloped private sector. This also contributes to a very large fiscal deficit;

• The economy has historically been under-represented in higher value added sectors such as finance and business services;

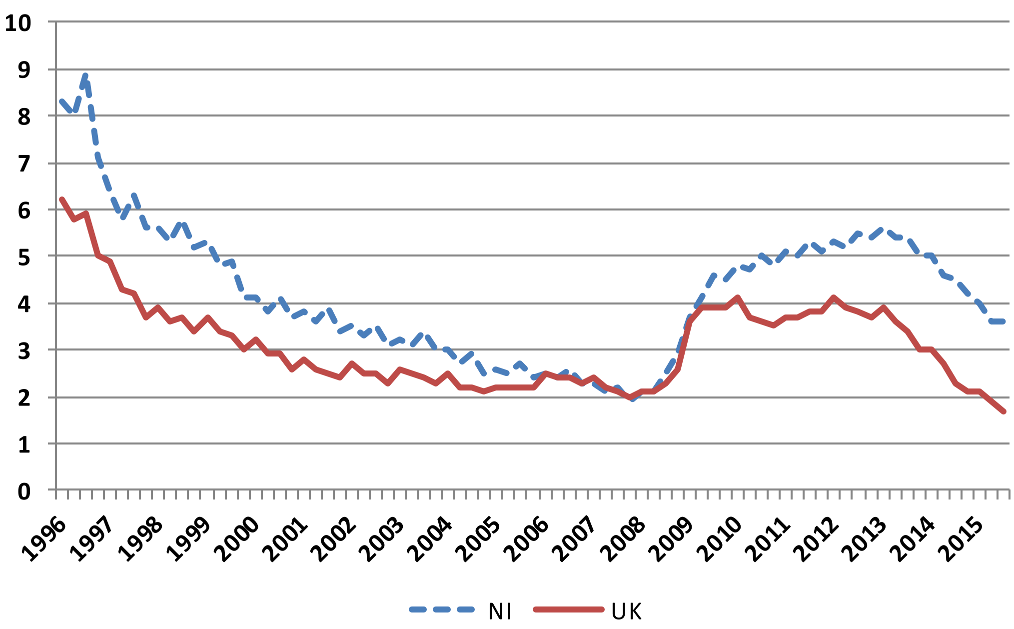
• A large proportion of the population is registered as economically inactive, with social exclusion levels well above other parts of the UK;

Employment Rates Northern Ireland & United Kingdom 1992-2015



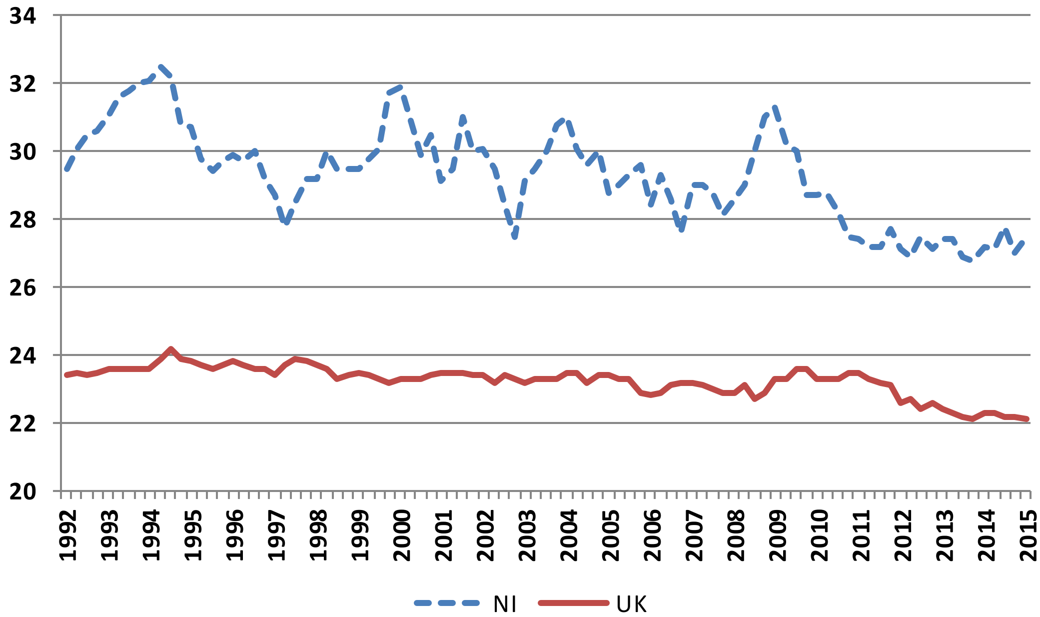
Despite improvements in the mid 2000's Northern Ireland still has an employment rate 5.7% below the UK average.

