



25 YEARS

A New Beginning

The Belfast/Good Friday Agreement at 25: has there been a peace dividend for the economy in Northern Ireland?

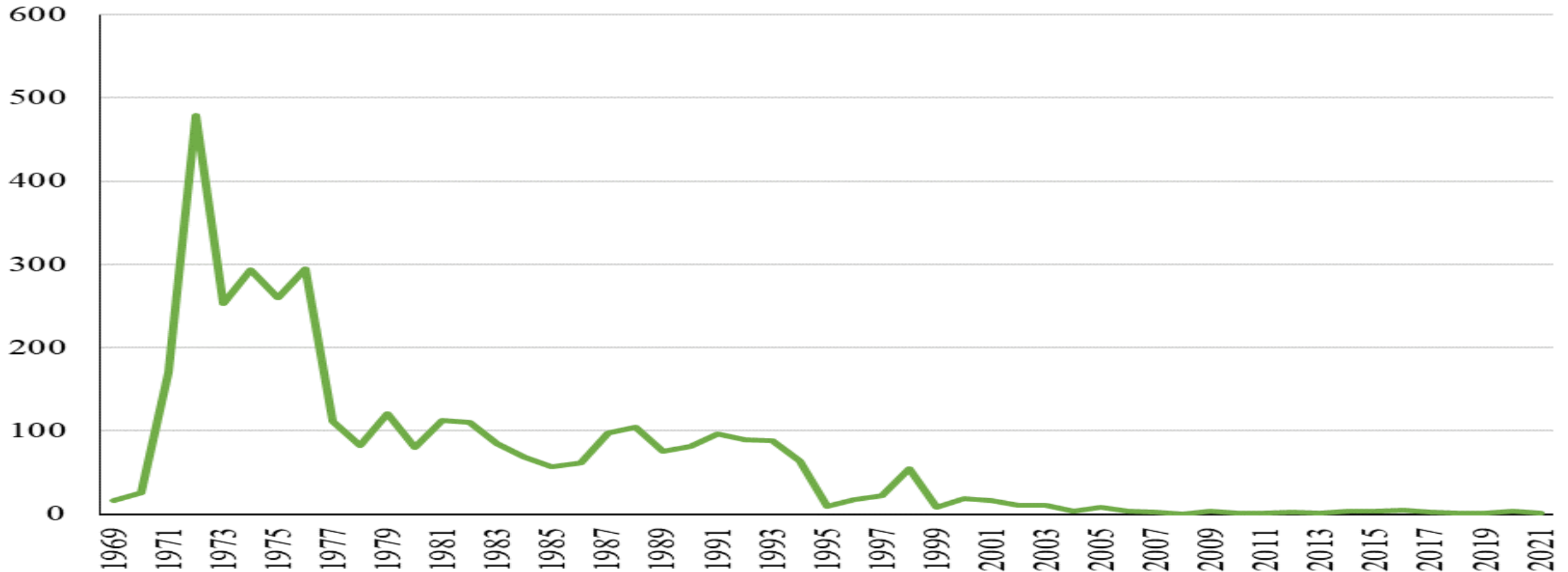
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Reflections on Belfast/Good Friday Agreement & The Economy

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Preliminary Points/Paper's Scope

- Based on a recent (April 3rd 2023) Economic Observatory piece co-authored with Dr David Jordan and Professor John Turner (both QMS).
- We have talked about pre 1998 elsewhere (e.g. Brownlow, 2013; 2022).
- A 'helicopter overview' of the NI economy, with a focus on 1998 to the present.
- Economic growth is an unbalanced process (i.e. 'winners' and 'losers'); again this is a NI ('regional') overview rather than more localised one (e.g. council areas).
- The absence of violence of course is valuable in its own right; we have not attempted a "Contingent Valuation" type exercise of lives and limbs saved.

