

WHY NORTHERN IRELAND IS DIFFERENT

Northern Ireland has similar social problems and economic realities as other 'post-industrial' parts of the United Kingdom. It has the persistent poverty and deprivation statistics as south Wales, or the north-east of England, or even certain boroughs of London.

However, Northern Ireland has something else. We can be discreet about it and refer to it as 'the elephant in the room', or more explicit and call it the 'cancer of sectarianism'. We can say that we are a 'post-conflict society', or that we are 'a society coming out of conflict' and have yet to reach that state of 'post'-ness.

Whatever you call it, it has a cost. Let's call it the 'Troubles Premium'. It means additional spending that is simply not avoidable. It is non-discretionary spending like depreciation of assets or interest on loans or payments to bondholders.

We have identified six areas of state spending which are affected by this Troubles Premium. They will cost more money than other parts of the UK, there is no alternative to state spending (i.e. there is no market solution) and they cannot be ignored, as the potential for any disruption is not predictable, as the flags protests have demonstrated.

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 the external pressures of austerity upon the internal pressures of Northern Ireland's well-known unresolved issues.

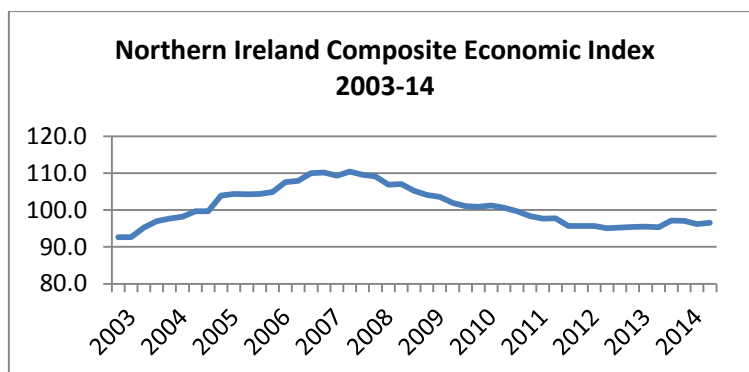
The six areas affected by the 'Troubles' Premium are:

- Poverty
- Investment
- Security
- Sectarianism
- Education
- Mental Health

Separately, but related, there is a growing gulf between the rulers and the governed. The possibility of peaceful political change must be preserved. Otherwise, the agents of change may be less democratic.

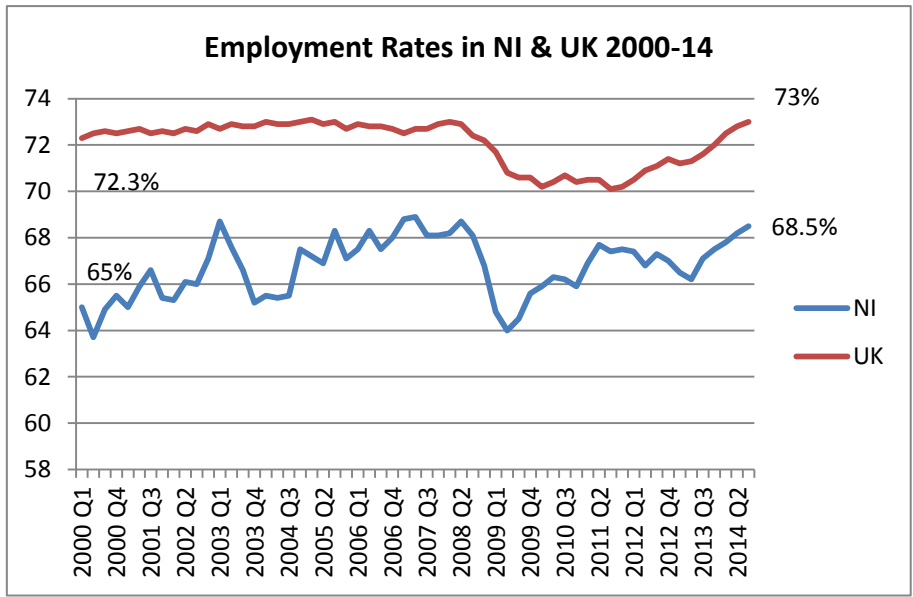
The Ordinary Economy of Northern Ireland

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 12% below its pre-crisis peak.

