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Irish Studies in International Affairs, Volume 32, Number 2, 2021, pp. 314-334  
(Article)

Published by Royal Irish Academy



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# Why the ‘Subvention’ does not Matter: Northern Ireland and the All-Ireland Economy<sup>1</sup>

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## ABSTRACT

The figure of £10 billion, frequently quoted as representing the UK government annual subvention to Northern Ireland, is a UK accounting exercise. The total includes central UK government costs allocated to Northern Ireland that would not be relevant to a united Ireland. This article analyses the most significant elements of the subvention—pensions, UK national debt repayments, defence expenditure, other non-identified expenditure, and under-estimates of Northern Ireland’s share of UK tax revenues. It concludes that those elements

<sup>1</sup> Read a Response to this article by Alan Barrett, *Irish Studies in International Affairs: ARINS* 32 (2) (2021), <https://doi.org/10.3318/isia.2021.32b.31>.

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doi: <https://doi.org/10.3318/isia.2021.32b.30>

of the current subvention that are likely to transfer to a united Ireland would represent a deficit of approximately €2.8b. As existing economic models of an all-island economy predict a positive impact on economic growth, at a level sufficient to cover this deficit the economic debate on Irish unity needs to move on from a discussion of the subvention. The debate now needs to focus on the public policy decisions necessary to support sustainable economic growth and to maximise the benefits of a larger and integrated all-island economy. The underlying economy, taxation system and the type of public services that are provided in health, welfare, education and infrastructure, will be the real issues that will shape the costs and benefits of a united Ireland.

## INTRODUCTION

The public debate on the economics of a united Ireland has been dominated by constant references to the UK financial ‘subvention’ to Northern Ireland.<sup>2</sup> UK government statistics report the gap between taxation raised in Northern Ireland and public expenditure there at almost £10 billion, which has raised questions about the sustainability of the cost of a united Ireland.<sup>3</sup> However, the frequently quoted figure of £10b has not been analysed from the perspective of its relevance for the debate around a future united Ireland. The Northern Ireland ‘subvention’ is in essence the public sector deficit for Northern Ireland as calculated by the UK Office for National Statistics, and is an accounting exercise for the UK state. Its three essential components are, taxation raised by the UK in Northern Ireland, public expenditure in Northern Ireland and an allocation to Northern Ireland of central UK expenditure including defence, national debt repayments, central government and British embassies abroad. Therefore, an analysis of the possible impact of the subvention in the early years of a united Ireland requires a detailed consideration of the different elements within it, and also a political judgement as to which would carry over to a united Ireland, what would be irrelevant to a new Irish state, and what might be funded transitionally by the UK as an ongoing legacy commitment.

<sup>2</sup> The author would like to thank a number of people who gave generously of their time in seeking to clarify some aspects of this article—in particular John FitzGerald, Adele Bergin, Seamus McGuinness and the anonymous peer-reviewers. They are not responsible and may not agree with my final analysis.

<sup>3</sup> See for example David Green, ‘Northern Ireland is a burden on the rest of the UK’, *Daily Telegraph*, 10 October 2019; Newton Emerson, ‘Sinn Féin is still trying to wish away economic realities of a united Ireland’, *Irish Times*, 19 November 2020.

To understand how the subvention has been constructed, this article will first explore the emergence historically of a deficit in Northern Ireland's public finances and the background to the relatively weak economy. Following this, it will deconstruct the subvention, as reported in UK financial statistics, to clarify how it is calculated. It will then analyse the largest of those individual elements and discuss the extent to which they would be likely to transfer to a united Ireland. Finally, the scale of the subvention will be contextualised by a discussion of the areas where off-setting economic benefits could see that deficit end while also supporting good-quality public services.

### THE BACKGROUND TO THE SUBVENTION

Northern Ireland did not always receive a subvention and at the time of partition, the Belfast region was the most industrialised part of the island of Ireland. When Northern Ireland was created it ran a government surplus and paid an annual 'Imperial Contribution' to the British government. However, as the economy declined, from the late 1920s onwards, the level of this payment fell and by 1938 the UK government was subsidising the cost of public services in Northern Ireland.<sup>4</sup> Although the subsidy was modest, even at this stage the Northern Ireland economy was demonstrating the weaknesses which would see it remain consistently among the poorest regions in the UK. In the late 1930s Northern Ireland had an unemployment rate of 20%, a per capita income just over half of the UK average, and very undeveloped social services by British standards.<sup>5</sup> The war-time economy, and the post-war boom of the late 1940s, led to some economic development, but by the 1950s the economy was significantly dependent on a subvention from London. On the eve of the Troubles in 1966, Northern Ireland had an estimated deficit of almost £1 billion, in 2014 prices. As the conflict deepened so too did the scale of the subvention. In consistent 2014 prices, it increased four-fold to almost £4 billion by 1974 and then more gradually to just over £5.5b by the time of the 1994 ceasefires.<sup>6</sup> The subvention peaked at £11.5 billion in 2009, dropping back to £9.4b in 2020. The economic cost of the Covid-19 pandemic will see a significant one-off increase in the subvention, but it is the scale and composition of

<sup>4</sup> Bob Rowthorn, 'Northern Ireland: an economy in crisis', *Cambridge Journal of Economics* 5 (1) (1981), 1–31: 3.

<sup>5</sup> Rowthorn, 'Northern Ireland: an economy in crisis', 2.

<sup>6</sup> Office for National Statistics (UK), Regional public finance statistics: <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/articles/countryandregionalpublicsectorfinances/previousReleases> and <https://cain.ulster.ac.uk/ni/economy.htm#02> (accessed 25 May 2021).

the underlying deficit that is relevant to the debate on the political future of the island.