JSA Claimant Count Rate Northern Ireland & United Kingdom 1996-2015



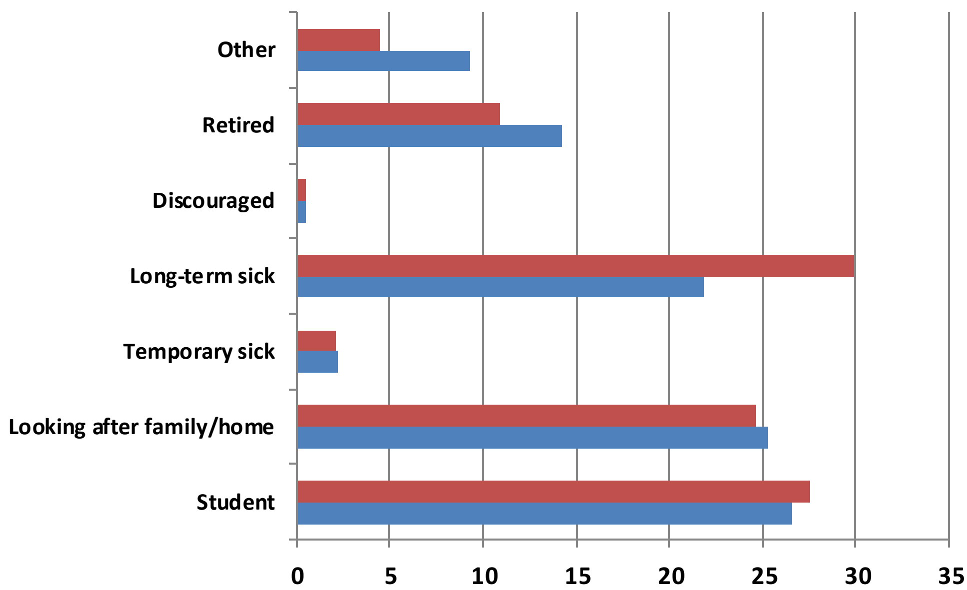
Despite improvements in recent years, the recession has re-opened a gap in the number of people claiming Job Seekers Allowance in Northern Ireland compared to the UK. This gap is now worse than it was in 2000.

Economic Inactivity Rate Northern Ireland & United Kingdom 1992-2015



Northern Ireland has had a consistently higher proportion of the population classified as Economically Inactive. Northern Ireland has a much larger population of Economically Inactive by reason of long term illness.

Reason for Economic Inactivity Northern Ireland & United Kingdom 2015



Public Spending reduction in Northern Ireland

To date Northern Ireland has seen public spending cut by 8% or just under £1bn in real terms. Day to day spending on public services has been cut by 5.6% while public capital expenditure has been slashed by over a quarter.

The Northern Ireland economy relies on public expenditure for 61% of total output or Gross Value Added. However public spending as a % of GVA is too often conflated with the public sector as a % of GVA. While there is no precise data on the output of the public sector in Northern Ireland, three sectors: Health and Human Services, Education and Public Administration and Defence when combined account for only one quarter of total output. This would indicate that public spending is at least as important in sustaining activity in the private sector as it is in the public sector.

