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Public Finances, the Northern Ireland Subvention, and the fiscal context for a United Ireland

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[1] This report represents the views of the author, and not the views of the institution itself.

The public debate on the economics of a united Ireland has been dominated by constant references to the UK financial 'subvention' to Northern Ireland. 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.[2] 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.[3] 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.

The 'subvention' is however simply a starting point. There is also a need to analyse the likely policy decisions on new public expenditure, that would take place in the early days of a United Ireland. The subvention is a reflection of the weak economy in Northern Ireland. Recent research has shown that Northern Ireland average productivity per worked hour is 40% lower than the Republic, feeding into lower wages, high levels of poverty and lower tax revenues to fund public services. What decisions would be likely in the early days of a united Ireland on investment in education, on tackling low incomes and poverty, and how on equalising wage levels in the public sector including the health service.

Some recent projections have suggested that a combination of the existing subvention and the costs of transition would be simply too large for the Irish economy to cover. The analysis which follows, shows that those reports have both exaggerated the scale of the subvention which would be relevant to a united Ireland and also made significant errors in their estimation of transitional costs. Finally, any reasonable analysis needs to look at the wider economy. Would the two parts of Ireland be likely to see economic convergence in the aftermath of Irish unity. How quickly, might average economic performance in Northern Ireland begin to reflect other parts of the island such as Cork and Kerry – a level which would be unlikely to require any subvention at all.

In summary this report will show that the costs of transition, if happening today, would be in the order of €2.5b per year in the early years of a united Ireland. That would represent a borrowing requirement of three quarters of one per cent of the current GNI of the island economy – well within what can be financed in transition. It will also show that economic convergence would only need to produce growth of 2%, about the historically low experience in Northern Ireland to eliminate that deficit, within 10 years.

To understand how the subvention has been constructed, this report will first explore the emergence historically of a deficit in Northern Ireland's public finances and the background to

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[2] 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.

[3] This chapter uses the pre-covid data as representing the underlying deficit. The deficit increased during covid – as public deficits did all over the world. The British conservative government is trying to reduce public spending, but even if the deficit remains at the higher level – the basic argument and proportions remain the same.

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. The report then moves to exploring the fiscal balance of the early years of a united Ireland – allowing for gradual convergence in public sector wages, state pensions and some additional investment in 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.[4] 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.[5] The war 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.[6] The subvention peaked at £11.5 billion in 2009, reflecting the growth in public spending under the Labour Governments from 1997 onwards, dropping back to £9.4b in 2020. The economic cost of the COVID-19 pandemic saw a significant one-off increase in the subvention, but it is the scale and composition of 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.[7] The public sector remains a very significant part of the economy and levels of poverty are among the highest of all UK regions.[8] 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

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[4] Bob Rowthorn, 'Northern Ireland: an economy in crisis', *Cambridge Journal of Economics* 5 (1) (1981), 1–31: 3.
[5] Rowthorn, 'Northern Ireland: an economy in crisis', 2.
[6] 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).
[7] 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.
[8] Feargal McGuinness, *Poverty in the UK: Statistics, House of Commons Library Briefing Paper*, Number 7096 (London, 2 May 2017).

2013, was equivalent to approximately 8.4% of Northern Ireland's GDP.[9] 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.[10] 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.[11] In total, 27% of all of those aged 16 to 64 are 'economically inactive', that is, they are neither working nor seeking work.[12] 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 in other countries. However, in Northern Ireland only 74% of 15 to 19 years olds are in full-time education or training, compared, for example to 93% of 15–19 year olds in the Republic, re-enforcing the poor comparative performance of Northern Ireland.[13] For those aged 16 to 65 relying on income support benefits, 11% of Northern Ireland's population was on 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.[14]

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.[15] 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'.[16] 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.[17] 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.[18]

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[9] 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).
[10] 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-Northern Ireland .pdf .
[11] Richard 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* (2021) 32 (2), 284–314.
[12] Northern Ireland Executive, *Labour Market Statistics*, 16 June 2020. Available at: https://www.northernireland.gov.uk/news/labour-market-statistics-19 .
[13] 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.
[14] Johnson *et al*., *The Competitiveness Scorecard*, 108.
[15] ONS Country and Regional Balance reports various years, available at: https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/articles/countryandregionalpublicsectorfinances/previousReleases .
[16] Donnacha Ó Beacháin, *From partition to Brexit: the Irish government and Northern Ireland*, (Manchester, 2019), 187.
[17] Ulster Unionist Party,. *Election Manifesto: Make it Work* (Belfast, 2016). Available at: http://uup.org/assets/images/assembly%20manifesto.pdf#page=18 .
[18] Michael Keating, *Debating Scotland: issues of independence and Union in the 2014 referendum* (Oxford, 2017).