There is a broad consensus that Northern Ireland's economy is very weak, that this weakness predated the modern conflict and also that the economic growth that was expected after the 1998 Good Friday Agreement has been very modest.<sup>7</sup> The public sector remains a very significant part of the economy and levels of poverty are among the highest of all UK regions.<sup>8</sup> Agriculture and Fisheries, strongly supported by EU policies until Brexit, play a comparatively important role in the economy, given the weak state of the industrial and service sectors. EU funding, including subsidies from the Common Agricultural Policy and the designated Peace Funds, from 2007 to 2013, was equivalent to approximately 8.4% of Northern Ireland's GDP.<sup>9</sup> Productivity remains low in Northern Ireland, with employment in low-productivity sectors such as agriculture and mining making up a much greater part of the labour market than in the UK as a whole. The proportion of people working in agriculture is almost 2.5 times the UK average, and employment in higher-wage sectors is correspondingly much lower.<sup>10</sup> Published unemployment levels are low, but those who are unemployed are much more likely to be long-term unemployed than those in the rest of the UK, or Ireland, and the proportion of people relying on benefits to compensate for low wages, or due to disability, is very high.<sup>11</sup> In total, 27% of all of those aged 16 to 64 are 'economically inactive', that is, they are neither working nor seeking work.<sup>12</sup> This is the highest rate of economic inactivity of those aged 16 to 64 of any region in the UK. Involvement in full-time education and training typically accounts for the bulk of 'economic inactivity' among the younger age cohort

<sup>7</sup> John Bradley, 'The Agreement's impact on economic and business cooperation', *Irish Political Studies* 33 (3) (2018), 311–30; Colin Coulter, 'Northern Ireland's elusive peace dividend: neoliberalism, austerity and the politics of class', *Capital & Class* 43 (1) (2019) 123–38.

<sup>8</sup> Feargal McGuinness, *Poverty in the UK: Statistics*, House of Commons Library Briefing Paper, Number 7096 (London, 2 May 2017).

<sup>9</sup> L. Budd, 'The Consequences for the Northern Ireland economy from a United Kingdom exit from the European Union', *Briefing note: Committee for Enterprise, Trade and Investment* (Open University, 2015).

<sup>10</sup> Richard Johnston, Gillian McCausland and Karen Bonner, *The Competitiveness Scorecard for Northern Ireland: A framework for measuring economic, social and environmental progress* (Ulster University Economic Policy Centre 2020), 69–77. Available at: [https://www.ulster.ac.uk/\\_data/assets/pdf\\_file/0011/797285/Competitiveness-Scorecard-for-NI.pdf](https://www.ulster.ac.uk/_data/assets/pdf_file/0011/797285/Competitiveness-Scorecard-for-NI.pdf) (25 May 2021).

<sup>11</sup> Johnson *et al.*, *The Competitiveness Scorecard*, 99; Ciara Fitzpatrick and Charles O'Sullivan, 'Comparing social security provision in the north and south of Ireland: past developments and future Challenges', *Irish Studies in International Affairs: ARINS* 32 (2) (2021), 284–314.

<sup>12</sup> Northern Ireland Executive, *Labour Market Statistics*, 16 June 2020. Available at: <https://www.northernireland.gov.uk/news/labour-market-statistics-19> (25 May 2021).

in other countries. However, in Northern Ireland only 74% of 15 to 19 year olds are in full-time education or training, compared, for example to 93% of 15 to 19 year olds in the republic, re-enforcing the poor comparative performance of Northern Ireland.<sup>13</sup> In the latest available figures for those aged 16 to 65 relying on income support benefits, 11% of Northern Ireland's population was drawing an Employment and Supports Allowance (available to those with a disability or health condition that affects how much they can work), 6% were on Disability Living Allowance, while 5% were on Income Support or Job Seekers Allowance.<sup>14</sup>

It is normal internationally for states to have differences in living standards between different regions and in the UK the economy is dominated by London. Like Northern Ireland, Scotland and Wales also run deficits as would most regions in England if they had devolved government.<sup>15</sup> For Northern Ireland the difference is that the published deficit is large, by comparison, and the debate surrounding it is politically charged. Focusing on the subvention is seen by some unionists as a critique of Northern Ireland redolent of Charles Haughey's famous phrase a 'failed political entity'.<sup>16</sup> To overcome this, the 2016 Ulster Unionist Party manifesto highlighted that Northern Ireland did not always require a subvention, choosing to emphasise Northern Ireland's ability to improve economically, rather than acknowledging the level of support from Britain.<sup>17</sup> In contrast, supporters of a united Ireland see the calculation of the subvention as exaggerated and part of a 'project fear' campaign by British Conservatives—similar in style to the 2014 campaign against Scottish independence.<sup>18</sup>

Northern Ireland's economy is weak, and levels of poverty are high, compared to either Ireland or other regions of the UK. As the economy in the Irish republic developed over the past quarter century, Northern Ireland's has remained by comparison stagnant. The subvention is a symptom of this

<sup>13</sup> Adele Bergin and Seamus McGuinness, 'Who is better off? Measuring cross-border differences in living standards, opportunities and quality of life on the island of Ireland', *Irish Studies in International Affairs* 32 (2) (2021), 143–60: 152.

<sup>14</sup> Johnson *et al.*, *The Competitiveness Scorecard*, 108.

<sup>15</sup> ONS Country and Regional Balance reports various years, available at: <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/articles/countryandregionalpublicsectorfinances/previousReleases> (25 May 2021).

<sup>16</sup> Donnacha Ó Beacháin, *From partition to Brexit: the Irish government and Northern Ireland*, (Manchester, 2019), 187.

<sup>17</sup> Ulster Unionist Party, *Election Manifesto: Make it Work* (Belfast, 2016). Available at: <http://uup.org/assets/images/assembly%20manifesto.pdf#page=18> (25 May 2021).