Figure 1: Number of deaths due to security situation in Northern Ireland, 1969-2021



Source: [Conflict and Politics in Northern Ireland \(CAIN\)](#) and [Police Service of Northern Ireland, 2022](#)



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What is a peace dividend?

- As Figure 1 shows, post 1998 deaths have been much lower than pre 1998 (and this pattern is mirrored in other security measures).
- A peace dividend is typically defined as the economic boost that a nation or region receives from the cessation of conflict (involves output level & composition).
- Two examples:
 - A) Governments can reduce security spending and reallocate the money saved to more productive economic activities.
 - B) The economy can also benefit from a decrease in uncertainty and a more stable political environment, which encourages investment.

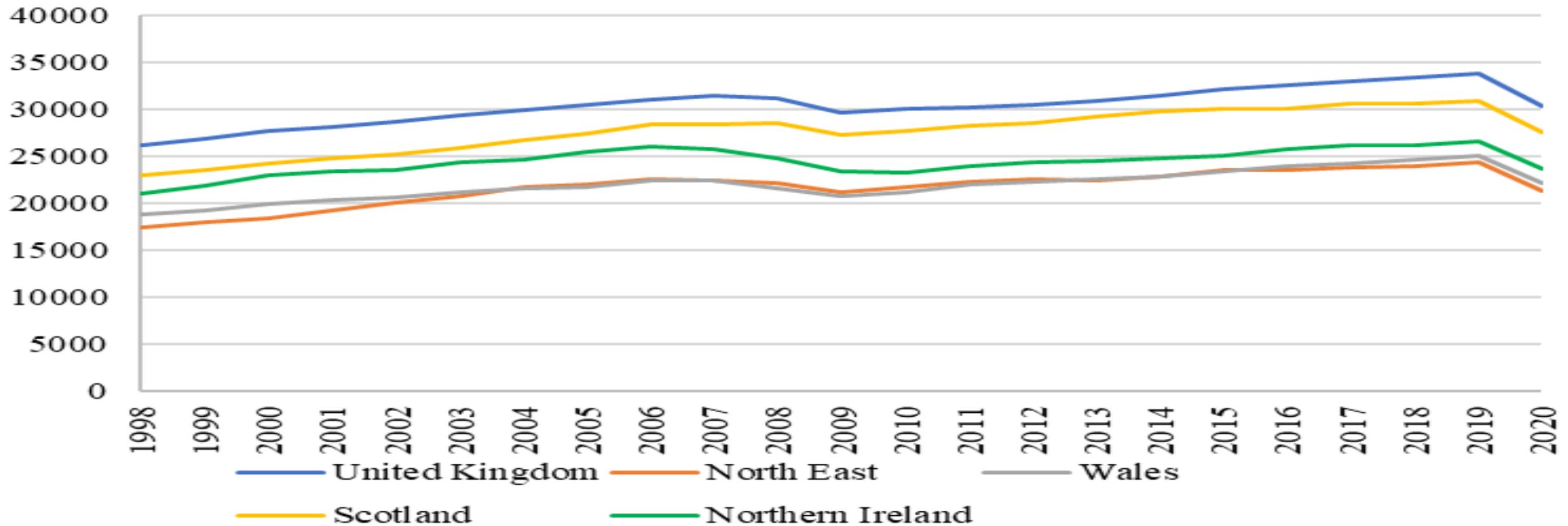


Has Northern Ireland's economy grown since 1998? 1

- The Troubles are estimated to have reduced NI's GDP by up to 10% (e.g. Dorsett, 2013).
- In 1998, NI's GDP per capita was 20% lower than the overall UK level, albeit higher than either Wales or the North East (the poorest English region).
- By 2019, prior to the Covid-19 pandemic, NI GDP per capita had grown 27% in real terms; the gap with the UK level remained relatively unchanged, at around 21% (see Figure 2). NI now outperforms Wales and North East.