Northern Ireland's economy is certainly weak, and levels of poverty are high, compared to either Ireland or other regions of the UK. As the economy in independent Ireland developed over the past quarter century, Northern Ireland's has remained by comparison stagnant. The subvention is a symptom of this 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.[19] 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)[20] and its most recent report before the Covid pandemic 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, was just under £9.4 billion for the year ended 2019.[21] 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'.[22] 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 over-state the expenditure that would transfer to the new state.

[19] For example, Emerson, 'Sinn Féin is still trying to wish away economic realities of a united Ireland'.
[20] ONS, *Net Public Balances Reports*.
[21] ONS, *Net Public Balances Reports*, 2019. Available at: https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/articles/countryandregionalpublicsectorfinances/financialyearending2019#public-sector-net-fiscal-balance .
[22] ONS methodology note on NPBRs. Available at: https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/articles/countryandregionalpublicsectorfinances/financialyearending2019#public-sector-net-fiscal-balance .

Table 1 gives details of the different categories within the subvention calculation, which are then discussed below.

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

	£m	£m
Total revenue Northern Ireland		18,521
• Taxes raised in Northern Ireland and estimates of other taxes related to Northern Ireland 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 Northern Ireland on population basis)	765	
• 'Non-identifiable' expenditure (central UK spending allocated to Northern Ireland on population basis)	2,105	
• Accounting Adjustments (largely depreciation)	3,211	
• Total published (managed) expenditure	27,888	
Deficit		-9,367

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 it is not possible to tell from business's returns how much tax has been paid based on activity in a given region. Corporation tax is allocated using employment data rather than profit estimates and this produces a significant bias towards London as the HQ of many companies (with associated staff numbers). 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.[23] In Table 1 the amount of taxation raised in Northern Ireland is the amount that is reported by the UK Office for National Statistics.

[23] 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 .

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' used by ONS, 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'.[24] 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.[25] 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.

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 and international deployments of the British armed forces. 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

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[24] 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 .

[25] NICVA, *A Commentary on Economic Data in Northern Ireland*, 14.

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.[26] This is the comprehensive cost of pensions benefits, paid to people whose address is in Northern Ireland, and it includes both the net cost of public occupational pensions that are not covered by a separate pension fund (that is cost of pensions, minus contributions paid by those working, in that year), and also includes the full cost of pensions paid as state benefits.

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 working 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. Following Brexit, the UK and Ireland, signed a new bilateral Convention on Social Security in 2019 which came into effect on 31 December 2020. This, more or less, replicates EU regulations for determining pensions in cases where people have worked in different countries or have retired to a different country than they worked in, essentially confirming that costs will be shared, based on the ratio of years worked in each jurisdiction.

It seems consistent that the UK would pay pension liability that had been built up, based on individuals' tax and social insurance contributions to the UK Treasury or caring responsibilities, during Northern Ireland's membership of the United Kingdom, leaving the new Irish state to take over liability building up from the date of the creation of the new state. Therefore, someone who is already retired and has a state pension based on UK national insurance contributions (and caring responsibilities), or a retired public servant who made additional pension contributions during their working life should continue to receive their UK pension, in a united Ireland, paid by the UK. If someone was half-way through their working life at the time of independence, then the UK would at the time of their future retirement pay them half a UK

[26] 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, 170; see also a methodological note on p.120.

pension at that time, and a united Ireland would be responsible for paying the balance, based on Irish policy and rates. That is what happens at present. 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.[27]

Like Ireland, all social welfare-based 'state' 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 any 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?

Any attempt to walk away from pension responsibilities would be very likely to lead to a significant response from UK trade unions, and the wider public due to the precedent it would set. If a UK government can simply refuse to pay a UK military veteran or an NHS nurse their pension in the case of a united Ireland, could they also do so to cut public spending, or in the case of privatization of a service. Accepting the precedent that there is no entitlement to a state or public sector pension, would be a dangerous precedent and would inevitably be resisted by trade unions.

Mike Tomlinson, argues that the UK is in fact duty bound to pay the full cost of public sector pensions, not just the net cost (i.e. net of pension contributions received from public service workers) included in ONS figures. Tomlinson's argument is based on the fact that public servants living in Northern Ireland have paid pension contributions and/or national insurance contributions, during their working lives in the expectation that they are building up a pension 'entitlement'. If the UK chose to treat this as current income and not invest it against future liabilities, that was their choice, made at central UK level, since public pensions began. However just because the UK made that choice, does not mean that Ireland should accept that all those contributions have simply dis-appeared and that a future Irish Government has to pay pensions without having received the contributions. The contributions being collected by a United Ireland in year one, are matched against future pension liability and not that year's costs – based on liabilities built up inside the UK. If the UK paid the full cost of state and employment based public sector pensions this would increase the cost to the UK from £3.4m to approximately £5.4m, and correspondingly reduce the deficit by a further £2b. Of course, the pension liabilities of a united Ireland would then start to build up, increasing every year from that date, as the liability of the UK reduced every year, but a united Ireland in its early years would be the net beneficiary of pensions contributions, being paid by current public servants, with very little expenditure in the short term. The later analysis does not follow Tomlinson's argument, even though it has the clear benefit of logic, and probably should be the opening position of a future Irish Government. However, it is perhaps unlikely to be accepted by the UK at that level and so the following analysis is based on the UK covering the (annually declining) net cost of pensions based on years where contributions were paid to the UK.