<sup>18</sup> Michael Keating, *Debating Scotland: issues of independence and Union in the 2014 referendum* (Oxford, 2017).

weakness, but it is incorrect to assume that it would simply transfer in its totality to a united Ireland. Understanding how the UK state calculates the subvention is therefore essential to analysing what parts of it would be relevant to a united Ireland.

## CALCULATING THE SUBVENTION

The figure of £10 billion for the Northern Ireland subvention, so often quoted in the media, is not an estimate of the deficit that would exist on day one of a united Ireland, even though it is frequently used as though it is.<sup>19</sup> It is not calculated by the UK Office for National Statistics for that purpose. The UK Office for National Statistics publishes a figure annually as part of its *Net Public Balances Report* (NPBR)<sup>20</sup> and its most recent report stated that the gap between revenue raised in Northern Ireland and public expenditure in Northern Ireland, plus an allocation to Northern Ireland of a share of central UK public expenditure, is just under £9.4 billion for the year ended 2019.<sup>21</sup> This section unpicks this calculation of the deficit, discussing the nature and accuracy of the estimates used. This is an essential first step to a discussion of which elements of the subvention are likely to be relevant in the context of a united Ireland.

The Office for National Statistics (ONS) also regards these figures as ‘experimental statistics’, that is, statistics that are still in their ‘development phase and are published to involve potential users at an early stage in building a high-quality set of statistics’.<sup>22</sup> Determining what revenue is raised in Northern Ireland and what public expenditure should be allocated to Northern Ireland is not a simple task and the ONS acknowledge that different methodologies will give different results. However, taking the ONS figures as the best available, it is possible to examine what would be relevant to a united Ireland, as the methods by which this accounting exercise is carried out both underestimate the levels of taxation that would be collected by a united Ireland, and

<sup>19</sup> For example, Emerson, ‘Sinn Féin is still trying to wish away economic realities of a united Ireland’.

<sup>20</sup> ONS, *Net Public Balances Reports*.

<sup>21</sup> ONS, *Net Public Balances Reports*, 2019. Available at: <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/articles/countryandregionalpublicsectorfinances/financialyearending2019#public-sector-net-fiscal-balance> (25 May 2021).

<sup>22</sup> ONS methodology note on NPBRs. Available at: <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/articles/countryandregionalpublicsectorfinances/financialyearending2019#public-sector-net-fiscal-balance> (25 May 2021).

over-state the expenditure that would transfer to the new state. Table 1 gives details of the different categories within the subvention calculation, which are then discussed below.

### *Taxation raised in Northern Ireland*

Taking the issue of taxation first, some elements of the estimation of revenue raised in Northern Ireland are relatively straightforward. For example, income tax and domestic rates paid by individuals who are resident there, and VAT and business taxes for firms based exclusively in Northern Ireland. However, many other taxes can only be estimated. VAT, Capital Gains Tax and corporation taxes paid by companies with activities throughout the UK are almost always paid through their head office address, and there is a significant bias towards London as the HQ of so many companies. It is not

**Table 1.** Summary of Northern Ireland deficit, for year ended 2019, as reported by ONS

	<b>£m</b>	<b>£m</b>
Total revenue NI		18,521
• Taxes raised in NI and estimates of other taxes related to NI activity	16,183	
• GOS accounting adjustments (largely depreciation)	2,338	
• Total published revenue	18,521	
Current expenditure		25,233
Capital expenditure		2,655
Break-down of expenditure		
• ‘Identifiable’ expenditure	21,807	
• Outside UK expenditure (allocated to NI on population basis)	765	
• ‘Non-identifiable’ expenditure (central UK spending allocated to NI on population basis)	2,105	
• Accounting Adjustments (largely depreciation)	3,211	
• Total published (managed) expenditure	27,888	
Deficit		-9,367



possible to tell from business' VAT returns how much VAT has been paid in a given region. Likewise, the share of corporation tax 'earned' in different regions can only be estimated. The Northern Ireland Council for Voluntary Action (NICVA), the largest representative umbrella body for the voluntary and community sector in Northern Ireland, published a report in 2014 on the weakness of Northern Ireland's economic data, including estimates of business taxes, Capital Gains Tax and VAT, and the negative consequences of this for evidence-based policy-making in the region. The estimate for VAT raised in Northern Ireland is, according to NICVA, based on a survey of only 147 businesses, collected for a different purpose.<sup>23</sup> In Table 1 the amount of taxation raised in Northern Ireland is the amount that is reported by the UK Office for National Statistics.

### *Identifiable expenditure in Northern Ireland*

The first element of expenditure used in calculating the subvention is public expenditure in Northern Ireland; that is, spending on health, education, policing etc. This is called 'identifiable expenditure' by the ONS. In many cases this can be accurately calculated, for example, the costs of the Police Service of Northern Ireland, or local government in Northern Ireland. However, even though the term 'identifiable expenditure' suggests a high degree of accuracy, where expenditure is mixed between Northern Ireland-based institutions and central UK institutions such as the National Health Service, NICVA conclude that 'much of the spending allocated to Northern Ireland is simply a convention of UK Treasury accounting rather than the *actual* level of spending'.<sup>24</sup> NICVA focused on a few key areas where the degree of reliability of data is so poor as to make analysis risky. For example, they argue that the detail required to identify health spending in and for Northern Ireland is not available.<sup>25</sup> While accurate for the UK as a whole, the figures do include estimates, when they are broken down by region, whose accuracy for Northern Ireland it is not possible to test at this time. The figures used in the analysis below are the best available, but subject to this qualification.

