The Subvention Matters: A Response to 'Why The "Subvention" Does Not Matter: Northern Ireland and The All-Ireland Economy' by John Doyle

Esmond Birnie

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The Subvention Matters

A RESPONSE TO 'WHY THE "SUBVENTION" DOES NOT MATTER: NORTHERN IRELAND AND THE ALL-IRELAND ECONOMY' BY JOHN DOYLE[1]

Esmond Birnie
Ulster University

INTRODUCTION

Articles and papers by John Doyle (2021) and John FitzGerald and Edgar Morgenroth (2019 and 2020) consider how far the Northern Ireland subvention—the extent to which public expenditure exceeds regional tax revenue—would translate into a regional fiscal deficit following Irish unity.[2]

[1] John Doyle, 'Why the "subvention" does not matter: Northern Ireland and the all-Ireland economy', *Irish Studies in International Affairs* 32 (2) (2021), 314–34.
[2] Doyle, 'Why the "subvention" does not matter'; John FitzGerald and Edgar Morgenroth, 'The Northern Ireland economy: problems and prospects', Trinity Economic Paper 0619 (Dublin, 2019); John FitzGerald and Edgar Morgenroth, '[Evidence to] Oireachtas Committee on the Implementation of the Good Friday Agreement' (Dublin, 8 December 2020), available at: https://data.oireachtas.ie/ie/oireachtas/committee/dail/33/joint_committee_on_the_implementation_of_the_good_friday_agreement/submissions/2020/2020-12-08_opening-statement-prof-john-fitzgerald-adjunct-professor-department-of-economics-tcd-and-prof-edgar-morgenroth-professor-of-economics-dcu-business-school_en.pdf (20 July 2023).

Author's email: esmond.birnie@ulster.ac.uk; ORCID iD: https://orcid.org/0000-0002-5234-0037

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I consider whether the subvention has, as Doyle argues, dominated public debate about the economics of Irish unity. I review his approach to the definition and relevance of the subvention. I then respond to Doyle's argument by updating the data through to 2022 as well as showing how they developed over the period 2000–22. I review Doyle's method regarding the reduction of the subvention from £9.4bn to a deficit/transfer of £2.4bn (in 2018–19).

Doyle characterised the subvention as a 'symptom of [this] weakness'. I outline how it could have potentially positive effects (sustaining aggregate demand and employment) as well as negative impacts (harmful effect on quality of decision-making) on the regional economy. The broader question of the economic and welfare effects of Northern Ireland's membership of a larger fiscal union (i.e. the UK) as opposed to being part of a smaller fiscal union (united Ireland) is considered.

The subvention should be considered as one aspect of Northern Ireland's often fraught long-run funding relationship with the UK treasury and government. Given that experience, I outline the case (moral hazard) that a system of fiscal transfers *within* the island of Ireland might be especially problematic.

Finally, I critically assess Doyle's claim that a united Ireland would produce an upsurge in economic performance.

In considering Doyle's approach, some of my method is similar to that previously adopted by FitzGerald and Morgenroth, but my data are more up to date. I provide a more detailed consideration of the potential increase in defence spending in Ireland. Additionally, the Northern Ireland subvention is compared to that of the other eleven major UK regions.

There can be no certainty as to the precise scale of any fiscal transfer required by Northern Ireland post-united Ireland, but we can be reasonably confident that it will be considerably larger than the figure of £2.4bn proposed by Doyle. There are three main reasons for this:

1. the most recent Office for National Statistics (ONS) data for 2019 revise the size of the subvention upwards;
2. some of Doyle's assumptions were overly optimistic;
3. spending relative to revenues increased massively during 2019–20 to 2021–2, given Covid, and there is likely to be a ratchet effect. It will take many years (if ever) to return to pre-crisis levels.

Doyle estimated a deficit/subvention of £2.4bn in 2018–19. It is more likely to have been in the range £3.6bn to £8.8bn. In 2021–2, replication of Doyle's method implied a deficit/subvention of £6.8bn, but when some of his assumptions are relaxed that increases to £12.6bn. Given such figures, it is highly likely that the subvention continues to matter. This is especially so because we cannot be confident that unification per se would produce an immediate upsurge in economic growth that would render such a deficit irrelevant.