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[27] See Federico Fabbrini (ed.), *The law and politics of Brexit, Volume II. The Withdrawal Agreement* (Oxford, 2020).

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.
A united Ireland would be an EU member state, from the first day of Irish unity – with an enhanced voting position, reflecting its increased population. Ireland, notwithstanding recent tensions caused by Brexit, had traditionally been one of the UK's most reliable allies inside the EU. As a non-EU member, Britain would be likely to give considerable priority to negotiating a good deal with Ireland, which restores good relations and gives the UK a friendly neighbour inside the EU. This is something of value to a future British Government, that they will need to negotiate for, and pensions in particular are likely to be the area in which they concede. Pension liability is also an area which would be more certain for the UK Treasury, that some vague commitment to contribute financially for legacy reasons. Pension costs based on UK contributions will inevitably decline every year, as pensioners die and as the proportion of a worker's contributions paid to the UK before Irish unity declines with each passing year. A pensions commitment will eventually end. A commitment to pay a certain amount of money on an annual basis, might in practice be difficult to end in an uncertain future.

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 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 Northern Ireland , 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 Irish side initially agreed to take on debt, as part of the Anglo-Irish negotiations, negotiations which were conducted under the threat of "immediate and terrible war", if a deal was not reached. It is to be assumed that no such threat would be issued after a referendum today. In the event 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.[28] 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 final Free State precedent is relevant.

There are very few comparable international cases of debt division on secession, in the modern era and the political context for these negotiations has been important. In the initial period of the break-up of the USSR a debt and asset share out was proposed by Russia and agreed with 8 of the other 14 Republics. No one, apart from Russia, ever actually paid however and in 1993 the Russian Federation agreed to take on the entire post-Soviet external debt (and assets).[29] If

[28] Donnacha Ó Beacháin, *From Partition to Brexit*, 27-28.
[29] David Robinson and David Edwin Wynn Owen, *Russia Rebounds*, International Monetary Fund, 2003. https://www.elibrary.imf.org/display/book/9781589062078/ch07.xml

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 of Northern Ireland—both national institutions based throughout the UK, and embassy and state properties outside the UK territory. While it is possible to value Northern Ireland's share of UK assets outside of 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 any share of UK 'national' property, outside of 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. Ireland would have a strong hand in these post referendum negotiations. It does not owe this debt legally. There is no international law to compel Ireland to pay a penny and the bond-holders all have biding contracts with the UK Treasury, who would be guilty of debt default if they stopped paying a certain percentage.

In some public commentary it has been argued that as the Scottish Government led by the Scottish National Party (SNP) agreed to take on a pro-rata share of both pensions and debt then a United Ireland would have to do the same. No credible analyst in Ireland, believes that a United Ireland would volunteer to pay back debt which was legally the responsibility of the UK and Scotland did not need to make this offer. The 'remaining UK' would clearly be what is called the "successor" state of the UK in international law. They would absolutely want to maintain this legal position. The 'remaining UK' would for example, wish to keep the UK seat and the UK veto on the United Nations Security Council, and would obviously wish to do so without having to negotiate such a transition, with the USA, France, China and Russia. Therefore, as the successor state they will have full legal liability for the national debt of the UK. There is no legal requirement for a united Ireland to accept any liability for this debt. In fact, though not commonly discussed, the UK Government accepted during the 2014 Scottish referendum that "In the event of Scottish independence from the United Kingdom (UK), the continuing UK Government would in all circumstances honour the contractual terms of the debt issued by the UK Government… a share of the outstanding stock of debt instruments that have been issued by the UK would not be transferred to Scotland". Of course, the UK Government took the view that "an independent Scottish state would become responsible for a fair and proportionate share of the UK's current liabilities" – but that was on the basis of a bilateral agreement between the Scottish Government, desperate to reach agreement on holding a referendum and rUK – and was not based on any legal liability by an independent Scotland for that debt. The Scottish Government has to get the UK Government to agree to the holding of a referendum in 2014. Ireland also does not need the UK to agree to recognize the principle of a referendum and to agree to be bound by it. The UK has agreed all of that in a legal treaty with Ireland as part of the Good Friday Agreement.