<sup>23</sup> NICVA, *A Commentary on Economic Data in Northern Ireland* (Belfast, 2014), 15. Available at: [https://www.nicva.org/sites/default/files/d7content/attachments-resources/economic\\_data\\_march2014.pdf](https://www.nicva.org/sites/default/files/d7content/attachments-resources/economic_data_march2014.pdf) (25 May 2021).

<sup>24</sup> NICVA, *A Commentary on Economic Data in Northern Ireland*, 4. Available at: [https://www.nicva.org/sites/default/files/d7content/attachments-resources/economic\\_data\\_march2014.pdf](https://www.nicva.org/sites/default/files/d7content/attachments-resources/economic_data_march2014.pdf) (25 May 2021).

<sup>25</sup> NICVA, *A Commentary on Economic Data in Northern Ireland*, 14.

### *Non-identifiable expenditure and expenditure outside the UK allocated to Northern Ireland*

A key element of expenditure within the subvention calculation is the allocation of over £2.1b of central UK expenditure to Northern Ireland, primarily on a per capita basis, without any significant analysis of where the benefits of that expenditure might appropriately lie. This ‘non-identifiable’ expenditure includes areas of expenditure that might not transfer at all, or at the same level to a united Ireland. For example, the ‘non-identifiable’ expenditure allocated to Northern Ireland includes £1.14 billion for UK defence. Only a tiny amount of this expenditure takes place in Northern Ireland, and it includes expenditure that a united Ireland would not incur at all, such as the cost of the Trident nuclear weapons programme.

Central UK expenditure that is incurred outside of the UK is itemised separately in ONS figures and in 2019, £765m was allocated to Northern Ireland on a per capita basis. This would include costs such as the UK diplomatic service.

### *Accounting adjustments*

Like all published public financial data, the figures produced for Northern Ireland include a number of accounting adjustments. Primarily these relate to how depreciation is treated and some technical issues related to VAT.

There are three key difficulties in using the published subvention figure as a proxy for the cost of a united Ireland. First, the data as published has very large components that will be the subject of the negotiations that would take place between the British and Irish governments following referendums to create a united Ireland. Therefore, a political judgement is required as to the likely outcome of such negotiations. Second, adjustments need to be made to reflect public policy decisions on issues such as defence, or the relative size of a united Ireland’s diplomatic service where there is no likelihood that a united Ireland would increase its budgets by the amounts included in the subvention. Third, as discussed, the data has limitations, and it is possible to estimate some of the other adjustments that need to be made to better reflect the relevant costs. The following section deconstructs the largest elements within the subvention, on the basis of these three issues, and discusses the extent to which they would be relevant to a united Ireland.

## THE POTENTIAL DEFICIT FIGURE INHERITED BY A NEW UNITED IRELAND

The public finance deficit that would be likely to transfer to a united Ireland is significantly less than £9.4b per annum. The following section explores some of the biggest elements of the published accounts, discussing their continuing relevance in the context of a united Ireland. It looks in turn at pensions, a possible contribution to UK national debt repayments, defence expenditure, other non-identified expenditure included in the current subvention figure, accounting adjustments outside of UK expenditure, and under-estimates of Northern Ireland's share of UK tax revenues. Table 2 then recalculates the subvention based on the costs that would be likely to be assumed by a united Ireland.

### *Cost of pensions*

One of the biggest issues to be negotiated between the Irish and British governments, following referendums that resulted in decisions to create a united Ireland, would be liability for pensions. The latest published figures for Northern Ireland relate to 2018, and give a total cost of £3.438 billion, but given the nature of pensions the costs are unlikely to have altered very much since then.<sup>26</sup> This is the comprehensive cost of pensions benefits, paid to people whose address is in Northern Ireland, and it includes both public occupational pensions that are not covered by a separate pension fund, and means-tested pensions.

This cost of pensions would be unlikely to transfer to a united Ireland. At present, the UK pays pensions to people who have worked some or all of their lives in the UK, but now live elsewhere. Many Irish citizens, in retirement in Ireland, receive their UK pension seamlessly, and the two tax and social welfare systems have a well-developed model of cooperation. It seems consistent that the UK would pay pension liability that had been built up, based on individuals' tax and social insurance contributions or caring responsibilities, during Northern Ireland's membership of the United Kingdom, leaving

<sup>26</sup> HM Treasury, Public Expenditure Statistical Analysis 2019. Available at: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/818399/CCS001\\_CCS0719570952-001\\_PESA\\_ACCESSIBLE.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/818399/CCS001_CCS0719570952-001_PESA_ACCESSIBLE.pdf), 170; see also a methodological note on p.120.

the new Irish state to take over liability building up from the date of the creation of the new state. Accepting liability for pensions built up while working in the UK would also be consistent with the approach taken during the UK's withdrawal from the EU.<sup>27</sup> Like Ireland, all social welfare-based pensions and most public sector employment-based pensions are paid from general taxation and not from a legally separated fund. However, there is a strong sense of pension 'entitlement' in both Ireland and the UK, notwithstanding the absence of legally separate pension funds. While the UK could reject any obligation to pay such pensions, a refusal to acknowledge lifelong contributions through social insurance (or equivalent caring responsibilities) would lead to very inconsistent outcomes. A person who worked in the UK, and retired to Dublin or Spain, would get a UK pension, in the current practice, but if they lived and stayed in Northern Ireland they might not. If people had worked for some of their life in Britain and some in Northern Ireland, how would their contributions be divided up as between the years spent working in Northern Ireland compared to in Britain? There is no further breakdown of these pension costs, between for example means-tested and 'contributory' pensions, or between the cost of direct cash payments versus other pension-related benefits.