Figure 2: Real GDP per capita, 2019 prices



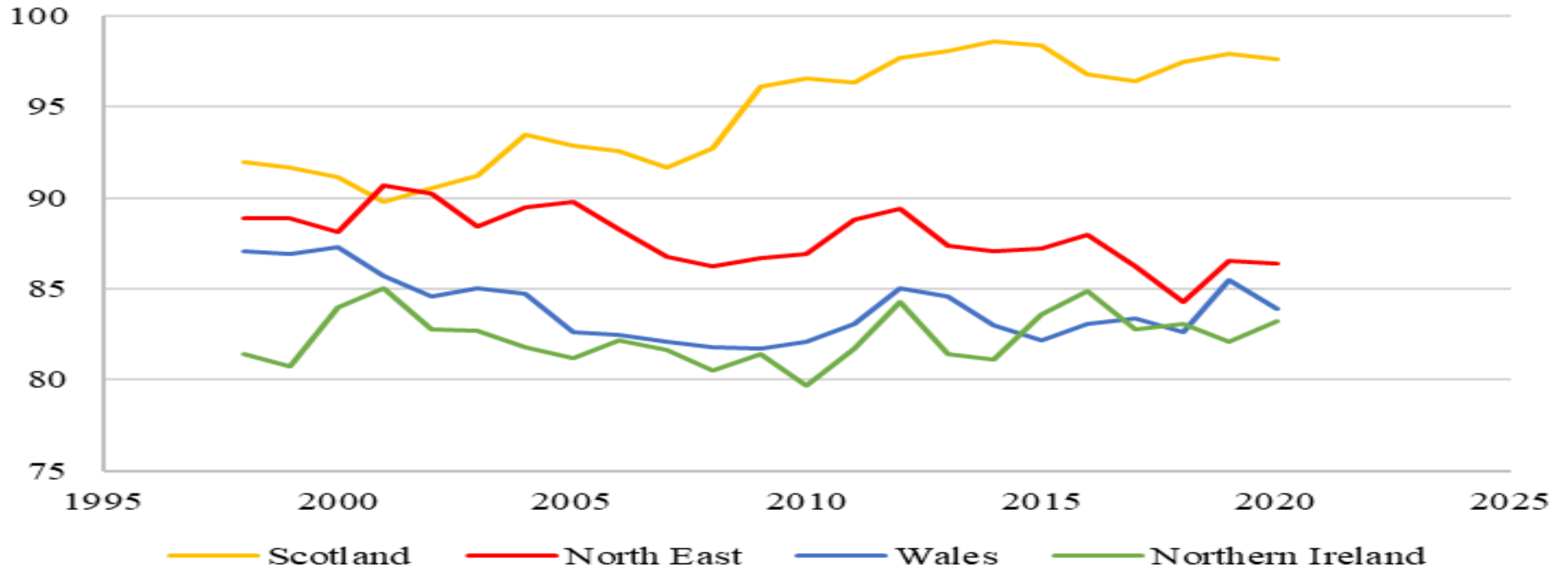
Source: [Office for National Statistics \(ONS\), 2022; regional gross domestic product, all ITL regions](#)

Has Northern Ireland's economy grown since 1998? 2

- The failure of NI to close the GDP gap reflects its poor productivity performance.
- It has the poorest productivity of any UK region, with a 17% gap to the UK level, when measured per hour worked.
- Despite being unsuccessful in closing the productivity gap with the UK level since 1998, the difference between NI and the next worst performing UK regions, namely Wales and the North East, has reduced, due to the productivity of those regions declining (see Figure 3).