ONS data gives a figure of £1.6b as Northern Ireland's 2019 contribution to interest on the UK national debt.[30] 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 pension payments it would seem impossible to believe that a future government of Ireland would agree to repay any portion of loans for which

[30] ONS Expenditure data 2019. Available at: https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/articles/countryandregionalpublicsectorfinances/financialyearending2019#public-sector-expenditure.

they had no legal responsibility. Therefore, it is politically 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 which 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 deployments of its armed forces. To put this figure in context, the Irish defence budget was approximately €1b in 2019.[31] There is now broad political consensus that Irish defence spending will increase by approximately €500m p.a. The 2022 Commission on Defence set out three 'levels of ambition' for future defence expenditure in the Republic —the most expensive option requiring expenditure of approximately €3bn pa.[32] No political party has accepted that target. The increase to €1.5bn is very likely to happen and is very likely to be built into Irish public finances well before a referendum is held, meaning that unity will not be the trigger for this additional expenditure, and therefore it will not impact on the inherited subvention.

It is almost certain 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 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.[33] This is a standard approach 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 significant additional cost to a united Ireland compared to the existing situation.

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[31] 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.

[32] Commission on the Defence Forces, Report, 2022, available at: https://www.military.ie/en/public-information/publications/report-of-the-commission-on-defence-forces/ (2 November 2023); Birnie, 'The subvention matters', 381.

[33] ONS, Country and Region expenditure tables, 2019. Available at: https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/datasets/countryandregionalpublicsectorfinancesexpendituretables (25 May 2021).

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 which 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 stg in 2019. This figure is primarily an accounting treatment of capital depreciation and of VAT refunds. John FitzGerald and Edgar Morgenroth 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.[34] 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 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.[35] 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 Morgenroth, as the final details of 'accounting adjustments' are unclear and any additional saving to a future united Ireland may be well below the figure of €873m which cannot be itemised.

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.[36] 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,

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[34] FitzGerald and Morgenroth, *The Northern Ireland economy*, 54

[35] 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

[36] ONS Country and Region Expenditure Tables. Available at: https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/datasets/countryandregionalpublicsectorfinancesexpendituretables.

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 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 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 tax is generally allocated based on employee numbers, not regional share of profits, and 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.[37]

The Sustainable Growth Commission in Scotland, examined the issue of revenues associated with transferred employees and the cost of new employees associated with the establishment of new departments and agencies to deal with issues not currently devolved. At present on UK accounts, the cost of such central services are allocated to each region on a per capita basis, whereas the taxes paid by those employees are allocated as income in the region where they live or work. Therefore, the subventions in Scotland (and Northern Ireland) include the full cost of these agencies, but none of the off-setting tax revenues.

The Commission also estimated that approximately £2.4 billion of central expenditure which is currently allocated to Scotland, but actually spent elsewhere, for example on staff costs in London, would transfer to Scotland after independence and so generate taxation revenues. Almost 70% of this expenditure would be on staff wages and purchases of goods and services and of this, almost 37% would be expected to be taxation revenues, so giving a boost to Scottish tax revenues of £600m pa.[38] Northern Ireland also pays a pro-rata contribution (population based) to the costs of UK central departments and state agencies, which are overwhelmingly based in England, and the taxes paid by those employees are credited to the English region in which they are based or live. A similar saving on central UK costs, which do not require additional expenditure in Ireland, and a boost to Irish revenues from the transfer of staff to Ireland (or hiring of new staff to replace them) for which Northern Ireland is already paying in the published subvention figures, would see taxation increase by approximately £204m a year.

[37] FitzGerald and Morgenroth, *The Northern Ireland economy:*
[38] Para B4.58, Report of Scottish Sustainable Growth Commission,

The Scottish Commission estimated that there would be savings of £400 million pa, compared to ONS data, in areas that Scotland contributes to UK costs that will no longer be required, such as costs allocated to Scotland associated with running costs of the House of Commons and House of Lords, the Scotland Office and Whitehall Department running costs that will not need to be duplicated in Scotland. In Ireland's case the equivalent cost would be additional staffing in national agencies based outside of the current territory of Northern Ireland where there would be no requirement for those agencies at all in a United Ireland, or no need for them to increase in size. As these costs are allocated on a per capita basis, and Northern Ireland 's population is approximately 34% of Scotland's, the equivalent saving in Northern Ireland 's subvention figure would be £136m. The effect of these two adjustments is therefore to reduce the relevant subvention by approximately £340m a year.