While pensions will be a matter for bi-lateral negotiation between the two governments, it is consistent with other practice that the UK would accept such obligations, which had been built up through tax and social insurance contributions, and caring responsibilities up to the date of Northern Ireland leaving the UK, while a united Ireland would take over such future liabilities building up from day one of the new state. This is also the most likely manner in which the UK would cover a transitional (and by definition annually declining) financial contribution to Northern Ireland, post-unity.

#### *UK public debt*

The second largest element of the subvention relates to the share of UK public debt, which has been 'allocated' by the Office for National Statistics to Northern Ireland on a per capita basis. This debt is the legal responsibility of the UK, and any agreement from the government of Ireland to take over some of the debt could only be agreed voluntarily, as part of a wider transitional package. In reality, because of the scale of the public deficit over many

<sup>27</sup> See Federico Fabbrini (ed.), *The law and politics of Brexit, Volume II. The Withdrawal Agreement* (Oxford, 2020).

decades, ‘Northern Ireland’ has not made any contribution to UK debt repayments since the 1950s. In practice, an amount of debt repayment expenditure is allocated to NI, whose only effect is to increase the subvention. This cost is actually covered by the UK Treasury. Therefore, there would be no real additional cost to the UK, compared to what they have been paying over many years. In the historic case of the creation of the Irish Free State, the allocated share of UK debt was written off in 1925 when the Free State accepted the boundary commission report, which the UK regarded as the finalisation of the transition from the point of view of UK law.<sup>28</sup> In the event of a vote to create a United Ireland, Northern Ireland would be leaving the UK in accordance with the provisions of UK law, and therefore the Free State precedent is relevant.

In comparable international cases, assets as well as liabilities were distributed between two successor states, and the political context for these negotiations has been important.<sup>29</sup> International precedent suggests that if in negotiations during transition, the UK government pushed to have Ireland take over a share of UK debt, Ireland would then be entitled to a proportionate share of UK assets outside Northern Ireland—both national institutions based throughout the UK, and embassy and state properties outside UK territory. While it is possible to value Northern Ireland’s share of UK assets outside Northern Ireland, it is more probable that some form of stand-still agreement would be reached, whereby the new united Ireland would waive its rights to a share of UK ‘national’ property, outside Northern Ireland, and of UK assets abroad, and in return the UK would not seek to transfer a proportion of the UK national debt to a united Ireland.

ONS data gives a figure of £1.6b as Northern Ireland’s 2019 contribution to interest on the UK national debt.<sup>30</sup> Table 2 excludes this figure, as Ireland would have no legal liability to pay any part of it. If negotiations on a transition to a united Ireland conclude with the government of Ireland agreeing to voluntarily take on some element of UK public debt, as part of a wider agreement, the inclusion of Northern Ireland’s potential share of assets would significantly reduce the amount at stake compared to the subvention calculation at present. Certainly, if the UK simply reneged on any responsibilities for

<sup>28</sup> Donnacha Ó Beacháin, *From Partition to Brexit*, 27–28.

<sup>29</sup> Alan Freeman and Patrick Grady, *Dividing the House: planning for a Canada without Quebec* (New York, 1995).

<sup>30</sup> ONS Expenditure data 2019. Available at: <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/articles/countryandregionalpublicsectorfinances/financialyearending2019#public-sector-expenditure> (25 May 2021).

pension payments it would seem highly unlikely that a future government of Ireland would agree to repay any loans for which it had no legal responsibility. Therefore, it is impossible that the level of subvention impacting a united Ireland would include both pensions and debt.

### *Defence*

The third largest element of the Northern Ireland subvention is an amount of £1.139b per annum that is allocated to Northern Ireland as its share of UK-wide defence expenditure. This is entirely separate from other security-related costs, such as the police, courts, and prisons, which are clearly identified separately. Only a tiny proportion of this expenditure takes place in Northern Ireland and it includes, for example, a pro-rata contribution to the UK nuclear weapons programme and the UK's international commitments in Iraq and Afghanistan. To put this figure in context, the Irish defence budget was approximately €1b in 2019.<sup>31</sup> It is very likely that in the context of unity, British military personnel from Northern Ireland would be given the choice to stay in the UK armed forces or move at equivalent rank to the new Irish Defence Forces; however, given the different scale and promotion possibilities and also issues of identity, it may well be that few would transfer immediately. A united Ireland might decide not to increase defence expenditure at all, creating no additional costs. Certainly, it would be very unlikely to decide to immediately double the defence budget. While the number of personnel who would transfer is impossible to estimate, even allowing for a 20% increase (€200m) in the new defence budget would represent a saving of €925m from the current published subvention figure for Northern Ireland, and that reduction is included in Table 2.

### *Non-identified expenditure*

In addition to debt repayments and defence, the published deficit figure for Northern Ireland includes an allocation of another £457m per annum of central UK spending classified as 'non-identified expenditure', that is, central UK government expenditure where it is either not possible, or would be too expensive, to break down the costs by region.<sup>32</sup> This is a standard approach

<sup>31</sup> Government of Ireland, *Trends in Public Expenditure 2009–2019*, October 2020. Available at: <https://igees.gov.ie/wp-content/uploads/2020/11/Trends-in-Public-Expenditure-2009-2019.pdf>, 46.

<sup>32</sup> ONS, *Country and Region expenditure tables, 2019*. Available at: <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/datasets/countryandregionalpublicsectorfinancesexpendituretables> (25 May 2021).

in national statistics, and ‘Northern Ireland’ would contribute towards such costs in a new united Ireland. However as there is a very limited breakdown of this figure, it is not possible to calculate whether public expenditure of a new united Ireland would need to increase pro-rata to cover real additional costs, or if this would simply be an accounting allocation of costs that would change very little—for example Northern Ireland’s share of the costs of the president or an taoiseach. In the case of the latter, while it would be legitimate to ‘allocate’ those costs across the whole island, there would be no additional cost to a united Ireland compared to the existing situation.

