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Alan Barrett

Irish Studies in International Affairs, Volume 32, Number 2, 2021, pp. 335-337  
(Article)

Published by Royal Irish Academy



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# Debating the Cost of Irish Reunification

A RESPONSE TO ‘WHY THE SUBVENTION DOES NOT MATTER’

BY JOHN DOYLE

Alan Barrett

Economic and Social Research Institute

John Doyle begins his paper by saying that the issue of the UK financial ‘subvention’ to Northern Ireland has been central to many of the economic debates around a possible united Ireland. One of the first such debates in recent times took place at the annual Dublin Economics Workshop in 2018 when Senator Mark Daly and Professor John FitzGerald of TCD presented arguments on the relative size of the subvention.

I attended that debate and came away with only one certainty. Although the UK’s Office of National Statistics produces data on the net fiscal balances for the countries of the UK, it would be overly simplistic to interpret the figure for Northern Ireland as being the annual cost to the Irish republic of reunification. The interpretation of Northern Ireland’s fiscal balance and what it might mean in the context of reunification is complicated. Professor

Author’s e-mail: [Alan.Barrett@esri.ie](mailto:Alan.Barrett@esri.ie)

doi: <https://doi.org/10.3318/isia.2021.32b.31>

*Irish Studies in International Affairs*, Vol. 32, Issue 2, 335–337, *Analysing and Researching Ireland, North and South*  
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Doyle does an excellent job in illuminating this complexity and thereby allowing the debate to focus on some key fiscal quantities.

The most recent figure (from 2019) provided by the ONS for the Northern Ireland fiscal balance, and quoted by John Doyle, is £9.4 billion. Professor Doyle goes on to argue that the actual fiscal impact on the republic of a united Ireland is likely to be much less. He does this largely by identifying elements of expenditure which the ONS includes in its calculations of the Northern Ireland fiscal balance but which, according to Doyle, are unlikely to transfer as expenditure obligations for the republic in the event of reunification. He also includes some adjustment for tax revenue but it is the expenditure side that dominates.

While I accept the argument that the actual figure is likely to be lower than £9.4b, I am not convinced that the final figure would be as low as Professor Doyle's figure of £2.4b in his Table 2. In moving from £9.4b to £2.4b in Table 2, Doyle argues that £3.4b of spending on pensions and £1.6b of spending on UK debt interest are unlikely to transfer to the republic. In fairness to Doyle, he is not definitive on this point and accepts that much would be determined through negotiation. However, I would be more cautious than Doyle on the likelihood of the UK continuing to accept full responsibility for the combined spending of £5b and I will offer just two points on this.

First, Doyle's argument with regard to pensions is based in part on the view that through payments of social insurance and taxes, individuals accrue entitlements to pensions and that it would be expected that the UK government would honour these entitlements. Doyle makes the point that public pensions in the UK and Ireland are not funded and instead are pay-as-you-go. He also concedes that the UK government would have a reasonable point if they were to ask the Irish authorities to take over this responsibility because of the lack of pre-funding. Doyle seems to argue that, on balance, the UK would continue to pay but I am simply not so sure. I think it is a more likely outcome that the UK government would look at the fiscal balance in aggregate and seek to negotiate a settlement whereby they might continue to pay part of the pensions bill in exchange, for example, for accepting all liability for the UK national debt.

Second, depending on timing, the UK government could be negotiating these issues with the government of Ireland while at the same time anticipating a similar discussion with the government of Scotland. If anything granted to Ireland was then expected by Scotland, the cost to the UK government of any concessions to Ireland would be multiplied. This would alter the negotiation calculations.

The debate on the UK subvention/Northern Ireland fiscal balance will continue but another fiscal impact that needs to be quantified, again touched on by Doyle, relates to the political economy of merging tax and welfare systems where voters will look for the more favourable elements of each system. That could result in a more challenging fiscal task for the republic, especially in the context of potential changes in international tax rules and potential revenue losses.

Finally, Doyle discusses possible routes to improved economic outcomes in Northern Ireland that would in turn reduce the subvention. This was the theme underpinning Seamus McGuinness and Adele Bergin's<sup>1</sup> analysis and focuses attention on policies in areas such as education and training, which can yield positive results regardless of any constitutional considerations.

<sup>1</sup> Seamus McGuinness and Adele Bergin, 'The political economy of a Northern Ireland border poll', *Cambridge Journal of Economics* 44 (4) (July 2020), 781–812, doi: <https://doi.org/10.1093/cje/beaa007>.