Research by Mike Tomlinson explored the impact of Northern Ireland joining the existing tax and social security system of the Republic of Ireland.[39] Tomlinson was not advocating an unchanged system. He was simply looking at the consequences for individuals and for state revenue. Tomlinson estimated that the average employee at every income level up to the 70th decile (i.e. all workers except the 30 per cent highest earners) would have between €12 and €19 per week in additional take home pay—primarily due to lower social security/PRSI payments on low to middle income earners. However, the state would still collect €769m more income p.a. due to higher taxes on higher earners and greater employer contributions to social security.

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	
• Tax boost and savings from central expenditure moved to Ireland	340	
• Impact of moving to Republic's tax and PRSI system with increased taxes on high earners.	769	
Total adjustments to subvention carrying over to a united Ireland		8,072
Remaining subvention, before policy decisions		1,295

If the UK completely reneged on its pension responsibilities, including to military veterans, police officers and nurses, the deficit on day one would increase to £4,733m

[39] Mike Tomlinson, 'Social security in a unified Ireland', *Irish Studies in International Affairs* 33 (2) (2022), 228–46.

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[40] 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 £1.3b, if the UK meets its pension liabilities as is likely and £4.7b if they walk away and refuse to pay a penny. The economy of a united Ireland could cope with either figure. If the UK does refuse to pay its pension responsibilities and Ireland therefore does not volunteer to take on any UK debt, Ireland's debt-to-GNI* ratio will drop very considerably, as GNI* will rise by around 25 per cent and debt will remain static. That would allow a united Ireland to borrow the costs of transition at very favourable interest rates. There are however important factors that will impact on that figure, both positively and negatively, most crucially economic performance and public policy decisions.[41]

THE FISCAL POSITION IN THE EARLY YEARS OF A UNITED IRELAND

The starting subvention for a united Ireland would be a relatively modest £1.5b, if the British Government lives up to its responsibilities on pensions – an outcome which is the most likely one, as argued above. However, given the currently weak economic position in Northern Ireland and the gap in productivity between NI and the Republic, it is inevitable that some additional investment will be required, to drive the necessary economic change to improve living standards, and public services.

It has been suggested in a recent IIEA report that the initial costs would add almost an additional €10b pa, over the full published subvention of £10b, and that report therefore suggests that a united Ireland would cost €20b pa for 20 years.[42] However important errors and omissions and entirely unreasonable assumptions, mean that this report does not even represent a worst-case scenario. It is simply wrong, for the following reasons.

1. Over €4.2 billion euros pa is added to the cost of unity, by increasing public sector wages to Southern levels, but the IIEA report in error makes no allowance for the taxes (which would be overwhelmingly at the higher rate of 40%), PRSI (4%) and pension contributions (typically around 10%) to be paid on that increase. This reduces the real cost of this increase by over €2.2b pa.

2. The IIEA report assumed that public service salaries in NI would be immediately increased to Southern levels in year one – before there was any significant change in the lower cost of living in Northern Ireland (driven to a large extent by housing costs, which would not change instantly). Convergence in wages is likely, and an Irish Government would be likely to offer a pay increase in year one to start the process.

[40] Thumann, *Northern Ireland's income and expenditure in a reunification scenario*.
[41] 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.
[42] John FitzGerald and Edgar Morgenroth, *Northern Ireland Subvention: Possible Unification Effects.* Dublin: Institute for International and European Affairs, 2024.

However, that process will also involve negotiations with public sector unions on a wide range of issues, including potential reforms, and changes to work practices. Germany took 30 years to achieve full convergence in public sector salaries and pensions. It happened gradually as costs converged and economic development took place. Merging salary levels over 15 years – half the time taken by Germany, would see a year one cost of approximately €133m (net of taxes/ contributions), rising on average by that amount each year.

3. The IIEA make an allowance of €3.8b pa to bring average pensions in NI up to average rates in the Republic. There are at present 320,700 people on State Pensions in Northern Ireland and 69,700 on Pension Credit (equivalent to a non-contributory pension in the south). The cost set out in the IIEA report is therefore equivalent to an increase of €10,000 per person per annum. This payment assumes that the state would cover the entire cost of such an increase to those on private and employment-based pensions, and would do so regardless of the other income received by the person. Such a political decision is highly unlikely. In addition, like salaries, the IIEA report makes no allowance whatsoever for tax and PRSI to be paid on such pensions by those on higher incomes. To increase the state pension and pension credit to the equivalent (and higher) contributory and non-contributory pension rates in the Republic, would cost approximately €450m pa – an increase of €20 per week to those on contributory pensions and €32 per week for non-contributory. While those on non-contributory pensions would not pay tax, many of those on contributory pensions would do so, where they had other sources of income such as private or employment-based pensions, or employment. Even allowing for a tax rate of only 20% on just half of those receiving contributory pensions would reduce the actual annual cost to approximately €400m per annum, rather than the IIEA's €3.8b.