SUMMARY OF THE APPROACH TAKEN HERE

John Doyle[3] argues that the subvention has 'dominated' public debate about the economics of a united Ireland, presumably in terms of claims that it would be a major barrier to such unity.[4] When Doyle says the subvention does not matter, what he means is that it does not represent such a barrier. Partly this is because it is 'a UK accounting exercise'. As such it would not equate to the fiscal transfer that might be necessary as part of a united Ireland. Doyle presents arguments to show how it is highly likely that the post-united Ireland transfer would be much smaller than the subvention: £2.4bn rather than £9.4bn. Doyle further claims a united Ireland would directly lead to such an upsurge in economic performance in both parts of Ireland that any concerns relating to paying for unity would become 'irrelevant'.

In responding to Doyle, I first consider whether the subvention has dominated the debate and then review his approach to the definition and relevance of the subvention. I then respond to Doyle's argument by updating the data through to 2022[5] and showing how they developed over the period 2000–22. I also review Doyle's method regarding the reduction of the subvention. In practice, much would depend on the negotiating positions adopted by the two governments, UK and Irish. While there can be no certainty about these, the former is likely to be much exercised by any precedents that could be set for the terms of Scottish independence.

Whereas Doyle characterised the subvention as a 'symptom of [this] weakness', this article outlines how it could have potentially positive effects (sustaining aggregate demand and employment) as well as negative impacts (harmful effect on quality of decision-making) on a regional economy.

[3] Doyle, 'Why the "subvention" does not matter'.
[4] For convenience we follow Doyle in using the term 'subvention'. In recent years the official data sources have used other terms such as 'net fiscal balance' or 'fiscal transfer'.
[5] To the end of financial year 2021–2, the most up-to-date data available at the time of writing (August 2023).

The broader question of the economic and welfare effects of Northern Ireland's membership of a larger fiscal union (the UK) as opposed to a smaller fiscal union (united Ireland) is also considered.

The subvention can be considered as one part of Northern Ireland's often fraught long-run funding relationship with the UK treasury and government. Given that experience, and assuming that some decentralisation continues to the six Northern counties, it is worth speculating how well a system of fiscal transfers *within* the island of Ireland might operate.

Finally, I assess Doyle's claim that a united Ireland would produce an upsurge in economic performance.

In considering Doyle's approach, some of my method is similar to that previously adopted by John FitzGerald and Edgar Morgenroth.[6] My data are more up to date. I also provide a more detailed consideration of the potential increase in defence spending in Ireland. Additionally, the Northern Ireland subvention is compared to that of the other eleven major UK regions.

THE SUBVENTION IN PUBLIC DEBATE AND ISSUES OF MEASUREMENT AND RELEVANCE

Doyle is right to say the subvention has figured in the debate about the economics of Irish unity.[7] In many cases, commentators have sought to show that the subvention is not an insurmountable obstacle to Irish unity. Over the years there have been attempts from a broadly nationalist perspective to outline how any problem relating to paying for the subvention could be dealt with in the context of a united Ireland.[8] More recent considerations, from a variety of perspectives, include those of Frank Connolly, Mary Murphy and Brendan O'Leary.[9]

[6] FitzGerald and Morgenroth, 'The Northern Ireland economy'; John FitzGerald, 'Northern Ireland subvention', available at: https://cdn.thejournal.ie/media/2021/03/northernirelandsubvention_201129-docx.pdf (20 July 2023). That note was part of FitzGerald and Morgenroth, '[Evidence to] Oireachtas Committee on the Implementation of the Good Friday Agreement'.

[7] Doyle more recently has said that it is 'not the biggest issue': John Doyle, in '[Evidence to] Finance and economics: discussion' (Dublin: Joint Committee on the Implementation of the Good Friday Agreement Debate, 13 July 2023), available at: https://www.oireachtas.ie/en/debates/debate/joint_committee_on_the_implementation_of_the_good_friday_agreement/2023-07-13/3/ (20 July 2023).

[8] Garret FitzGerald, *Towards a new Ireland* (Dublin, 1972); a study for the New Ireland Forum by Davy Kelleher McCarthy Ltd Consultants and commentary on that study by Professor Norman Gibson and Professor Dermot McAleese, *The macroeconomic consequences of integrated economic policy, planning and co-ordination in Ireland*, Report to the New Ireland Forum, Official Publication 2359 (Dublin, 1984) available at: http://opac.oireachtas.ie/AWData/Library3/Library2/DL035369.pdf (20 July 2023).