There has been some public debate that such ‘non-identified expenditure’ includes costs such as the British royal family, which would not be relevant to a united Ireland and others have argued that a portion of these costs should be excluded on that basis. In reality, the real cost of the UK royal family is in land ownership and taxes foregone, a potential loss of income that would not be relevant, either way, to a united Ireland. Northern Ireland’s pro-rata contribution to the Sovereign Grant of £70m is not fiscally relevant, however symbolic. Therefore, the summary of the adjustments in Table 2 does not make any further reduction based on the £457m ‘unknown’ allocations of non-identified expenditure to Northern Ireland. There is very likely to be some further savings, but this more conservative accounting also allows some contingency against inevitable increases in expenditure in some areas.

### *Accounting adjustments*

Accounting adjustments increased the expenditure allocated to Northern Ireland by £3.2b in 2019. This figure is primarily an accounting treatment of capital depreciation and of VAT refunds. John FitzGerald and Edgar Morganroth argue that the depreciation element, which they estimate at £2b per annum, is also included on the revenue side of the subvention calculation in de facto terms by the ONS, as part of the Gross Operating Surplus and is not therefore increasing the deficit. Even though they accept that the detail of the balance is hard to untangle, they do not exclude any of the ‘accounting adjustments’ from the calculation.<sup>33</sup> While the combined effect of the published adjustments, to both income and expenditure for 2019, is to increase the published subvention by £873m, it is not possible from published data to further break down whether any part of this €873m in net accounting adjustments

<sup>33</sup> FitzGerald and Morganroth, *The Northern Ireland economy*, 54



would impact on the scale of the subvention that would transfer to a united Ireland. The report for the Irish Oireachtas compiled by Mark Daly chose to exclude accounting adjustments in their entirety on the basis that they do not represent actual expenditure, which a new state would need to find on day one.<sup>34</sup> There may well be some savings for a future united Ireland, but it would not be the full amount and it would not be prudent to claim possible savings in the absence of further data. Therefore, Table 2 makes no adjustment on this basis, and follows the conservative approach taken by FitzGerald and Morganroth, as the final details of ‘accounting adjustments’ are unclear and any additional saving to a future united Ireland may be limited.

### *Outside of UK expenditure*

£765m of expenditure is allocated to Northern Ireland as a pro-rata contribution to UK state expenditure outside the territory of the UK.<sup>35</sup> There is a very limited breakdown of this expenditure, but it includes Northern Ireland’s share of the UK’s EU contribution, along with costs of the Foreign Office and overseas aid. If a new united Ireland chose to increase the size of the Department of Foreign Affairs and Trade and the scale of Ireland’s development aid programme on a pro-rata basis, then any saving here would be modest. A united Ireland’s contribution to the EU, ‘on behalf of’ Northern Ireland, would actually increase, as the UK received a very large rebate on its contribution. However, the increased costs of development aid and diplomacy, compared to Ireland’s current commitments, are future policy choices, competing with domestic programmes. They are not legacy public spending that would have to be met on day one. As such they should not be considered part of the ‘subvention’ to be inherited, but rather one of the many policy choices facing a new united Ireland. It is also probable that a transitional agreement delaying the payment of an increased EU contribution would be forthcoming from the European Commission (or perhaps more likely, an equivalent and off-setting EU spending programme to assist transition). This would inevitably be time-limited, but it would assist economic development and transition in the immediate aftermath of the new

<sup>34</sup> Gunther Thumann, *Northern Ireland’s income and expenditure in a reunification scenario* (Dublin: Joint Oireachtas Committee on the Implementation of the Good Friday Agreement, 2017). Available at: <https://senatormarkdaly.files.wordpress.com/2019/10/imf-merged-.pdf> (25 May 2021).

<sup>35</sup> ONS Country and Region Expenditure Tables. Available at: <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/datasets/countryandregionalpublicsectorfinancesexpendituretables> (25 May 2021).



state's creation. Therefore, it is reasonable to largely exclude this figure from the calculation of a deficit for day one of a united Ireland, but to retain it as part of the public policy choices that have to be made during the transition and in the early years of a new state, when the income from taxation is also known. Table 2 below therefore reduces this 'outside of UK' expenditure by £500m per annum.

#### *Under-estimates of Northern Ireland's share of UK tax*

As discussed above, taxes such as corporation tax, CGT and VAT are generally paid by companies from their head office regardless of where that profit was earned, or activities conducted. This exaggerates the tax earned in London, on ONS accounts, as London is the head office address of many companies, which have operations throughout the UK, whereas there are far fewer companies headquartered outside London who make most of their profit in London. The impact of this is to under-report the relevant taxes for Northern Ireland and other regions. FitzGerald and Morgenroth recalculate these taxes based on Northern Ireland's ratio of UK Gross Operating Surplus, rather than per capita, to better estimate Northern Ireland tax revenues and they estimate that doing this increases Northern Ireland tax revenues by approximately £500m pa.<sup>36</sup>

Table 2 includes no allowance for any reduction in the size of the Northern Ireland public service—which was the approach taken by Senator Mark Daly<sup>37</sup> in his report to the Oireachtas—nor does it include any adjustments to account for possible economic growth. These are matters for future policy decision and not part of the subvention that would be inherited. What is very clear, however, is that the published subvention figure of £10b is almost irrelevant for the purpose of estimating the likely costs of a united Ireland. There will be an inherited deficit of approximately £2.4b, but there are important factors that will impact on that figure, both positively and negatively, most crucially economic performance and public policy decisions.<sup>38</sup> The next section discusses this wider economic context within which the subvention needs to be placed.

<sup>36</sup> FitzGerald and Morganroth, *The Northern Ireland economy*.