4. The IIEA report also uncritically uses the published subvention figure as the starting point for the fiscal balance of a united Ireland. In particular, it includes the full cost of both debt and pensions. The British Government can legislate to end pension payments to those resident in Northern Ireland, but as discussed above this is an unlikely outcome for reputation and political, rather than legal reasons. What is absolutely impossible in reality, is an outcome where after negotiations between the Irish and British Governments, and where the British side abandon all responsibility for paying pensions to those who have paid national insurance or employer-based public sector pension contributions, that the Irish side would then volunteer to pay a share of UK state debt, for which they have no legal liability. This is not a question of the debt being 'waived'. It is owed by the UK and not by Ireland or Northern Ireland. While a United Ireland could volunteer to pay some debt in return for a deal on something else such as pensions, they would only do so if that was a better deal. It is simply impossible that a united Ireland is left with liability for both debt and pensions. In this regard the IIEA report is simply inaccurate that the USSR debt was shared. The Russian Federation accepted full liability, following some failed attempts to get agreement on sharing the debt with those who had left the USSR.

5. Finally, the IIEA report excludes any analysis of economic growth for 20 years after unity. It assumes that with the same political system, EU membership, policy framework, education system and tax regime, that NI would not economically converge with the South. This is a very unlikely outcome. Why would Belfast perform so much worse than Cork and Kerry with the same EU access, policy, education and tax system?

For these reasons the figure of €20b over 20 years is not a worse-case scenario. It is a totally inaccurate and unreasonable starting point.

Fiscal Projections

A fiscal projection for a United Ireland, starts with the deficit figure of £1.3b (€1.5b) pa outlined above, adjusted for the cost of likely Government decisions on additional spending, and the estimated revenue from economic growth and population growth. While the UK would pay pensions on a pro-rata basis, based on number of years where a person paid national insurance to the UK Treasury, Ireland's share of that cost will increase every year after unity. The total cost of £3.4b is equivalent to just under €4b and therefore the cost of pensions to a United Ireland will go up on average by €100m pa. The level of tax to be paid on this will vary depending on personal circumstances, from no tax for those on low incomes to a marginal rate of 40% for those on high pensions – allowing for an average tax take of at least 10% would be reasonably conservative – giving an annually increasing pensions cost of €90m.

It would seem likely on political grounds, that state pensions might be equalised in year one of a united Ireland, through a top-up payment from the Irish state, at a cost of approximately €400m pa. A 15-year equalisation of public sector salaries would cost an extra €133m each year for 15 years.

Investment to boost living standards, and wage levels, would be likely to focus on education. Improved salaries are factored into the wider public sector pay increases, and they should begin to help with recruitment and retention issues, in both health and education. Many of the necessary changes in education will not require significant investment, indeed they may even save money. Ending the 11+ exam is probably the most important step which needs to be taken now, to increase the proportion of young people who complete school to A-levels, who go on to formal Further Education and who go on to university. The 11+ exam, which separates children at that age into Schools with a strong trajectory towards higher education and schools where the majority will not even complete A-levels, is the biggest single cause of poor educational outcomes in NI, with the resulting impacts on social integration, on wages levels and on economic development. Separating young people into four separate schooling systems – Catholic and Protestant "Grammar Schools", along with Catholic and Protestant "Secondary Schools" is not only socially problematic, it is expensive. Changing it would not be. Beyond the 11+ debate, 10,000 additional university and FE places in Northern Ireland, would add approximately €80m pa to public spending. Table 3 summarises the financial impacts of these possible policy decisions, if they were taking place now.

Table 3: Fiscal deficit of NI in year one of a united Ireland (millions of euros)

Inherited 'Subvention'	1,500
Top-up payment to equalise state pensions (net of tax) in year one	400
Equalising public sector wages over 15 years	133
Gradual transfer of the cost of pensions, over 40 years – year 1	90
Expansion of Higher and Further Education	80
Other year one policy decisions / expenditure increases	297
Total fiscal deficit, year one	2,500

Current tax revenues are approximately €88b in Ireland and €22b in Northern Ireland. If the starting point, is a requirement to raise €2.5b per annum to deal with an underlying deficit and provide some additional resources for public services, this would represent a borrowing requirement of just three quarters of one per cent of the GNI of a united Ireland – or an increase in taxation revenues (based on economic growth or tax changes) of just over 2% above current combined revenue levels, which is not an unachievable target, after a short transition.