Figure 3: Productivity, output per hour (UK=100)



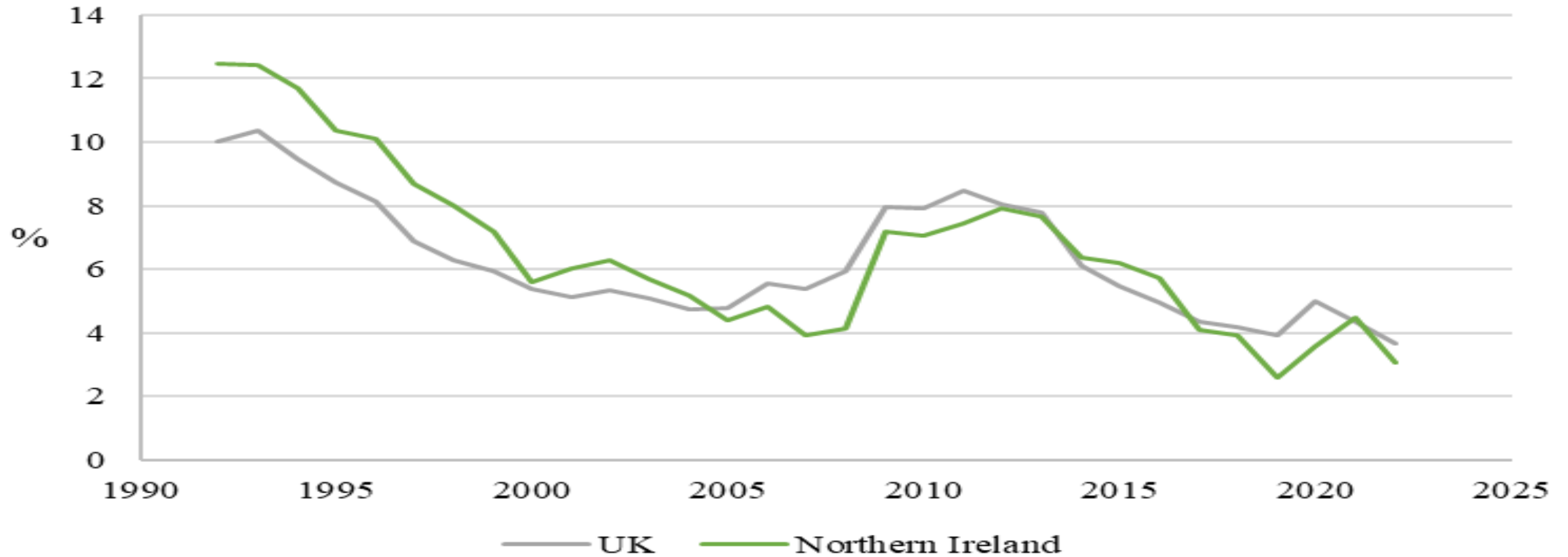
Source: [ONS, 2022; regional productivity time series](#)

Are individuals better off since 1998? 1

- The clearest improvement in the NI economy since 1998 is in the labour market.
- Since 1998, it has experienced the strongest employment growth of any region outside London. The total number of people employed increased by 22.7% by 2022.
- Between 1992 and 1997, NI's unemployment rate averaged 11.0%, above the UK average of 8.9%.
- From 2000, this rate decreased rapidly, with unemployment falling below the UK level for the first time in 2005 (see Figure 4). Since then, it has continued to follow a similar pattern to the UK level, and remains lower than in Scotland, Wales or the North East.



