

Who is better off, Northerners or Southerners?

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The Irish Government likes to claim that there is such a thing as an all-island economy, but this is almost the opposite of the truth. There are two radically different economic models on the island and surprisingly little trade between them. The South's economy is the world's largest tax haven, a model increasingly opposed by the EU and OECD. The North is a region fully integrated into the UK economic union. Currency, tax rates, social security systems and business law all differ across the border. As little as 1% of the Republic's output of goods and services goes north. Only 6% of Northern Ireland's output is recorded as exports to the South and a third of this is goods like cars and oil passing through from GB.

The view of the Northern Ireland economy from southern economists has always been jaundiced, lacking a real understanding of how the UK economy works. John Fitzgerald and Edgar Morgenroth of Trinity College and ESRI in Dublin, for instance, describe the NI economy as lacklustre, lacking dynamism and low productivity. Living standards, they say, depend on payments from Central Government and thus vulnerable to shocks. In their view Brexit leaves Northern Ireland facing a serious negative impact.

The celebrity Dublin economist David McWilliams dines out on his view that 100 years ago most of the island's manufacturing was in the north-east while now the great majority is in the south. This true but reflects the UK's transition towards a service-based economy. Most large British cities shed all of their manufacturing before the beginning of this century. London shed a million jobs in manufacturing while converting itself into the world's leading financial powerhouse.

The necessary context is that the UK has become the world's leading exporter of services. Even if Northern Ireland has not fully shared in this transition most of its inward investment is in services, including

legal services, fintech, software and cyber-security. The UK economy is quite strong enough to pay for a uniformly high level of public services in those areas where financial and business services are not as well developed as in London and South-East England.

The whole question of subsidies for public services is not well understood in Ireland. Public expenditure per head is high in Northern Ireland as it also is in Scotland and Wales. The reasons include higher needs (more children, poorer health, policing etc), UK generosity to devolved regions for political reasons, plus a degree of playing the system in sickness benefits. In Northern Ireland, a further factor is that higher public spending has created jobs which lead to more of those born in the Province to remain rather than migrate as happened in previous years. The population is thus larger than it otherwise would have been. This larger population then creates a need for public spending greater than the taxes generated from Northern Ireland's private sector. This is a state of affairs with which British public opinion is content. There is no real pressure to change it. It is not a vulnerable situation as Fitzgerald and Morgenroth imagine.

Nor does the Northern Ireland lack dynamism. Over the last decade its economy has grown at close to the UK average growth rate. It is true that the UK, including Northern Ireland, has had a problem of slow growth in productivity since the banking crisis, but this is problem shared with the USA and much of the western world.

What of the Republic of Ireland? Its official national accounts statistics paint a picture of rapid growth and the claim is regularly made, even on the BBC, that Ireland is now one of the world's richest economies. Would that his were true, but it is not. Ireland's economic statistics are close to meaningless. In the words on one [US economist](#), they tell us more about the tax affairs of American corporations than they do about the Irish economy. To Nobel prize-winning economist Paul Krugman, it is [leprechaun economics](#). No version of Irish GDP statistics give a meaningful account of Irish living standards as former Irish central Bank chairman, Patrick Honahan, has recently [written](#).

All of this statistical nonsense is caused the tax haven status in which huge proportions of the profits of global corporations slosh through Irish national accounts. However little of this ends up in the pockets of

either Irish households or government and living standards are below those in Northern Ireland. Irish statistics on GDP are useless as indicators of living standards. Instead, we need to use another measure, spending by households and by government on behalf of households, for which data in the Republic is much more accurate.

Fitzgerald and Morgenroth [used](#) this measure to calculate that living standards were 20% higher in Northern Ireland in 2012 than in the Republic. When they [updated](#) this using data for 2016 their figure was 4%. They did not however allow for lower prices in Northern Ireland, especially house prices, which mean that households in Northern Ireland get more goods and services for any given amount of spending. When this correction is made, living standards again emerge as closer to 20% higher in Northern Ireland.

This result is staggering. It means that after 60 years as a tax haven and 48 years inside the EU, the Republic Ireland has not managed to raise the living standards of its people to that in Northern Ireland. If the Republic of Ireland were to rejoin the UK, it would be as the UK's poorest region just as it was a century ago. While tax haven status and EU membership have worked for the Irish elite, the majority of Irish citizens have gained little. Hence the rise of Sinn Fein in the South.

Other authors attempt to contest Northern Ireland's advantage in living standards. [Adele Bergin and Seamus McGuinness](#) try this using the discredited Irish National Accounts, ignoring Honahan's warnings about the data. They also use household incomes but again fail to adjust properly for price differences. All in all, there is little reason to doubt that, even after all that has happened over recent decades, living standards are higher in the North than in the South. This may help to explain why the rigorous polls show a large margin in favour of maintaining the Union.

Disclaimer: The views expressed within this blog are those of the author and not necessarily those of the Centre for Brexit Studies and Birmingham City University.