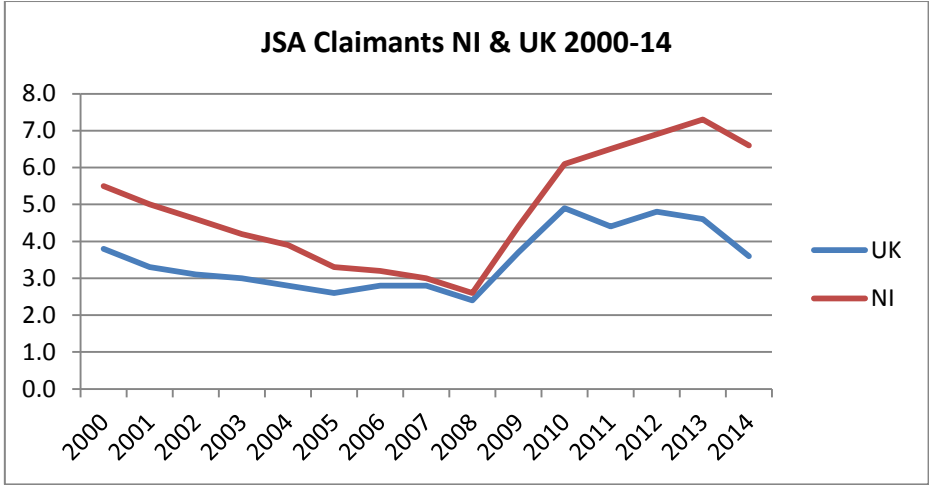


Northern Ireland continues to face a range of structural challenges that hamper the region's economic performance. These issues are long standing and have been widely documented – most recently in the Northern Ireland Executive's Economic Strategy (NIES) *Priorities for Sustainable Growth and Prosperity*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



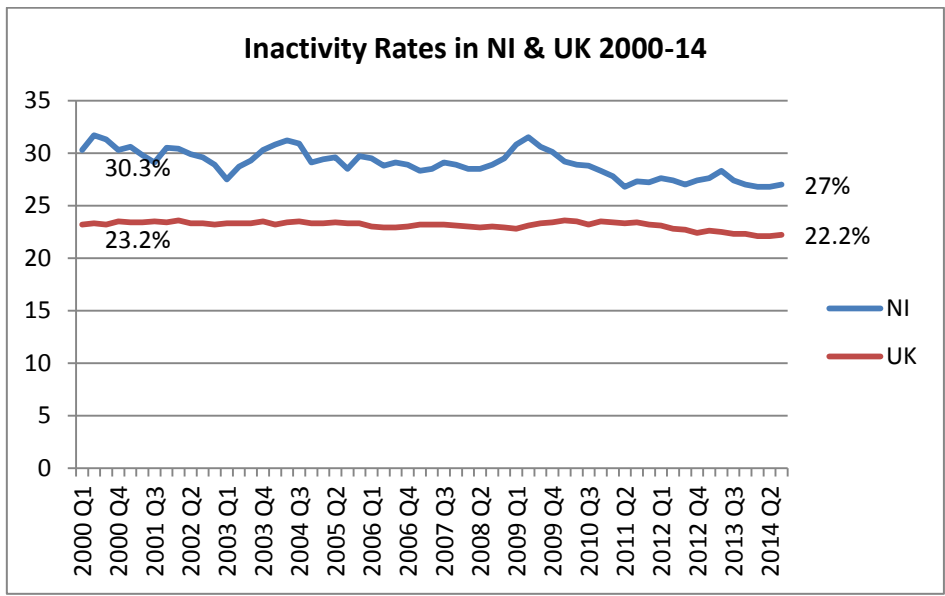
Despite improvements in the mid 2000's Northern Ireland still has an employment rate 4.5% below the UK average



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.

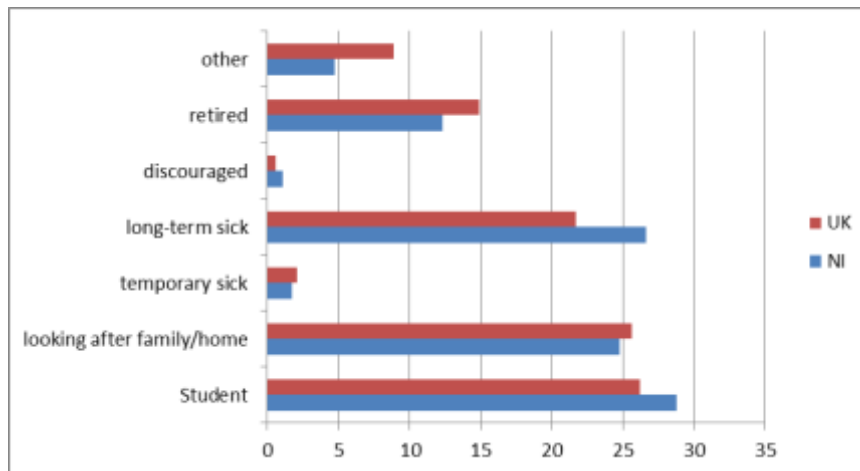
Poverty remains a feature of life for a variety of groups – in 2010/11, 355,000 people were found to be living in relative poverty while 232,000 were living in absolute poverty. The largest group of people categorised as being in working age adult poverty were found to be in workless households.