Figure 4: Unemployment rate

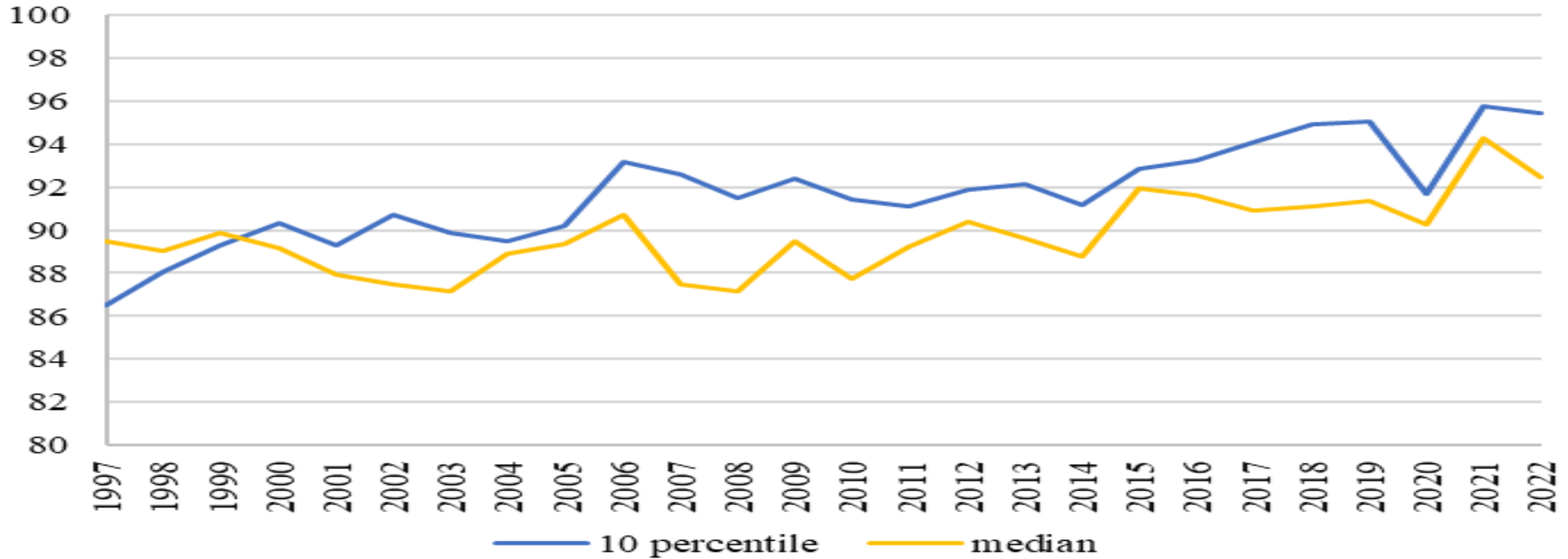


Source: [ONS, 2023, Labour Force Survey](#)

Are individuals better off since 1998? 2

- Figure 5 illustrates the relative performance of both median and low-paid (10th percentile) full-time employees in NI, relative to the equivalent UK-wide groups. Low-paid employees in NI received wages that were 12% below their peers in 1998; this gap had shrunk to 5% in 2022.
- The apparent closing of the gap for those earning the median wage in Figure 5 is within the Labour Force Survey's confidence interval, which means that there is no evidence of a relative improvement for this group.
- Other labour market outcomes show NI still lagging behind. It has the highest rate of economic inactivity – those not in employment but not seeking work within the last month – of any UK region. Disabled employment rate similarly lagging.

Figure 5: Gross weekly pay (UK=100)



Source: [ONS, 2023, Annual Survey of Hours and Earnings](#)