Welfare Reform in Northern Ireland

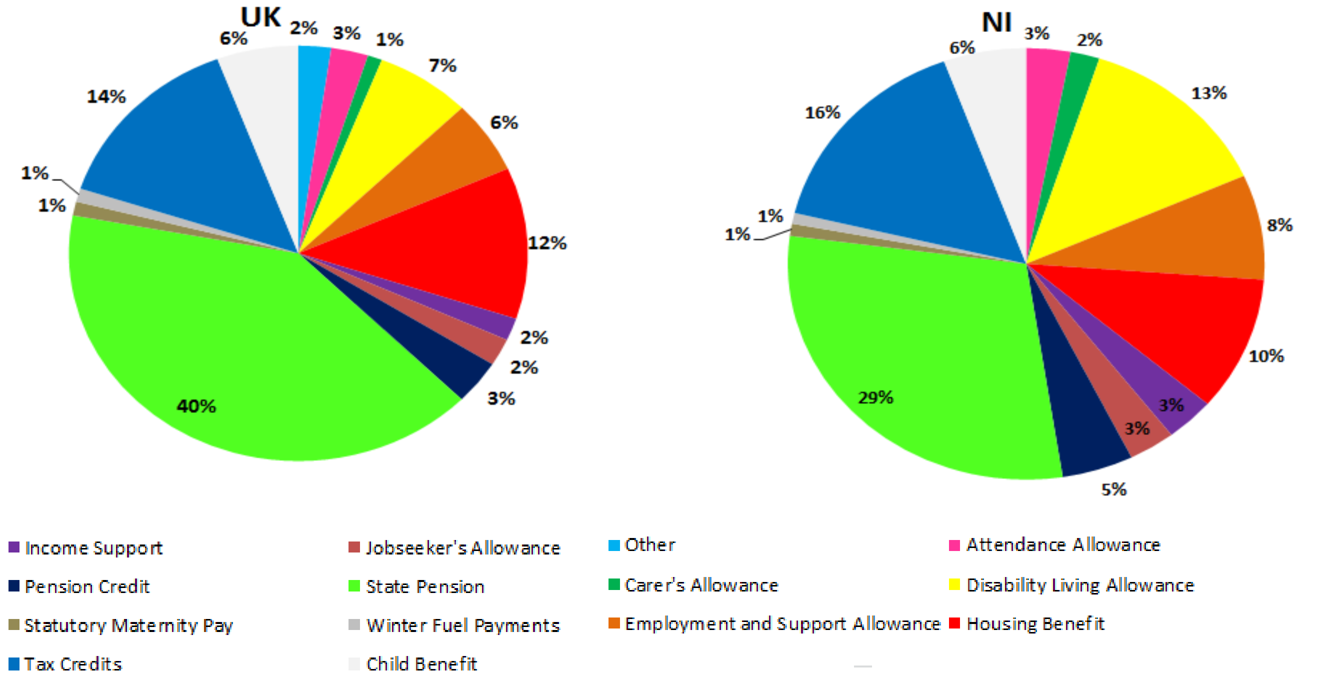
It was projected that the programme of welfare reform initiated in the UK in 20120 would save the Government almost 19bn per year. The saving for Northern Ireland was estimated to be £750m of £650 per person[1].

Northern Ireland is the *WORST AFFECTED REGION IN THE UK* – the average loss per person in Great Britain would be £470.

Out of 26 Council Areas, 3 feature in the top four worst affected in UK, with seven in the bottom 20

Why is Northern Ireland so impacted by Welfare Reform?

Welfare Expenditure Northern Ireland &United Kingdom 2013/14



As the pie charts above show, Northern Ireland spends significantly more on Incapacity benefit and Disability Living Allowance. Northern Ireland has the highest DLA claimant rate among adults of working age at 10.1% in May 2012. This compares to 6.2% in Scotland, 6.8% in Wales and an average of 4.9% across Great Britain as a whole. One of the reasons identified for this significantly higher level of claimants is the long-term impact of the conflict, with a high rate of claimants diagnosed with mental health illnesses."

[1] Research produced for NICVA by Beattie & Fothergill (2013) into effect on NI of Welfare Reform

The Extra-Ordinary Economy of Northern Ireland

This is not News

Successive governments have recognised the burden of the 'Troubles', from the expansion of the public sector under Wilson, Callaghan and Thatcher to the Peace programmes funded by the EU and matched by the Treasury to Gordon Brown's funding package.

The size of the public sector increased dramatically during the conflict, and assumed a greater proportional role as the private sector shrivelled. Between 1974 and 1988, employment in the public sector increased from 173,069 to 206,286 (Teague *et al*, 1993, p125). While security-related employment increased, most of the increase was in health and education.