[9] Frank Connolly, *United nation: the case for integrating Ireland* (Dublin, 2022); Mary Murphy, 'Re-shaping UK/Ireland relations: Brexit, cross-border and bilateral impact', *Oxford Review of Economic Policy* 38 (1) (2022), 205–16; Brendan O'Leary, *Making sense of a United Ireland* (London, 2022).

Interestingly, unionists have tended to be rather reticent in their use of the subvention as an argument to buttress the constitutional status quo. Since 2005 the DUP has been the largest unionist party. Traditionally, that party's economic policies have combined support for high-profile and sizeable spending schemes with a low level of taxation in the region.[10] Such a combination of fiscal dovishness and hawkishness would seem to imply a larger subvention, but the DUP has been rather more ready to trumpet the potential benefits paid for through that subvention, notably the free-at-the-point-of-use health service (NHS) in Northern Ireland, rather than the subvention per se.

The extent to which Doyle is right to characterise the subvention as a symptom of weakness is considered below. At this stage it is worth noting that I accept Doyle's point that the subvention as measured by the UK's ONS reflects in part particular accounting conventions. As such, the numbers produced do not necessarily reflect what the required transfer payment would be post-united Ireland. Nevertheless, and contrary to Doyle, it is possible to argue that the most plausible adjustments of the ONS measure imply a transfer that would still be of considerable scale.

UPDATING DOYLE'S DATA THROUGH TO 2022

Doyle defines the subvention as the ONS measurement of the extent to which Northern Ireland public expenditure (including both spending in Northern Ireland and an allocation to Northern Ireland of a share of certain UK spending outside of Northern Ireland or of spending at the central UK level) exceeds the total amount of taxation and other revenues raised in Northern Ireland. The ONS approach also includes an accounting adjustment on both the expenditure and revenue sides (both of those adjustments include an allowance for depreciation). We follow both Doyle and FitzGerald and Morgenroth in assuming that this adjustment is not relevant to considering how the deficit might change post-unity.

When Doyle wrote his article in 2021, the data indicated a subvention of £9.4bn in 2018–19 (see Table 1). As Table 1 indicates, the most up-to-date data for 2018–19 indicate that the subvention in that year was the higher figure of £10.2bn. Table 1 also provides the data for 2021–2 (showing the consequences

[10] Favoured spending projects included the now notorious Renewable Heating Incentive (RHI) scheme and the proposal to build a fixed connection between Northern Ireland and Scotland. In terms of regional revenue-raising the DUP has supported zero domestic water charges and relatively low levels of local government/regional property taxes (rates). For the DUP stress on healthcare spending see DUP, *Let's get NI moving again: our plan* (Belfast, 2019).

Table 1. Summary of Northern Ireland's fiscal position and hence the subvention, £m, 2018–19 and 2021–2[a]

	2018–19 (Doyle's article)	**2018–19 (most recently published data)**	**2021–2**
Tax and other revenue raised in Northern Ireland	16,183	15,875	18,233
Gross operating subsidy adjustment (including depreciation)	2,338	1,197	1,064
Total published revenue	*18,521*	*17,072*	*19,297*
Current expenditure	25,233	24,773	30,492
Capital expenditure	2,655	2,484	2,746
Sub-categories of expenditure			
Identifiable expenditure (i.e. spending in Northern Ireland)	21,807	21,779	26,761
Expenditure outside the UK but apportioned to Northern Ireland (on basis of % share of UK population)	765	756	629
Non-identifiable expenditure (i.e. spending at the central UK level allocated to Northern Ireland on basis of % share of UK population)	2,105	2,652	3,874
Accounting adjustment (including depreciation)	3,211	2,070	1,974

(*Continued*)

Table 1. (continued). Summary of Northern Ireland's fiscal position and hence the subvention, £m, 2018–19 and 2021–22[a]

	2018–19 (Doyle's article)	2018–19 (most recently published data)	2021–22
Total published (managed) expenditure	*27,888*	*27,257*	*33,238*
Subvention or deficit	9,367	10,185	13,941

[a] I follow Doyle's terminology regarding the sub-categories of revenue and expenditure. All values in the prices of the year in question.
Sources: Doyle, 'Why the "subvention" does not matter'; ONS, 'Country and regional public sector finances, UK: financial year ending 2022', *Release*, 26 May 2023; ONS, 'Country and regional public sector finances expenditure tables', *Dataset*, 26 May 2023; ONS, 'Country and regional public sector finances revenue tables', *Dataset*, 26 May 2023.

of Covid-19 but to a lesser extent than would have been the case in 2020–1). The subvention in 2021–2 was £13.9bn, down £3.4bn on its all-time high in the previous year but still considerable.