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).



Northern Ireland has had a consistently higher proportion of the population classified as Economically Inactive.

Almost half of the working age population in receipt of incapacity benefit have been diagnosed with mental and behavioural disorders; This is widely interpreted as a direct health legacy of the conflict, given the concentration of claimants in areas which also witnessed the worst of the 'troubles', and the continuing low-level violence characterised as 'recreational rioting'.



Northern Ireland has a much larger population of Economically Inactive by reason of long term illness.

Welfare Reform and its Impact on NI

Oxfam reported in Jan 2014 that 22% of people in NI live in poverty; 25% earn below the living wage and cuts have meant that lowest earners have lost 38% of their income:

“Northern Ireland is already one of the UK’s most disadvantaged regions, with some of the lowest wages and one of the lowest labour productivity rates. Much of this is owed to a number of unique circumstances, not least the legacy of the recent protracted conflict. Political and sectarian violence has lessened in the past decade but has not been eliminated. This diverts attention from social and economic problems and has a subsequent negative effect on the international reputation of Northern Ireland and investment in the region.

“The austerity measures in the 2010 Spending Review and resultant budget require that day-to-day spending in Northern Ireland be cut by 8% and the capital spend by a massive 40% to 2015. The total cuts over this period represent a cumulative real term decrease of £4 billion compared to the baseline in 2010-11.8 The Comprehensive Spending Review in June 2013 further deepened the cuts by 2% of its revenue budget for 2015-16. This equates to approximately £350 million in further cuts for Northern Ireland. These targets are being met through cuts to education, agriculture, justice, regional development, culture and the protection of the environment. In addition, a public sector pay freeze was introduced and a sale of publically-owned assets is being rolled out, with Royal Mail being privatised and the sell-off of the student loan book to a private company being implemented in stages. The cuts in the UK overall have been described as the biggest since World War II. Cuts will hit Northern Ireland the hardest as the region depends on public spending for 62.2% of its output, compared to a figure of 39.8% in the UK. It is clear that Northern Ireland is being disproportionately affected by the cuts. “

Despite the advances over the past decade, poverty in Northern Ireland has increased from 18% in 2002 to 22% in 2013. There are very real concerns about the future, as Northern Ireland is now facing continuing UK government-led austerity, public sector cuts and welfare reform.

Barnardos has reported that there are around 100,000 children in Child Poverty in NI in 2012 (and 44,000 in severe poverty). This will likely increase over the coming years.

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* (May 2014), estimates that by 2020, some 38% of children in NI will be living in relative poverty.

See also:

Research produced for NICVA by Beattie & Fothergill (2013) into the impact of Welfare Reform on NI:

- *Estimated that the Welfare Reform in the UK will save the Government almost 19bn per year. The yearly loss to those in NI will be of the order of £750m [£650 p/person].*
- *NI is the WORST AFFECTED REGION IN THE UK – GB average per person is £470*
- *Out of our 26 Council Areas – 3 feature in the TOP 4 worst affected in UK; 7 in 20 & 11 in 50.*

Placed in context:

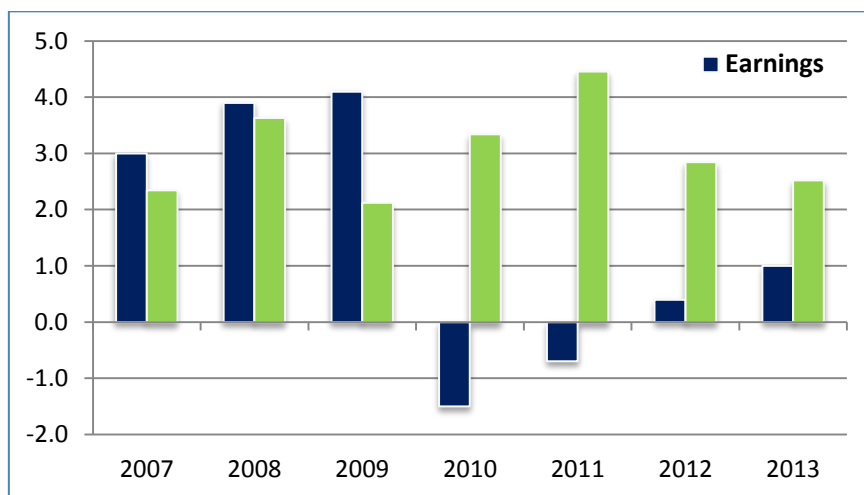
- *BEDROOM TAX [This will save the Government 20m in NI]*
- *BENEFIT CAP [Only affects 640 Households – saving 3m]*
- *UK cost of CB Reform = £2.8bn by 15-16: In NI this will affect 242,000 households with loss of £80M per year [This is 4x effect of the bedroom tax].*
- *UK cost of Tax Credit Reform = £3.6bn by 15-16: In NI this will affect 165,000 households with a loss of £135m*

The Impact of Welfare Reform on Northern Ireland identifies Northern Ireland as something of an extreme case. The overall incapacity claimant rate in Northern Ireland in November 2012 was one-in-10 of all adults between the ages of 16 and 64. This puts Northern Ireland well ahead of the UK average of 6.5% and ahead of all other UK regions.