<sup>37</sup> Thumann, *Northern Ireland's income and expenditure in a reunification scenario*.

<sup>38</sup> Paul Gosling, *A new Ireland, a new union, a new society: a ten year plan* (Derry, 2020), starts an interesting discussion on the public policy choices; see John Doyle, Cathy Gormley-Heenan and Patrick Griffin, 'Editorial: Introducing ARINS—Analysing and Researching Ireland, North and South', *Irish Studies in International Affairs* 32 (2) (2021), vii–xvii for an outline of the ARINS project.

**Table 2. A recalculated subvention to reflect those elements relevant to a United Ireland**

	£m	£m
Published UK deficit by UK's Office of National Statistics, 2019		9,367
Saving from this figure as discussed above		
• UK pensions	3,438	
• Allocated UK debt charges	1,600	
• Reduction in UK Defence allocation (allowing for a 20% incr. in Ireland's defence budget)	925	
• Tax underestimate due to 'HQ' effect of London-based companies	500	
• Outside of UK expenditure, reduction of scale	500	
Total adjustments to subvention carrying over to a united Ireland		6,963
Remaining subvention, before policy decisions		2,404

#### THE SUBVENTION AND A NEW ALL-ISLAND ECONOMY

Those elements of the current subvention that are likely to transfer to a united Ireland on day one, converted to euros at today's rates, would represent a deficit of approximately €2.8b, and are within a range that a future state could cope with on a transitional basis. The precise 'subvention' will be subject to the negotiations between the Irish and British governments, and the level of short-term transitional support from the European Union and perhaps the USA. The most important issue for future public finances of a united Ireland is not the subvention, but rather the performance of the all-Ireland economy and the public policy decisions taken by the new state in the areas of health, education and welfare. While some work has been carried out on the potential benefits of a fully integrated all-Ireland economy, the academic research and public debate on what policy would be adopted by a new Irish state has hardly begun.<sup>39</sup> Even at this early stage it is clear that the areas of concern in public services are health, welfare benefits

<sup>39</sup> KLC Consulting, *Modelling Irish Unification* (Vancouver, 2015). Available at: [https://cain.ulster.ac.uk/issues/unification/hubner\\_2015-08.pdf](https://cain.ulster.ac.uk/issues/unification/hubner_2015-08.pdf) (25 May 2021).

and education. People in Northern Ireland are concerned that they might lose the benefits of the NHS, while there is concern at the potential cost of increasing pensions and benefits in Northern Ireland to the much higher levels paid in the republic.

Research and debate on the economics of a united Ireland needs to focus on analysing the likely economic benefits of a fully integrated economy and identifying public policies that would promote positive outcomes. Ultimately, if the local economy reflected either UK or Irish averages in terms of local GDP/GNI, then the very idea of a subvention would be irrelevant. Current tax revenues are approximately €59b in Ireland and €17b in Northern Ireland (taking account of underreported business taxes discussed above). If the starting point, for example, is a requirement to raise €4b per annum to deal with an underlying deficit and provide some additional resources for public services, this would represent an increase in taxation revenues of just over 5% above current combined levels. KLC Consultants in one study predicted GDP per capita growth, following the creation of a united Ireland, of between 4% and 7.5%.<sup>40</sup> The basis for such economic growth could be envisaged in a number of ways.

International tourism revenues to Ireland were estimated at €7.3b in 2018.<sup>41</sup> In Northern Ireland the equivalent figure was only €1.4b.<sup>42</sup> Pre-Covid, Ireland was beginning to reach almost saturation levels of tourism during high season in key cities and attractions, most notably Dublin and Galway cities, and sites such as the Cliffs of Moher and Newgrange, leading to congestion and excessive conversion of housing units to short-lets. Growing the tourism industry on the island of Ireland will require diversification both in the length of the season and in geographic spread. The phenomenal success of the Wild Atlantic Way tourist branding has brought a boost to the west of Ireland economy.<sup>43</sup> However, promoting a united all island-focused tourism product has proven politically challenging and the Wild Atlantic Way stops at the border, as does the branding of Ireland's Ancient East, due to unionist

<sup>40</sup> KLC Consulting, *Modelling Irish Unification*, p. 52.

<sup>41</sup> Fáilte Ireland Research, 'Key tourism facts 2018' (September 2019). Available at: [https://www.failteireland.ie/FailteIreland/media/WebsiteStructure/Documents/3\\_Research\\_Insights/Key-Tourism-Facts-2018.pdf?ext=.pdf](https://www.failteireland.ie/FailteIreland/media/WebsiteStructure/Documents/3_Research_Insights/Key-Tourism-Facts-2018.pdf?ext=.pdf) (25 May 2021).

<sup>42</sup> Tourism Northern Ireland, 'Tourism performance Jan to Dec 2019—At a glance'. Available at: <https://tourismni.com/globalassets/industry-insights/tourist-performance-statistics/jan---dec-2019/at-a-glance-jan-dec-2019-v3.pdf> (25 May 2021).

<sup>43</sup> Gerard Dunne, Enita Sprince and Kevin Griffin, 'The Wild Atlantic Way: a tourism journey', *Irish Geography* 53 (2) (2020), 127–44.

sensitivity about all-island marketing.<sup>44</sup> Given the very undeveloped tourism market in Northern Ireland, all-Ireland promotion, and the ‘feel-good’ or simple curiosity factors encouraged internationally after a united Ireland was created, would offer disproportionately greater opportunities for Northern Ireland, while also growing total revenues, and not just displacing visitors from one part of Ireland to another. Simply growing tourism revenues in Northern Ireland, to a pro-rata equivalent level of what has been already achieved in the republic, would produce a 100% increase in Northern Ireland revenues.