The fact that the revised and most up-to-date data suggest a substantially bigger subvention than that presented by Doyle may weaken his case that the subvention does not matter. It is still important to consider and evaluate how he adjusted the ONS data to indicate the required post-united Ireland transfer. I do that below, but before doing so it is worth considering the trend in the subvention over time.

THE SUBVENTION IN A LONGER-RUN PERSPECTIVE

After a brief summary of how the subvention developed during the period from partition to the Second World War,[11] Doyle's figures show that in real or constant price terms the size of the subvention roughly doubled during the 35-year period

[11] Doyle argues that Northern Ireland did not always have a subvention. When the state was founded it was intended that Northern Ireland would make a net contribution to the UK exchequer: hence the payment of an imperial contribution. That imperial contribution continued as a notional payment for many decades but to a growing extent was 'netted' against incoming contributions from the UK treasury, which enabled the Northern Ireland government to pay for a rising bill for unemployment relief and other welfare: Norman Gibson, 'Northern Ireland and Westminster: fiscal decentralisation: a public economics perspective', Northern Ireland Economic Council Report (Belfast, 1996). By implication, by the mid-1950s Northern Ireland may already have been a net recipient of treasury funds: 'John Bull's model Ireland', *The Economist*, 6 October 1956. For a sceptical view about whether Northern Ireland was then a recipient of a net fiscal transfer, see Tom Wilson, *Ulster under home rule* (Oxford, 1955).

Table 2. Northern Ireland subvention in 2021–2 constant price terms, £m, 2000–22

Financial year	Size of the subvention	Subvention as % of NI GDP level[a]
1999–2000	6,984	11.8
2000–1	7,926	13.0
2001–2	8,530	14.0
2002–3	9,737	16.1
2003–4	9,274	15.1
2004–5	9,786	16.1
2005–6	9,781	16.0
2006–7	9,423	15.6
2007–8	9,919	16.9
2008–9	12,334	22.6
2009–10	13,406	25.7
2010–11	12,961	24.9
2011–12	12,744	24.3
2012–13	12,767	24.4
2013–14	12,000	23.1
2014–15	12,063	23.1
2015–16	11,375	21.5
2016–17	10,737	20.0
2017–18	10,003	20.2
2018–19	11,028	20.7
2019–20	11,273	22.2
2020–1	17,387	38.3
2021–2	13,941	28.0[b]

[a] GDP in each financial year estimated using calendar year data.
[b] Northern Ireland GDP in 2022 was estimated from the data for 2021 using the growth rate in 2022 (from the Northern Ireland Composite Economic Index) times the increase in the (UK) GDP deflator in 2022.
Sources: ONS, 'Regional GDP: all ITL regions', *Dataset*, 25 April 2023; ONS, 'Country and regional public sector financial net fiscal balance tables', *Dataset*, 26 May 2023; HM Treasury/Gov.uk, 'GDP deflators at market prices, and money GDP March 2023 (quarterly GDP)', *Dataset*, 3 April 2023.

after 1974. FitzGerald and Morgenroth illustrated the development of the subvention as a percentage of GDP over the long run: 1968–2016. It increased from a little above 5% in the late 1960s to about 20% in the mid-1980s.[12] After that it did decline for a while but started to increase after 2000, from about 17% to 30% in 2008.

Table 2 uses ONS data to illustrate the trend in the constant-prices Northern Ireland subvention during 2000–22. The data for the past 22 years confirm that the subvention has increased very substantially in real terms, roughly doubling from 1999–2000 to 2021–2. Treating the final two financial years shown as outliers (Covid-related spending), and comparing 2019–20 to 1999–2000, the volume increase in the subvention was still substantial: 61%.