In 1994, The then EU President Jacque Delors backed the proposals of a major new programme from the three MEPs, Paisley, Nicholson and Hume, which has delivered over £1 billion to projects with a peace building element – indeed since 1988, the EU has invested over £7.5 billion to the economy of Northern Ireland.

In 2006, as part of the St Andrews Agreement, the then Chancellor Gordon Brown promised a funding package amounting to "£50 Billion over the next ten years." This included:

Northern Ireland's promised Investment
– A four-year spending commitment rising in successive stages from £8 billion per year today to £9.2 billion per year in 2010-2011. This commitment totals £35 billion, including capital spending and is equivalent to over £50,000 per household; – an updated strategic capital investment plan totalling £18 billion over the period 2005 to 2017 to underpin long term economic growth, and facilitate substantial capital spending on roads, health, schools, tertiary education and other priorities; – If devolution is restored the Government will work with the science councils to provide a long-term basis for research facilities in Northern Ireland. An incoming Executive would therefore have the opportunity to promote world-class universities and research and development facilities in Northern Ireland with its own resources. To support R&D in business, the UK Government will work with the NIE to simplify the R&D tax credit rules and more actively promote take up of the R&D tax credit in Northern Ireland; – allowing the NIE flexibility to drawdown a further £0.4 billion under the End Year Flexibility (EYF) scheme over this period; – Allowing the NIE to retain the receipts from planned public sector asset sales. These are estimated at over £1 billion between 2007-08 and 2010-11 to boost capital investment; – Allowing the NIE to retain all efficiency savings identified over the CSR period currently estimated as rising to at least £800 million by 2010-2011 to strengthen front line service delivery. Efficiency savings are from on-going Northern Ireland CSR zero based reviews, plus savings such as improved procurement and transformational change and the Review of Public Administration; and – the retention by the NIE of EU receipts for regeneration from the structural funds programme and under PEACE funds for community cooperation. This is additional to the above and estimated at some £0.5 billion in the period 2007-2013.

This package was, of course, never delivered.

Poverty

Poverty remains a feature of life for a variety of groups – in 2013/14, 380,000 people were found to be living in relative poverty while 435,000 were living in absolute poverty. The largest group of people categorised as being in working age adult poverty were found to be in workless households.

A significant number of households have experienced intergenerational poverty or joblessness and are far removed from job readiness and the labour market. Again, these households are concentrated in areas which bore the brunt of the conflict (Ardoyne, Ballymacarrett, Beechmount), or which have been historically neglected for investment or infrastructure (Strabane, L' Derry).

Barnardos report around 100,000 children in Child Poverty in NI in 2012 (and 44,000 in severe poverty). This will likely only increase. In fact in February 2013 research carried out by the *End Child Poverty Campaign* in relation to UK wide Child Poverty found that West Belfast had the 2nd highest rate of Child Poverty in the UK (at 43% - North Belfast was 36%).

A more recent Save the Children Report, *Framework for the Future – Ending poverty in a generation*, published May 2014, estimates that by 2020, 38% of children in NI will be living in relative poverty.

Investment

Reputational damage affects potential investment from domestic as well as foreign investors. Deloitte estimated the amount of lost investment and tourism in its controversial 2007 study on the cost of sectarianism and conflict. What ought not to be controversial is the fact that a widely-reported riot or act of violence in the international press will not be explained in any context which would satisfy local protagonists, but would fit in with a long-established narrative of NI as a violent and unstable place, for investors or tourists:

"In terms of lost opportunity we have explored the potential impact on the economy the conflict has had in terms of lost jobs (27,600 from 1983 – 2000), investment (£225 million GVA) and tourism (£1,461 million 2006 prices). However it is important to recognise that this analysis sets out an estimation of what has not been achieved due to the prevailing circumstances or alternatively what could have been achieved had circumstances been different."