Likewise, 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.”

Northern Ireland’s share of people of working age with no qualifications is almost twice the UK average and the highest of all UK regions. The increasing demand for higher level skills suggested by skills forecasting will place additional demands on this area of activity.

This impacts on incomes during and after working age. There are more people with no other provision for old age than the state pension, than any other region of the UK. A core reason is that low wages make it too hard to save for a private pension while small businesses tend not to provide occupational pensions for their staff. NI has long been a low-wage economy, and those wages have declined in value during the Great Recession.



Real Wages in Northern Ireland have been falling since 2010.

ONS figures show nominal GVA per filled job and nominal GVA per hour worked for 2011. In terms of GVA per hour worked, which is the recommended productivity measure, the 2011 data shows that Scotland is in line with the UK average but Northern Ireland and Wales were the lowest (16% and 15.4% below the UK average respectively).

Again, this pressure is piled upon an already beleaguered situation. The relative position of NI/UK GVA per capita had been gradually improving since the Belfast Agreement. So powerful was the blow of the recession on a shaky economic structure (especially dependent on construction and consumer services) that the relative position of NI productivity to the UK is worse than the period of the conflict.

This point is worth repeating. Right now, the economy of Northern Ireland is performing worse than it did at the time of bombings, shootings and intense security on the streets.

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 Jacques 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:

- 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 never delivered.

In 2009, the *Guardian's* Ireland correspondent remarked:

“In Britain the Tories applied the free economics of Milton Friedman to merciless extremes while in Northern Ireland they continued with Keynesianism in order to spend their way out of an incipient civil war. Richard Needham, one of Thatcher's shrewdest and most amiable ministers at Stormont in the early 90s, once admitted that grand government-backed projects such as the creation of the Castlecourt shopping complex in Belfast were designed to give those in the heartlands of paramilitary violence a stake in their society. A blunt but honest speaker, Needham wondered why paramilitaries would want to continue blowing up places where their neighbours, relatives and friends made a living.”

The legacy of the Conflict and 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.”

The cost of the Security situation

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 was enough to undo 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)

The Elephant in the Room - 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).

Residential Patterns

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 percent 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’.

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.

Lack of shared services or schools

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.

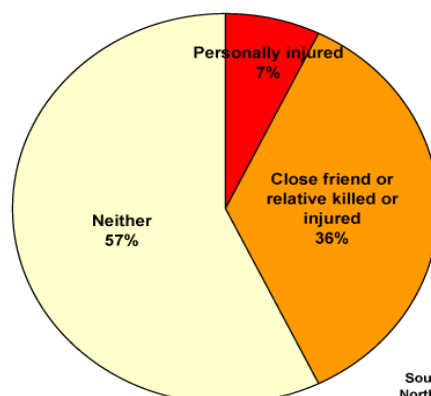
Lack of cross-community contact

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.

The legacy of the Conflict on Mental Health

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

Two-fifths of adults say that they were either personally injured in the Troubles or had a close friend or relative either injured or killed



Source: Poverty and Social Exclusion in Northern Ireland, 2002/03, Hillyard, P. et al

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’*

Education – *segregation at age 4 by faith & by class at 1; ‘brain drain’ of graduates & de-skilled older population. 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 it is estimated will result in an approximate loss of 7,000 jobs across the public sector in the financial year 2015/2016 - and at the same time expect 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 inflict further damage to a fragile economy.

Last but not least, the flawed concept of a Corporation Tax funded by deductions from the Block Grant will lead to a massive reduction in public sector jobs of up to 16,000 jobs based on a £400m reduction. That such a tax cut would be funded through reductions in public expenditure and further jobs losses is neither efficient nor equitable. Moreover, the alleged benefits of this tax cut are solely dependent on firms in receipt of this giveaway re-investing in the Northern Ireland economy. To remove vital social services and further entrench public sector job losses with no guaranteed economic return is ethically repugnant and economically reckless.

This paper has outlined the precarious nature of life for the marginalised and working poor in Northern Ireland and reinforces the premise that Northern Ireland is a society still in a conflict mode. For large swathes of the population there has been no 'peace dividend', instead many parts of our society are teetering on the brink, experiencing 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.

ENDS