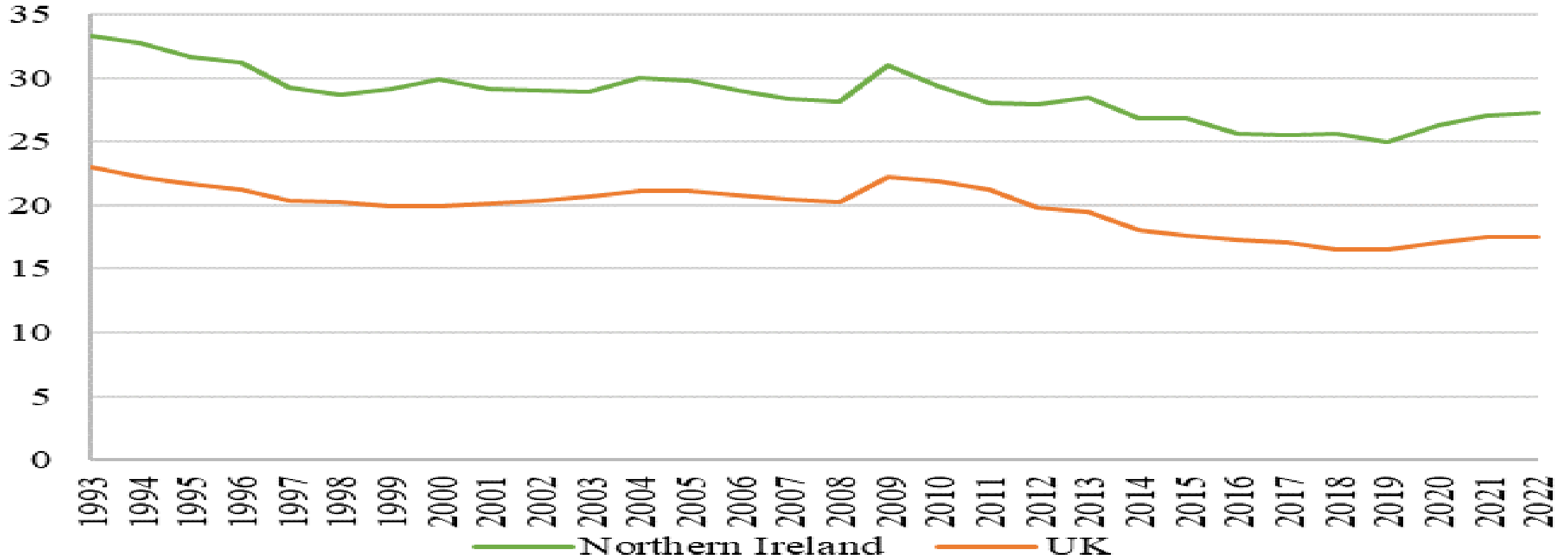


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Is Northern Ireland still overly reliant on the public sector? 1

- Rebalancing much talked about, but equating a peace dividend with the absolute and/or relative size of the public sector may misdiagnose NI's underlying economic problems (Birnie and Brownlow, 2018).
- The 'interrelated strategy' during the Troubles used public spending as an stabilisation policy. In 1960, NI public sector employment accounted for 22% of total employment, but by 1970, this had reached 25%, and by 1987, it had risen further to 42% (Hewitt, 1990).
- As Figure 6 shows, by 1998, the public sector share had already fallen to 29%. NI followed the UK trend, reaching 27% in 2022. Nevertheless, it has remained significantly higher than the UK share of 18%.

Figure 6: Public sector employment as a percentage share of total employment (see Brownlow, Jordan and Turner, 2023 for sources)