The final and in many ways biggest impact on the deficit will be economic performance after unity. This is not simply a matter of trying to predict the future. We have examples to draw on. Ireland's own experience of growth following EU membership to catch up on wealthier economies was not unique. It was also seen in Spain and Portugal, Greece and most recently in Central Europe. Convergence with European economic performance (and therefore converging with the Republic's GNI per capita) does not require a 'miracle' growth path, but it does require change. Some of the key variables could be delivered in a stronger model of devolution to NI inside the UK, such as higher public spending on education, infrastructure and R&D. The question is whether that is likely to be secured within the UK in any conceivable short-to-medium term political context, given that the poorer regions of the UK, including NI and Wales and the North of England have not seen such convergence over the modern era. Northern Ireland would require either a larger subvention, or significantly higher taxes on high income earners at a UK level, (or devolution of such taxes) to fund significant investment in education, and to distribute wealth more evenly – none of these options seem likely in the short term.

Other policy measures are realistically only likely to be available in the event of a united Ireland – such as full access to the EU Single Market (including services), EU membership, a competitive corporation tax policy, a more appropriate migration policy and an income tax policy which delivers the necessary resources and social solidarity. All of this is also linked to external perceptions of the NI economy, perceptions which have been very slow to change, and which would be more likely to change in the event of a united Ireland. Therefore gaining control over the necessary economic powers is intimately connected to choices about constitutional politics.

The post-2000 experience of new EU member states, following the earlier experience of Ireland and Southern Europe, suggests that a different trajectory of economic development is not only possible, but it has been done in a range of different contexts. Reversing the argument, it is also difficult to think of reason why Northern Ireland would remain so much poorer than Cork and Kerry (for example) if it was in the same state, with the same policy, regulation and tax offering, and the same education system. The following sections, therefore project the impacts on the public finances of a united Ireland of three different growth paths, each of which is drawn on actual outcomes in relevant comparators. As the focus here is on NI, the figures relate to the existing territory of NI, although similar change might well be seen in the North West and Central Border region of the Republic.[43]

- Path A – would replicate the performance of the most improved economies in Central Europe, where countries such as Lithuania, Estonia, Romania, Latvia and Slovakia have managed to maintain an average growth rate per capita, of approximately 3% above EU averages.

[43] As the Republic of Ireland does not produce detailed regional breakdowns of tax and expenditure, carrying out such regional projections is very challenging.

- Path B – is a medium growth path compared to the recent Central European experience, maintaining an average growth rate per capita, of approximately 2% above EU averages.

- Path C –is a low growth path compared to recent Central European experience, maintaining an average growth rate per capita, of approximately 1% above EU averages.

Economic performance is also linked to population growth, in particular among the working age population. Northern Ireland has a well-documented 'brain-drain' problem, whereby about 5,000 school leavers go to study outside NI, mostly in Britain and over two thirds do not return. Inward migration is also at a low level due to low wage levels. Current population projections for NI assume a growth in the working age population of less than 1% in the decade up to 2028.[44] By contrast in the Republic of Ireland even the 'moderate' growth model of the Central Statistics Office assumes a 8.5% population increase in the 16 to 64 age cohort, over the 2021-2031 period.[45] An economy growing at either of the higher paths discussed above should see population growth at a significantly higher level than predicted under the status quo, with potential for a significant return of recent graduates now working outside of NI, as was witnessed in previous growth periods in the Republic. The projections below assume that the working age population would grow by an additional 1% pa over ten years, increasing tax revenues by one tenth of one per cent per annum, on average.

The following model of these assumptions over the first 15 years of a united Ireland, includes a top-up payment for state pension equalisation in year one, salary equalisation over 15 years, and a gradual takeover of pensions, as discussed above. Tables 4 to 6 below summarise the fiscal outcomes.

Table 4 – assuming a one per cent increase growth above recent averages for NI (constant prices)

	Base year[46]	Year 5	year 10	year 15
Tax revenue	19800	20,686	21,849	23,077
additional revenue over previous growth	0	886	2,049	3,277
inherited subvention plus year one commitments	-2500	-2500	-2500	-2500
Incr. expenditure on pensions and wage equalisation	0	-892	-2007	-3122
total deficit	-2500	-2,506	-2,458	-2,345

44 https://www.nisra.gov.uk/sites/nisra.gov.uk/files/publications/SNPP18-Infographics.pdf

45 The Pensions Commission, Ireland (2021). *Population and Labour Force Projections*, July 2021, p.6, using the Irish Central Statistics Office 'moderate', M2F2 model. https://www.gov.ie/pdf/?file=https://assets.gov.ie/200482/f1479eed-f28b-427a-ad01-e557ac4cc923.pdf#page=null

46 Base years uses 2019 data, and prices are held constant at that level, not adjusting either income or expenditure for inflation. Revenues increase in proportion to GNI growth, with conservative assumption of average rate of tax of 10% from new migrants / returnees. Expenditure includes additional €1b of public exp in year one, including full state pension equalisation. Annual exp increases assume public sector salary equalisation over 15 years on average, and gradual increase in Ireland's share of state and public sector pensions, as number of years paying prsi/ contributions in a united Ireland grows.