Security

The security situation has undoubtedly improved since the Good Friday Agreement was signed, but is still a considerable cost to current spending. The size of the PSNI is almost twice the proportion of officers to general population in England:

"A Home Office staffing model based on geographical and population estimates suggested the PSNI should have around 4,300 officers and 1,700 civilians – around 62 per cent of current officers and 72 per cent of other staff. The HMIC uses a comparison model based on what is known as the most similar group (MSG) of forces. The MSG for Northern Ireland includes Nottinghamshire, Greater Manchester, West Yorkshire, Northumbria and West Midlands. The HMIC recognises however that policing in Northern Ireland faces unique challenges – not least because over one-third (34 per cent) of the budget is given over to dealing with the security situation. If the analysis is based on officer time that proportion goes up: a Freedom of Information request revealed that 43 per cent of officer payroll expenditure was dedicated to security duties." (Nolan 2014, p44)

This caution has been justified by the deteriorating security situation since the flags dispute, the Twaddell stand-off and related public disorder for almost two years.

"While the region did enjoy faster growth in inward investment than elsewhere in the UK in 2012/13, as the former US envoy Mr Haass made clear, 'Northern Ireland is competing with every other square inch on the planet to attract investment'. When four letter-bombs were intercepted in October, he warned that 'this is the sort of thing that honestly scares it [investment] off. It sends a bad message and hurts all the people in Northern Ireland. Nobody benefits.' (ibid p66)

Despite the millions spent in 2013 on promoting NI through the G8 summit and the world Police & Fire Games, one hour of unrest undid all that expensive PR:

“Delegates who strolled out of the closing events of the World Police and Fire Games came across an extraordinary sight when they wandered into Belfast city centre. The main shopping street, Royal Avenue, was the scene of a full–scale riot as loyalist flag protesters attacked the police. By the end of the night 56 police officers were injured in scenes that proved astonishing to their international colleagues. These scenes of rioting were reported by media outlets all over the world, from *Al Jazeera* to *Le Monde* and the *Australian*. (ibid P67)

Sectarianism - Community relations

On 23 May 2013 the Northern Ireland Executive published its ‘good relations’ strategy, *Together: Building a United Community*, which has become known through the awkward acronym TBUC or through the shortened form ‘United Community’. There had been a long delay: under direct rule in 2005, *A Shared Future* had been introduced but its integrationist ethos did not commend itself to the Sinn Féin / DUP partnership when devolution was restored in 2007.

The Programme for Government 2008-11 did not mention it and in 2010 Alliance refused to sign off on the Hillsborough Agreement to devolve policing and justice until the two main parties committed to a proper policy. Later, a consultation paper, *Cohesion Sharing and Integration*, was published but it was widely rejected as anodyne.

The flags protest and the accompanying street disorders led the British, Irish and American governments to put pressure on the Executive to address the very obvious problem of relations between Catholics and Protestants. The 2013 document was agreed by SF and the DUP; it has simply been ‘noted’ by the UUP, Alliance and the SDLP but, taking it to be a *fait accompli*, the smaller parties have focused their criticism on the delays in progressing the policy rather than its philosophical underpinnings. In fact the document pays scant attention to theoretical concerns and does not even define ‘good relations’. At times the term seems to be used interchangeably with the older ‘community relations’, although usually the latter refers to relations across the sectarian divide whereas ‘good relations’ takes in the various minority ethnic communities of Section 75.2 of the Northern Ireland Act (1998).

In August 2013 in east Belfast a mural of the footballer George Best was replaced by an image of a masked man in front of an Ulster Volunteer Force flag – beside it, incongruously, a quotation

by Martin Luther King. The Best mural had itself been painted in 2010 to replace a UVF mural, funding from Belfast City Council as part of its PEACE III project, ‘Tackling the Physical Manifestations of Sectarianism’. The reversion to the UVF imagery led to an outcry and to the mural being briefly painted over before it was repainted once more, exactly as before.

The first set of housing modules from the 2011 census was unpacked at the end of February 2013, just before the deadline for the second Peace Monitoring Report. A preliminary analysis of the data for the 582 local government wards was included in the report, which indicated over the preceding decade:

• A steep decline in the proportion of ‘single identity’ wards (above a threshold of 80 per cent of one religion), from 55 per cent to 37 per cent;

• In line with the growth of the Catholic population, a change in 28 wards to a Catholic majority, with none going the other way.

