



## Knowledge Exchange Seminar Series (KESS)

*...is a forum that encourages debate on a wide range of research findings, with the overall aim of promoting evidence-based policy and law-making within Northern Ireland*



# **OPPORTUNITY BREXIT? INSTITUTIONAL ECONOMIC IMPLICATIONS FOR NORTHERN IRELAND**

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**October 12<sup>th</sup> 2016**

**‘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 uncharted 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’ Brexiters.
- Intellectual consensus (even among Brexiters) was of short run transition costs : but “J curve”? Transmission mechanism?
- Brexiters/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 1

- 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).



# From Economics to Institutional Economics 2

- 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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