Table 5: assuming a two per cent increase growth above recent averages for NI (constant prices)

	Base year	Year 5	year 10	year 15
Tax revenue	19800	21,516	23,872	26,487
additional revenue over previous growth	0	1,716	4,072	6,687
inherited subvention plus year one commitments	-2500	-2500	-2500	-2500
Incr. expenditure on pensions and wage equalisation	0	-892	-2007	-3122
total deficit before policy decisions / further exp.	-2500	-1,676	-435	1,065

Table 6: assuming a three per cent increase growth above recent averages for NI (constant prices)

	Base year	Year 5	year 10	year 15
Tax revenue	19800	22,372	26,061	30,359
additional revenue over previous growth	0	2,572	6,261	10,559
inherited subvention plus year one commitments	-2500	-2500	-2500	-2500
Incr. expenditure on pensions and wage equalisation	0	-892	-2007	-3122
total deficit before policy decisions / further exp.	-2500	-820	1,754	4,937

With NI achieving a 1% pa growth boost after unity (the lowest end of the Central European experience), NI remains in a deficit of €2,3b pa, by year 15, but within this has absorbed the increased costs of salaries and pensions, while achieving a small decrease in the deficit level. This would represent an on-going borrowing requirement of less than three quarters of one per cent of GNI - well within what could be afforded.

With NI achieving a growth rate of 2% above recent historic norms before unity (the mid-level of Central European performance), the fiscal deficit would be €435m by year 10 and NI would be contributing to a united Ireland budget (or further improving public services) thereafter.

If NI, began to more fully converge with the economic outcomes in the Republic and experienced the same growth trajectory as the better Central European economies – at 3% above recent norms, they would run a fiscal surplus by year 6 of a united Ireland, or have those resources for improved public services.

None of these scenarios are financially threatening to the Republic of Ireland, and if we assume there would also be some positive economic impact in the North West at least and probably the central border reason, a united Ireland would be economically advantageous to the whole island, with any significant level of economic convergence.

In conclusion what is the basis for assuming there would be growth?

That is an issue requiring both additional work and discussion beyond the scope of this report but our existing knowledge points to three key issues, to explain the current economic gaps between North and South and to identify areas where growth would be very likely in a Northern Ireland, which was part of a United Ireland, inside the EU and with the full policy freedom of a sovereign state on issues such as tax and investment.

Productivity: the 2022 ESRI analysis by Adele Bergin and Seamus McGuinness, points to a 40% gap in labour productivity between North and South, which has opened up over the period since the Good Friday Agreement- and which is a key driver of low wage levels in NI, and where convergence should follow changed policy frameworks.[47]

Foreign Direct Investment: The number of jobs created, based on Foreign Direct Investment in Northern Ireland, are (after allowing for population size) about 20% of the level in the South. Wages levels are also lower. Bergin and McGuinness looking at the different levels of Foreign Direct Investment (FDI) and export intensity in Northern Ireland compared to the Republic, and found that, based on 2015 data, foreign owned companies accounted for 22.2 per cent of employment in Ireland and 14.0 per cent in Northern Ireland.[48] Furthermore, they found that value added in the Irish FDI sector was substantially higher than in Northern Ireland, with value added per worker almost five times that of Northern Ireland-based foreign enterprises. Northern Ireland's FDI concentration is in sectors such as construction and distribution, associated with relatively low productivity and wages, in contrast with the dominance of high value-added service sector firms in the South. The same picture is seen in export intensity, with exports accounting for only 15 per cent of total business turnover in Northern Ireland compared to 54 per cent in the South. On-going research on this issue is suggesting that political instability, market instability (including Brexit and the wider UK economy) and low levels of education outcomes in NI are key drivers of weak FDI outcomes in NI. A convergence in FDI policy and international perception of NI, is therefore likely to bring both more jobs and better paid jobs, compared to the status-quo.

Tourism: The Republic of Ireland had approximately 4.3 times as many trips by international visitors compared to Northern Ireland in 2019, but 7.6 times as much expenditure, totalling a respective €4,874m in the South and €672m in the North. Looking at Gross Value Added by the entire tourism industry, including on-island tourism, in 2019 the tourism industry in the Republic of Ireland (€13.8bn) was 4.8 times larger than the industry in Northern Ireland (€2.9bn). Convergence is likely as after unity NI will be part of a single tourism offering, in marketing, visa-requirements, tax and regional development policy, and, perhaps most crucially, in the perception of the visitor.

[47] Adele Bergin and Seamus McGuinness (2022) *Modelling Productivity Levels in Ireland And Northern Ireland.* ESRI.

[48] Seamus McGuinness and Adele Bergin (2020). 'The Political Economy of a Northern Ireland Border Poll', *Cambridge Journal of Economics*, 44(4),781-812.