Moreover, the decline in ‘single-identity’ wards has affected Protestant areas more than Catholic. There remain 61 wards that are at least 90 per cent Catholic, yet only two such Protestant wards. According to the geographers Shuttleworth and Lloyd, six of the ten wards showing the greatest Protestant decrease are in east Belfast. This does not represent a *displacement* of Protestant residents: the ‘new communities’ and the Catholics who have moved in are replacements, taking up vacancies resulting from Protestants moving out of the inner city or older cohorts passing on.

It is in these areas where some high-profile racist attacks have been committed. This is not to argue that Protestants are 'more racist' than Catholics – it is to observe that these formerly exclusively 'protestant' areas is where the cheapest private sector rental accommodation happens to be. There is a deceptively simple relationship between sectarianism and racism, and there have been links in the recent past between loyalist organisations and the British far right. Certainly, the denial expressed by UKIP politicians in particular is an echo of the victim-blaming endemic during the 'Troubles'.

Survey evidence on the extent of cross community friendships, 63% of respondents said either 'all' or 'most' of their friends were of the same religion as themselves. Segregation in public services also reduces the opportunity for cross-community contact. 54% of people surveyed, for example, maintain that schools are not effective at preparing pupils for life in a diverse society.

For the purposes of this paper, the fact remains that the commonly-held narrative understood by international audiences is reinforced by racist intimidation – and the impact on potential investors should be obvious, if incalculable.

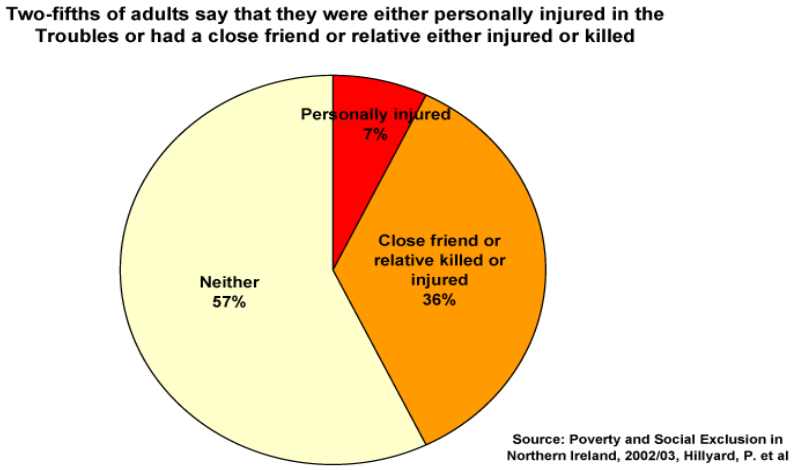
Public Services

As inter-community mobility is low in some regions, particularly in densely populated, socially disadvantaged regions, people are less willing to cross into areas perceived as dangerous to avail of public services. In response, policy and services in Northern Ireland have adapted to this context and some services have been duplicated in both communities. This includes, for example, community health centres, job centres, public housing and public transport.

No amount of cajoling can overcome the fear that people feel. However, the power of the respective education lobbies (as demonstrated in the re-composition of the new Education Board) ensures that the vast majority of children will be educated separately.

Mental Health

As noted, almost half of the working age population in receipt of incapacity benefit and it successor benefits have been diagnosed with mental and behavioural disorders. Why?



Mental health problems affect over 280,000 or 1 in 6 people in Northern Ireland. The suicide rate in Northern Ireland is 70% higher than in the United Kingdom.

Lack of input into political decision-making

NI has an issue of trust in its political leadership. Voting and party membership is in decline. Polls show an increased dislike of politicians and a willingness to believe in their venality, despite little serious evidence of wrongdoing that would stand up in court. Events such as the flags protests can take everyone by surprise in their intensity. Recent research from QUB has demonstrated that the ingredients are out there for a 'perfect storm'. In 2012, the flags issue was the 'earth' which landed the storm. Who knows what will be next?

There is also a mounting debate about the inevitability of the shape of party politics – a SF/DUP monolith or duopoly, barely troubled by SDLP/UUP/Alliance and with no structure for a functioning, probing and questioning opposition within Stormont under the St Andrews and Good Friday Agreements.

The assumption is that SF and the DUP will both continue to be the largest parties in each communal bloc. However, the most recent Ludictalk/Belfast Telegraph poll reported that both parties have a combined support of just under half of those polled. A belief that voting will not change anything is a recipe for apathy at the next election, and abstention is a vote of no confidence in our politicians.