Consideration of the data for the individual years provides hints of the processes causing the upward movement in the subvention. The subvention grew rapidly during the first four financial years of the 2000s: probably a consequence at the Northern Ireland level of very rapid growth in public spending at the UK-wide level.[13] The real-terms subvention remained fairly stable during the second half of the 2000s though to 2008. This was a time when the Northern Ireland economy was growing. While government spending was increasing, levels of tax revenues were probably increasing at a similar pace, which implied that the subvention remained roughly constant.[14]

The banking crisis (2007–8) and the subsequent recession (2008–10) were associated with a very substantial growth in the subvention from about £9.5bn to about £13.5bn (2021–2 prices). Thereafter, during most of the 2010s the volume of the subvention decreased. This could have been partly because the Northern Ireland economy began to grow again and so demand for public expenditure decreased.[15] Additionally, there was the impact of much slower

[12] FitzGerald and Morgenroth, *The Northern Ireland economy*.
[13] Particularly in terms of spending on the NHS in Great Britain, under the Labour administrations 1997–2010. During 1999–2000 to 2009–10 UK total managed (public) expenditure grew by 4.3% annually compared to the average for 1948–9 to 1999–2000 of 2.7%: IFS, 'Total UK public spending', available at: https://ifs.org.uk/total-uk-public-spending (30 August 2023). Northern Ireland receives its population share of such increases through the workings of the Barnett formula: see Northern Ireland Fiscal Council, *The public finances in Northern Ireland: a comprehensive guide* (Belfast, 2021), available at: https://www.nifiscalcouncil.org/publications/public-finances-ni-comprehensive-guide-november-2021 (20 July 2023).
[14] Even when the regional economy was fairly buoyant, the size of the subvention did not decrease. Possibly there are ratchet effects. Once the subvention and associated spending reach a certain level it is difficult to come back down. On ratchet effects, see Alan T. Peacock and Jack Wiseman, *The growth of public expenditure in the United Kingdom* (Princeton, NJ, 1961).
[15] At the same time tax revenues would have become more buoyant.

growth in UK public spending (the austerity period corresponding to the post-2010 coalition or conservative governments). In any case, it took until 2017–18 for the subvention in real terms to return to the level it has been a decade earlier in 2007–8.

From 2019–20 onwards I observe the impact of Covid and the related recession.[16] A ratchet-type effect is probable whereby increases once they occur are not readily reversed. Certainly, the experience of the aftermath of the banking crisis suggests that any return to a 'pre-crisis level' could take a long time. This will be especially so given the 2022–3 energy prices spike, which was another positive shock to the demand for public spending. The 'overspend' of the Northern Ireland departments in that year relative to treasury limits testifies to how difficult the control of public spending has become. Further overspend may occur in 2023–4. As Table 2 illustrates, in constant price terms, the subvention peaked at £17.4bn in 2020–1; the level in 2021–2 was still £13.9bn: much higher than any pre-Covid year.

CRITIQUE OF DOYLE'S METHOD: THE POST-UNITED IRELAND FISCAL DEFICIT COULD BE MUCH BIGGER THAN HE ESTIMATED

Table 3 presents Doyle's results for 2018–19 and my reworking of these using the most up-to-date data (column 3); in column 4 I redo the figure work when some of his assumptions are relaxed. There are a number of caveats about the reliability of the data: the UK and Irish definitions of categories of spending do not always completely align. In some cases I am mixing Northern Ireland data for the financial year 2018–19 with Irish data for the 2018 calendar year. Table 4 repeats the approach taken in Table 3 but considers the most recent year for which we have data, 2021–2.

The crux of Doyle's argument is that by making plausible assumptions about the outcome of the negotiations that would accompany the achievement of a united Ireland, we can be very confident about a move from a large ONS figure for the subvention to a much smaller figure for the required transfer. I will now consider the validity of his argument.

[16] The timing of the Russian invasion of Ukraine implies that the figures for 2021–2 were largely unaffected by that war.

Table 3. Considering Doyle's method for adjusting (reducing) the post-united Ireland fiscal deficit, £m, 2018–19 (in 2018–19 prices)

	As in Doyle's article	**Doyle's assumptions but most up-to-date data**	**Most up-to-date data but relax some of Doyle's assumptions**	**Assessment of Doyle's adjustments**
ONS's published subvention	9,367	10,185	10,185	
Subvention reduced through:				
UK liable for state welfare pension and public sector occupational pension payments	3,438	3,504[a]	0	Doubtful
UK liable for Northern Ireland share of UK public debt interest repayment	1,600	1,469	0	Doubtful in any case, especially if UK retains pensions liability. What quid pro quo could be given?
Reduction in Northern Ireland's (allocated) share of UK defence spending but assuming united Ireland defence spending increases by 20%	925	960.9 (20% increase in Irish defence spending)[b]	892.3 (27.7% increase in Irish defence spending, following FitzGerald and Morgenroth)[c]	Doubt if post-united Ireland increase could be limited to 20% or even the 27.7% implied by FitzGerald and Morgenroth