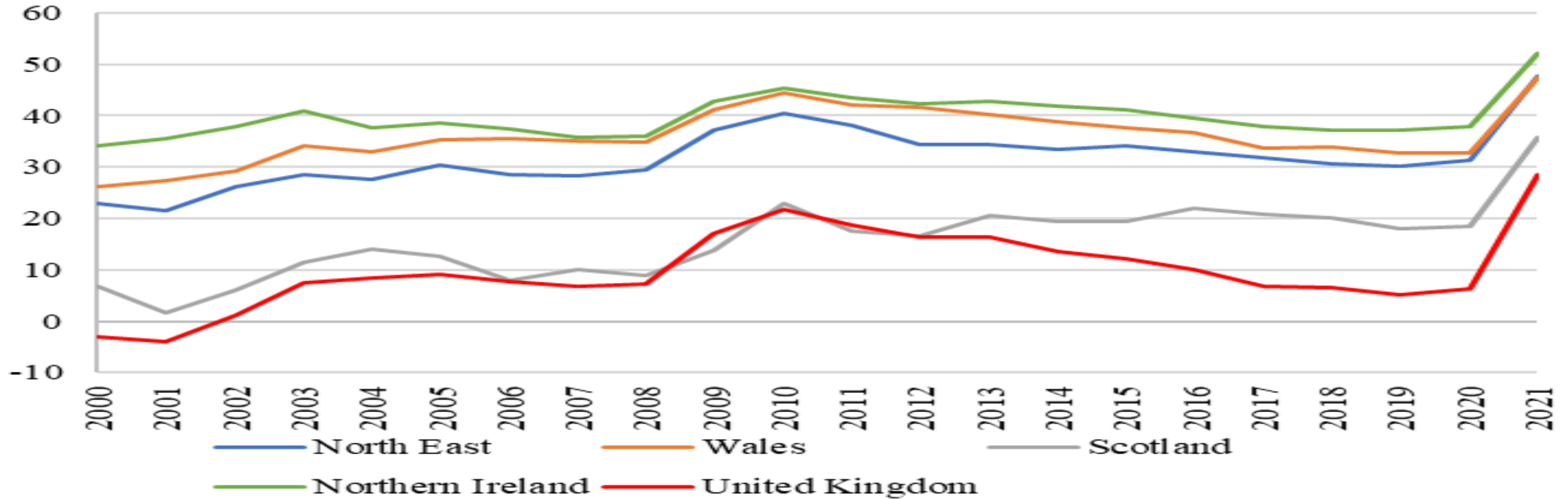


Is Northern Ireland still overly reliant on the public sector? 2

- A weak NI economy (and political instability) increased public spending relative to revenue and this increased the scale of transfer (aka subvention).
- While NI's fiscal deficit has deteriorated in absolute terms over time, reaching 38% in 2019/20, it has improved relative to the rest of the UK.
- The deficits of both Wales and the North East reached pre-pandemic levels of 33% and 31% respectively, while Scotland has also seen its deficit worsen over time.
- Only London, the South East and the East of England have fiscal surpluses, while the UK as a whole runs a fiscal deficit.



Figure 7: Fiscal deficit as a percentage of total public expenditure per person



Source: [ONS, 2022, national and regional public sector finances, UK, financial year ending 2021](#)



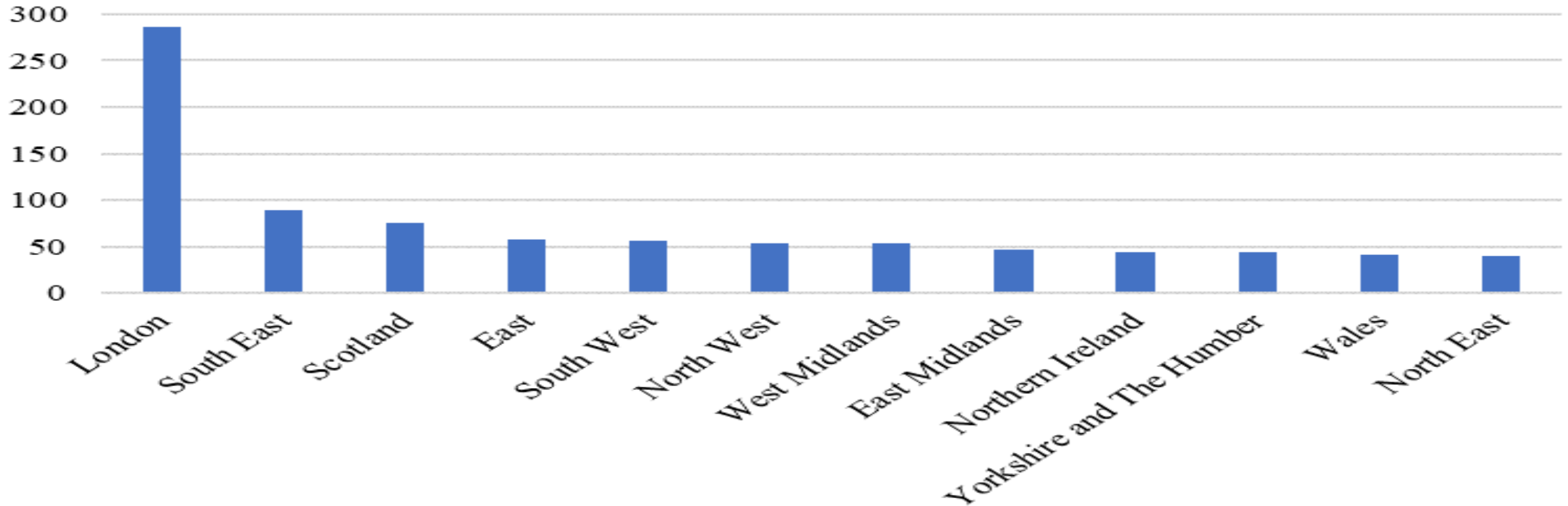
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Has Northern Ireland attracted higher levels of investment? 1