Article 34 of Strand One of the Belfast Agreement states that: "A consultative Civic Forum *will* be established and it will comprise representatives of the business, trade union and voluntary sectors, and such other sectors as agreed by the First Minister and the Deputy First Minister. It will act as a consultative mechanism on social, economic and cultural issues. The First Minister and the Deputy First Minister will by agreement provide administrative support for the Civic Forum and establish guidelines for the selection of representatives to the Civic Forum."

This idea, and the suspension of the civic forum for over a decade, should be reconsidered.

At the time of the negotiations in 1998, the idea of a place where disparate parts of society, outside the 'political class', could consider wider social issues received a fair hearing. It could be argued that the professional 'political class' (to quote the First Minister) of parties and officials require a 'balance' from the 'amateur but invested' in aspects of NI society.

The example of the National Economic & Social Forum in the Republic of Ireland may be also looked at.

To summarize:

The six areas affected by the Troubles Premium are:

- **Poverty** – *persistent, intergenerational, linked to victims and perpetrators of violence*
- **Investment** – *afflicted by 'Troubles' narrative – a perception reinforced by reality*
- **Security** – *more police, expensive prisons, peace walls, empowered 'defenders'*
- **Sectarianism** – *duplication of services, barriers to 'others' empowered 'enforcers'*
- **Public Services** – *segregation in Education at age 4 by faith & by class at 11. Elite in denial over 'world-class' status - 80% of Protestant Boys on FSM are leaving without usable qualifications.*
- **Mental health** – *10% of the population, with enormous concentrations in areas close to 'peace lines'.*

Conclusion

It is our contention that austerity imposed through punitive cuts to public expenditure does not lead to sustainable or equitable economic growth. As an economically depressed region, Northern Ireland, along with areas such as Wales and the north of England have borne the brunt of austerity policies to date and will endure further economic decline should these policies continue. Thus far, however, there has been no serious analysis of how austerity measures will curtail Northern Ireland's efforts to ameliorate the social consequences of three decades of conflict. The draft budget for 2015-16 will reduce resource expenditure in Northern Ireland by up to £160m in real terms. The macroeconomic effects of this budget will be destabilising for output and employment, but the social consequences of such policies have yet to be properly quantified. Not only do austerity policies risk economic stagnation or decline, they risk removing vital layers of social development and cohesion.

Expenditure cuts made to Northern Ireland's budget are viewed by many as a modest contribution by Northern Ireland to the restoration of the UK's public finances. However such a simplistic analysis ignores the precarious nature of Northern Ireland society and the costs that are required to retain a peaceful balance. It is a contradiction in terms to continue imposing austerity cuts which in the financial year 2015/2016 is estimated will result in an approximate loss of 7,000 jobs across the public sector and at the same time expecting peace to be embedded in Northern Ireland. Allied to these job losses the implementation of sanctions associated with non-introduction of Welfare Reform measures will create further damage to a fragile economy. Post April 2016 if as promised by the Chancellor then further significant job losses will ensue. Last but not least, the flawed concept of a Corporation Tax funded by deductions from the Block Grant will lead to a massive job loss of an estimated 16,000 jobs based on a £400m reduction. The consequences of increased job losses year on year to fund this tax is unthinkable compared to what is a gamble dependent on the whim of those in receipt of the benefits of this tax break actually creating jobs as opposed to spending elsewhere as they see fit.

This paper has outlined the precarious nature of how the marginalised and working poor survive in Northern Ireland therefore reinforcing the premise that Northern Ireland is a society still in a conflict mode with huge swathes of the population not in receipt of a 'peace dividend' but indeed teetering on the brink of further regression in social and economic terms.

If the Political Parties and Governments are sincere in resolving the inter-communal difficulties and we believe they are, then it is an imperative to allow time for such agreement to take root and flourish in an environment where Political Parties are not in conflict over allocation of sufficient funding for Health, Education, Training and Upskilling and provision of other efficient public services including assistance to indigenous enterprises committed to growth. To this end we maintain it is a financial stimulus Northern Ireland requires NOT an unstable economic society with constant job losses due to austerity adding to the already societal difficulties outlined above.