Foreign Direct Investment (FDI) in Ireland saw over 21,800 new jobs created in 2019, which, allowing for job losses, represented a net increase of 9,000 jobs, on a base of approximately 250,000 workers in FDI supported companies.<sup>45</sup> Over the five-year period 2015–19, there was a net increase of 56,000 jobs in IDA supported companies. Northern Ireland, in contrast, saw 8,700 new jobs created in internationally supported companies over that five-year period.<sup>46</sup> No breakdown is provided for job losses in Invest NI-supported companies, so this figure of 8,700 seems to be gross of any losses. Assuming a similar level of churn, north and south, between new jobs and job losses, and adjusting for scale, this would represent an FDI performance of approximately 20% of that achieved by the IDA south of the border. The comparative performance may be even worse, as a highly critical government audit of Invest NI covering the 2008–11 period suggested almost zero net job creation and that only 33% of new jobs supported had wage levels above Northern Ireland’s private sector average.<sup>47</sup> Productivity and wage levels are a long-running problem in Northern Ireland and tend to be significantly lower than in the republic.<sup>48</sup>

<sup>44</sup> Reply by Minister Diane Dodds, NI Assembly debates Tuesday 15 December 2020; ‘DUP boycott of North-South council ‘damaging’ interests on both sides of Border’, *Irish Times*, 19 May 2021; Joint Committee on the Implementation of the Good Friday Agreement debate, Thursday 12 November 2020. Available at: [https://www.oireachtas.ie/en/debates/debate/joint\\_committee\\_on\\_the\\_implementation\\_of\\_the\\_good\\_friday\\_agreement/2020-11-12/3/](https://www.oireachtas.ie/en/debates/debate/joint_committee_on_the_implementation_of_the_good_friday_agreement/2020-11-12/3/) (25 May 2021).

<sup>45</sup> IDA Annual Report 2019. Available at: <https://www.idaireland.com/about-ida/annual-reports>; IDA Press Release, <https://www.idaireland.com/newsroom/ida-ireland-achieves-all-targets> (25 May 2021).

<sup>46</sup> Department for the Economy NI, Press Release. Available at: <https://www.economy-ni.gov.uk/news/dodds-welcomes-increase-foreign-direct-investment-projects-northern-ireland>; Annual Report Invest NI, 2019 [https://www.investni.com/sites/default/files/2020-09/annual-report-investni-2019-2020\\_0.pdf](https://www.investni.com/sites/default/files/2020-09/annual-report-investni-2019-2020_0.pdf) (25 May 2021).

<sup>47</sup> Niall McCracken, ‘Going to plan? How Invest NI’s strategy is really working out’, *The Detail*, 5 October 2012. Available at: <https://www.thedetail.tv/articles/going-to-plan-how-invest-ni-s-strategy-is-really-working-out> (25 May 2021).

<sup>48</sup> Johnson *et al.*, *The Competitiveness Scorecard*.

While high-value FDI is an important part of Ireland's economic strategy, there are challenges around excessive congestion in the Dublin region. The international economic literature has a well-developed concept of economic primacy and the costs to states or regions when one city is overly dominant.<sup>49</sup> The unusually large primacy of Dublin in Ireland's economy, by international standards, has significant measurable costs already seen in transport congestion and housing prices, but also in skills shortages in key sectors, limiting further investment. Ireland has struggled to develop the necessary spatial strategy to develop any other cities to complement Dublin. Belfast and the surrounding region, because of its scale, location, industrial heritage and political context, could offer a balancing zone of scale for inward investment and economic growth, linked without trade or regulatory barriers to Dublin and the wider European Union. Derry and the north-west have been the most obvious victims of the economic and planning barriers of partition, and economic growth from a low base could be relatively rapid, driven perhaps by emerging plans for a much larger university presence in Derry City or a cross-border university with campuses in Letterkenny and Derry.

Beyond FDI and tourism there are well documented analyses of the continuing relatively low level of cross-border trade, compared to equivalent cross-border regions in continental Europe and the opportunities that exist for small and medium companies in particular, if practical and cultural barriers to trade can be overcome.<sup>50</sup> There is no inherent reason to believe that Northern Ireland cannot, after a period of transition, begin to reflect the average Irish economic performance. Transitioning to an average Irish performance would be sufficient to ensure that not only would a 'subvention' be irrelevant, but the necessary investment in education, health and infrastructure could be funded, driving up productivity and wage levels and overall sustainable economic activity.

## CONCLUSION

The way in which the Northern Ireland deficit is calculated by the UK's Office for National Statistics is sufficiently clear for a political analysis to determine

<sup>49</sup> J. Vernon Henderson, *The effects of urban concentration on economic growth*, National Bureau of Economic Research Working Paper 7503. Available at: <https://www.nber.org/papers/w7503> (25 May 2021).

<sup>50</sup> Neale Blair, Jordana Corrigan, Eoin Magennis and Deiric Ó Broin, *The Dublin-Belfast economic corridor: current profile, potential for recovery & opportunities for cooperation*. Report by Dublin City University and Ulster University, March 2021.

which aspects of this subvention will be relevant for a united Ireland. This analysis has determined that the figure will be approximately €3b, significantly lower than the figure of £9b to £10b, frequently quoted in the media. Existing economic models of an all-island economy predict a positive impact on economic growth, following a transition period, at a level sufficient to cover this deficit, although more work needs to be done on the public policy decisions necessary to support sustainable economic growth and to maximise the benefits of a larger and integrated all-island economy. Research and debate are also required on the type of public services to be provided by the new state and their likely costs. The underlying economy, taxation system and the type of public services that are provided in health, welfare, education and infrastructure, will be the real determining factors of the costs and benefits of a united Ireland and those are the areas where public debate should focus.