- Violence very much discouraged quantity of investment inflows: the number of externally-owned manufacturing plants fell by 41% 1973 -1990 (Hamilton, 1993).
- Today, NI is placed ninth among the UK's 12 regions for the level of foreign direct investment in the local economy (see Figure 8). This suggests that it has seen a partial reversal of its previous lack of foreign investment.
- *But note NI is not the outlier.* indeed 2021 & 2022 data suggests that (London excluded), NI is performing no better than the UK average for new inward investment projects.



Figure 8: Total value of foreign direct investment position held by foreign companies, 2015-2020 (UK=100)



Source: [ONS, 2022, Foreign direct investment involving UK companies by UK nation and region](#)

Has Northern Ireland attracted higher levels of investment? 2

- *Qualitative improvement?* NI has seen the growth of new industries in the private sector. Between 1998 and 2022, employment in financial and insurance activities grew 36%. This is higher than in any other UK region.
- Similarly, jobs in information and communication grew by 99%, the second highest of any UK region (ONS, 2023).
- Other new industries include TV and film production, which contributed approximately £300 million to the local economy between 2018 and 2022 (NI Screen, 2022).



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Why has the peace dividend been relatively small?

Short answer: distortions that emerge in response to a crisis such as the Troubles are not fully reversible, even once the crisis ends.

Longer answer:

- What goes up in one direction need not go back down to its original starting point (Peacock and Wiseman, 1961).
- Irreversibility becomes a major issue when uncertainty interacts with ‘sunk costs’ (Bloom, 2014).
- Since 1998, economic policy has not always converted political stability into a focus on productivity.
- Continuity between pre and post 1998 in terms of policy?



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What needs to change?

- *No simple ‘silver bullets’*: even if we acknowledge that improving skills and productivity will take it in the right direction.
- *Institutional Geography*: The lack of a functioning executive, and poor governance even when the executive has been sitting, have plagued NI since 1998. Eg NHS (Appleby et al, 2022; O’Neill, 2022).
- Invest NI (e.g. ‘clients’) (Independent Review of Invest NI, 2023).
- Value for money and recognition of governance failings (e.g. NIFC) (Brownlow, 2022).



Further Reading

- G. Brownlow, “Business and Labour since 1945”, in L. Kennedy and P. Ollerenshaw eds., ***Ulster since 1600: Politics, Economics and Society*** (Oxford University Press, 2013), pp. 291-308.
- G. Brownlow, “Institutional Geography Once More? Devolution Economics Northern Ireland style”, ***National Institute Economic Review***, Vol. 261, Part Two (2022), pp.34-47.
- G. Brownlow and E. Birnie, “Rebalancing and Regional Economic Performance: Northern Ireland in a Nordic Mirror” (with E. Birnie), ***Economic Affairs***, Vol.38, No.1 (2018), pp.58-73.
- G. Brownlow, D. Jordan and J. Turner, “ The Good Friday Agreement at 25: has there been a peace dividend?”, ***Economic Observatory***, April 3rd, (2023).
<https://www.economicsobservatory.com/the-good-friday-agreement-at-25-has-there-been-a-peace-dividend>.



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