(*Continued*)

Table 3 (continued). Considering Doyle's method for adjusting (reducing) the post-united Ireland fiscal deficit, £m, 2018–19 (in 2018–19 prices)

	As in Doyle's article	**Doyle's assumptions but most up-to-date data**	**Most up-to-date data but relax some of Doyle's assumptions**	**Assessment of Doyle's adjustments**
Outside of UK expenditure allocated to Northern Ireland no longer relevant: little or no compensating increase in expenditure post-united Ireland	500	494.1 (i.e. 756 × 500 divided by 765)[d]	572.7.[e] Following FitzGerald and Morgenroth, assuming a 27.7% increase in two items of overseas/central services in Ireland, i.e. Foreign Affairs (e.g. embassies) and international cooperation (i.e. Irish aid). So, an increase in spending of £57.1 and £126.2 on those two areas, implying a saving of 756 − 183.3 = 572.7[e]	Doubt if post-united Ireland would be able to service the new population of 7m (instead of 5m) with the existing international and central services

(*Continued*)

Table 3 (continued). Considering Doyle's method for adjusting (reducing) the post-united Ireland fiscal deficit, £m, 2018–19 (in 2018–19 prices)

	As in Doyle's article	**Doyle's assumptions but most up-to-date data**	**Most up-to-date data but relax some of Doyle's assumptions**	**Assessment of Doyle's adjustments**
Change in Northern Ireland net contribution to EU	0, i.e. no change, at least in the short term	0	Following FitzGerald and Morgenroth, Northern Ireland's actual contribution is compared to what it would be if 1% of GDP, i.e. 'saving', is 253 – 475.8 = −222.8 (negative sign, subvention increased)[f]	Doubtful, under normal EU procedures the budget contribution of Ireland would increase post-unification. Of course, the EU could decide to waive/postpone that increase

(*Continued*)

Table 3 (continued). Considering Doyle's method for adjusting (reducing) the post-united Ireland fiscal deficit, £m, 2018–19 (in 2018–19 prices)

	As in Doyle's article	**Doyle's assumptions but most up-to-date data**	**Most up-to-date data but relax some of Doyle's assumptions**	**Assessment of Doyle's adjustments**
Reflect the likelihood that ONS has underestimated some of the tax revenues in Northern Ireland, notably corporation tax[g]	500	167.1. Following FitzGerald and Morgenroth, give Northern Ireland its share of total UK corporation tax revenue using Northern Ireland's proportion of UK gross trading profits[h]	167.1. Following FitzGerald and Morgenroth, give Northern Ireland its share of total UK corporation tax revenue using Northern Ireland's proportion of UK gross trading profits[h]	Accept
The (post-united Ireland) subvention that remains	2,404	3,589.9	8,775.7	

[a] HM Treasury, *Public expenditure statistical analyses 2022* (London, 2022), Table 10.4, Category 10.2 (social protection) old age.

[b] Taking Irish defence spending in 2018 as €1007.2m: Department of Public Expenditure and Reform, *Spending review 2021* (Dublin, 2021). Converting that into pounds at the average market exchange rate for 2018 of £1 = €1.1311 (Statista, 'British pounds sterling to euro exchange rate from January 1999–June 21, 2023', Statista.com/statistic_1034391_gdp-rate-up-until-jun-21–2023 (17 July 2023)). Irish defence spending in 2018 was £890.5m. A 20% increase in that level was equivalent to £178.1m. From HM Treasury, *Public expenditure statistical analyses 2022*. UK defence spending allocated to Northern Ireland in 2018–19 was £1139m. The implied 'saving' would therefore be 1139m − 178.1m = £960.9m.

(*Continued*)

Table 3 (continued). Considering Doyle's method for adjusting (reducing) the post-united Ireland fiscal deficit, £m, 2018–19 (in 2018–19 prices)

[c] As explained in the previous note, Irish defence spending in 2018 was £890.5m. FitzGerald and Morgenroth assume Irish defence spending would increase in the same proportion as Northern Ireland GDP to the Republic of Ireland's GNI*: in 2018, 27.7%. A 27.7% increase would be (890.5 × 0.277) = 246.7. From HM Treasury, *Public expenditure statistical analyses 2022*. UK defence spending allocated to Northern Ireland in 2018–19 was £1139m. The implied 'saving' would therefore be 1139m − 246.7m = £892.3m.

