OPPORTUNITY BREXIT?
INSTITUTIONAL ECONOMIC IMPLICATIONS FOR NORTHERN IRELAND

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‘In the middle of difficulty lies opportunity’, Albert Einstein

‘If one does not know to which port one is sailing, no wind is favourable’, Seneca
Overview in next 20 minutes

- Some observations since the note written;
- Underlying problems of NI economy (as with UK) are long run and structural, so the real focus needs to be on efficiency and equity;
- “A Bad Workman (Sic) Blames His Tools”: Why Economics had a ‘bad’ referendum;
- Three interrelated processes in the NI economy;
- Modern Institutional Economics: confidence-building, policy architecture and sequencing.
“Brexit means Brexit”? (observations since note written August 2016)

• UK current account deficit and sterling (Bootle and Mills, 2016; Elliott, 2016).

• Imports are nearly 30 per cent of UK GDP (Cowen, 2016).

• More heat than light (alas) e.g. wealth effects and counterfactuals.

• Expectations matter!
Introductory Points

• Many general points on the role of institutional frameworks in general and specifically NI refer back to Gilles (2016).

• Best not focus narrowly on flows of EU cash if we want to understand long-term economic prospects.

• Many microeconomic, macroeconomic and public finance implications at both UK and NI level as well as an island level (see Oxford Economics, 2016; Ramsey, 2016; Barrett et al, 2016).

• Potential economic effects of EU membership (Brexit) are (will be) both efficiency and equity-based (Ebell and Warren, 2016).
Economic Policy Content and Policy-making

- Economic (Ir)relevance? Many trends had begun before ‘leave’ vote (e.g. Barnett reform and fiscal devolution) (Birnie and Brownlow, forthcoming).

- Any ‘shock’ (e.g. exchange rate decline) could have unintended benefits for parts of the NI economy (though refer back).

- Much spurious precision was revealed during the debates. Events are unchartered territory for many economic models, so judgment/analytical capacity in model selection.

- Issues for policy-makers in terms of content & architecture (return to at the end).
Reviewing the Economics Debate

• Economists had a “bad referendum” - the profession’s elite were ‘remain’ (e.g. ten Nobel laureates Guardian letter) Vs ‘economic liberal’ Brexiners.

• Intellectual consensus (even among Brexiners) was of short run transition costs : but “J curve”? Transmission mechanism?

• Brexiners/remainers both argue that UK (and hence NI) productivity problems could/should be solved by supply-side reform.

• Transmission mechanism 1972 onwards: EU membership boosted UK productivity via offsetting management quality by competition ↑ (Crafts 2012; 2016).
The Economics Debate in the NI Context

- Since GFC 2008, NI’s relative growth has languished amidst widened UK regional inequality (Gilles, 2016; Haldane, 2016).

- No NI specific study of the transmission mechanism, but much evidence that NI needed competition more than GB (Brownlow, 2013; Bloom & Van Reenen, 2010).

- Econometric modelling and the limits of deregulation (Crafts, 2016).

- Brexit needs to be supplemented with ‘horizontal’ industrial policy (Pryce, 2012; Moretti, 2012).
The Economics Debate in the NI Context 2

- Agri-food an important caveat in the NI context. Labour mobility is entwined with business models (Ramsey, 2016). (list of other problems for discussion?)

- The key point about the NI economy is that it has been characterized by three interrelated processes (Brownlow, 2015):
  A) UK-wide economic issues e.g. shocks and cycles & ROI also shares in this (Fitzgerald and Honohan, 2016);
  B) NI has magnified versions of UK problems e.g. rebalancing & productivity weakness;
  C) NI has region-specific issues e.g. EU border, exchange rates, tax competition, legacy issues/peacebuilding.
From Economics to Institutional Economics 1

- Breaks in institutional economics can happen (e.g. Meiji & Rogernomics) (Williamson, 2000).

- Very difficult to ensure that ‘windows of opportunity’ are taken in terms of reform (Williamson, 2000).

- Management of opportunities can be mishandled (e.g. Williamson argued back in 2000 that the EU was reforming at too slow a pace).

- Any effective institutional economics in the next PfG needs to consider not merely measurability of objectives (though some progress here) but explicit economic recognition/analysis of (NI has been poor at this).
 Failures in implementation of econ policy in NI are well known.

Economists have long been concerned not just with the economic consequences of policies, but the design of the institutions that create/implement policies (Heald, 2003; Acemoglu and Robinson, 2012; Rodrik, 2015; Birnie and Brownlow, forthcoming) e.g.:

A) Confidence-building;
B) Policy Architecture;
C) Speed and Order (Sequencing).

NI in this regard is now arguably poorly served relative to direct rule!
Institutions Economics & Opportunity Brexit

- Heald (2003) noted that matched funding/lagged imitation of economic policy – along with the failure to engage with academic economists – had damaged ‘policy capacity’.

- PwC (2010) economic diagnosis has been easier since 1957 than implementation or identifying what they termed ‘priorities’ (or trade-offs in economic terminology).

- So Brexit in terms of academic economics, civil service economics and business community could provide an opportunity to institutional reform/better implementation.

- KESS a good start!
MANY THANKS

QUESTIONS?

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