[d] In Doyle's original estimation, he assumed that out of £765m of outside the UK and non-identifiable (i.e. central) expenditure allocated to Northern Ireland, £500m would be saved. Given that the most up-to-date ONS data show a slightly lower figure for the total of outside the UK (£756m), I reduced this saving proportionally: 500m × 756m/765m= £494.1m.

[e] Two major areas of 'overseas/central' services would be spending on international representation (e.g. embassies) and international aid spending. I took the two votes in the Irish public spending estimates for 2018 Foreign Affairs and International Co-operation, i.e. €233.093m and €515.476m. Converted at the average market exchange rate, these were equivalent to £206.08m and £455.73m. Both were increased (as in FitzGerald and Morgenroth) by the Northern Ireland/Republic of Ireland GDP/GNI* proportion in 2018, i.e. 27.7%. (In 2018 Republic of Ireland GNI* was €194bn and Northern Ireland GDP £47.578bn: CSO, 15 July 2022, 'GNI* and de-globalised results'; ONS, 25 April 2023, 'Regional GDP: all ITL regions', *Dataset*.) Implied increases are £57.1m and £126.2m, or a sum of £183.3m. Hence, a saving of £756m − £183.3m = £572.7m. This almost certainly overestimates the scale of the savings given that there could be other categories of overseas/central spending that might increase, e.g. the IDA network of overseas offices, but I could not find detailed data on this.

[f] Following FitzGerald and Morgenroth, Northern Ireland's (gross) contribution assumed to equal 1% of GDP.

[g] Doyle's article refers to this adjustment in context of VAT and capital gains tax but the figure work in FitzGerald and Morgenroth relates to corporation tax.

[h] Doyle used FitzGerald and Morgenroth's (2019) figure for 2016. My calculation is as follows: ONS estimated Northern Ireland corporation tax revenue as £905m in 2018–19 and UK corporation tax revenue of £54.98bn (ONS, 26 May 2023, 'Country and regional public sector finances revenue tables', *Dataset*). ONS records Northern Ireland's share of UK gross trading profits in 2018 as 1.95%. 1.95% of £54.98bn is £1072.1m (ONS, 25 April 2023, 'Regional gross value added (balanced) per head and income components', *Dataset*). The implied increase in revenues is £1072.1m − £905m = £167.1m. ONS provided gross trading profits data for each year. The Northern Ireland gross (national) operating surplus data, as used by FitzGerald and Morgenroth, were only available for some years (on an experimental basis).

Sources: Doyle, 'Why the "subvention" does not matter'; ONS, 25 April 2023, 'Regional gross value added (balanced) per head and income components', *Dataset*; ONS, 26 May 2023, 'Country and regional public sector finances expenditure tables', *Dataset*; HM Treasury, *Public expenditure statistical analyses 2022*; CSO, 15 July 2022, 'GNI* and de-globalised results'; ONS, 25 April 2023, 'Regional GDP: all ITL regions', *Dataset*; ONS, 26 May 2023, 'Country and regional public sector finances revenue tables', *Dataset*.

Table 4. Considering Doyle's method for adjusting (reducing) the post-united Ireland fiscal deficit, £m, 2021–2 (in 2021–2 prices)

	Using Doyle's assumptions	**Relaxing some of Doyle's assumptions**	**Assessment of Doyle's adjustments**
ONS's published subvention	13,941	13,941	
Subvention reduced through:			
UK liable for state welfare pension and public sector occupational pension payments	3,292[a]	0	Doubtful
UK liable for Northern Ireland share of UK public debt interest repayment	1,951	0	Doubtful in any case; especially if UK retains pensions liability. What quid pro quo could be given?
Reduction in Northern Ireland's (allocated) share of UK defence spending but assuming united Ireland defence spending increases by 20%	1,194.9 (20% increase in Irish defence spending)[b]	1,142.6 (25.7% increase in Irish defence spending, following FitzGerald and Morgenroth)[c]	Doubt if post-united Ireland increase could be limited to 20% or even 25.7%

(*Continued*)

Table 4 (continued). Considering Doyle's method for adjusting (reducing) the post-united Ireland fiscal deficit, £m, 2021–2 (in 2021–2 prices)

	Using Doyle's assumptions	Relaxing some of Doyle's assumptions	Assessment of Doyle's adjustments
Outside UK expenditure allocated to Northern Ireland no longer relevant: little or no compensating increase in expenditure post-united Ireland	411.1 (i.e. 500 × 629/765)[d]	445.3.[e] Following FitzGerald and Morgenroth, assuming a 25.7% increase in two items of overseas/central services in Ireland, i.e. Foreign Affairs (e.g. embassies) and international cooperation (i.e. Irish aid). So, an increase in spending of £57.9 and £125.8 on those two areas, implying a saving of 629 – 183.7 = 445.3[e]	Doubt if post-united Ireland would be able to service the new population of 7m (instead of 5m) with the existing international and central services
Change in Northern Ireland net contribution to EU	0, i.e. no change, at least in short run	Following FitzGerald and Morgenroth, Northern Ireland's actual contribution is compared to what it would be if 1% of GDP, i.e. 'saving' is 9 – 517.2 = −508.2 (negative sign, subvention increased)[f]	Doubtful: under normal EU procedures the budget contribution of Ireland would increase post-unification. Of course, the EU *could* decide to waive/postpone that increase

(*Continued*)

Table 4 (continued). Considering Doyle's method for adjusting (reducing) the post-united Ireland fiscal deficit, £m, 2021–2 (in 2021–2 prices)

	Using Doyle's assumptions	**Relaxing some of Doyle's assumptions**	**Assessment of Doyle's adjustments**
Reflect the likelihood that ONS has underestimated some of the tax revenues in Northern Ireland, notably corporation tax (Doyle's article refers to this adjustment relating to VAT and capital gains tax but the figure work in FitzGerald and Morgenroth actually relates to corporation tax)	265.2. Following FitzGerald and Morgenroth, give Northern Ireland its share of total UK corporation tax revenue using Northern Ireland's proportion of UK gross trading profits[g]	265.2. Following FitzGerald and Morgenroth, give Northern Ireland its share of total UK corporation tax revenue using Northern Ireland's proportion of UK gross trading profits[g]	Accept
The (post-united Ireland) subvention that remains	6,826.8	12,596.1	

[a] HM Treasury, *Public expenditure statistical analyses 2022*, Table 10.4, Category 10.2 (Social Protection) old age.

[b] Taking Irish defence spending in 2021 as €1071.056m: Department of Public Expenditure and Reform, *Revised estimates for public services* (Dublin, 2022) and converting that into pounds at the average market exchange rate for 2021 of £1 = €1.1633 (Statista, 'British pounds sterling to euro exchange rate from January 1999–June 21, 2023'), Irish defence spending in 2021 was £920.7m. A 20% increase in that level was equivalent to £184.1m. From HM Treasury, *Public expenditure statistical analysis 2022*, UK defence spending allocated to Northern Ireland in 2021–2 was £1379m. The implied 'saving' would therefore be: 1,379m − 184.1m = £1,194.9m.

Table 4 (continued). Considering Doyle's method for adjusting (reducing) the post-united Ireland fiscal deficit, £m, 2021–2 (in 2021–2 prices)

[c] As explained in the previous note, Irish defence spending in 2021 was £920.7m. A 25.7% increase in that level was equivalent to £236.6m. From HM Treasury, *Public expenditure statistical analysis 2022*, UK defence spending allocated to Northern Ireland in 2021–2 was £1,379m. The implied 'saving' would therefore be 1,379m − 236.6m = £1,142.4m.

[d] In Doyle's original estimation, which was for 2018–19, he assumed that out of £765m of outside the UK expenditure allocated to Northern Ireland, £500m would be saved. Given that the ONS data for 2021–2 show a figure for the outside the UK expenditure of £629m, I reduced this saving proportionally: 500m × 629m/765m= £411.1m.

[e] Two major areas of 'central/overseas' services would be spending on international representation (e.g. embassies) and international aid spending. I took the two votes in the Irish public spending estimates for 2021 Foreign Affairs and international cooperation, i.e. €262m and €569.514m. Converted at the average market exchange rate, these were equivalent to £225.2m and £489.57m. Both were increased (as in FitzGerald and Morgenroth) by the Northern Ireland/Republic of Ireland GDP/GNI* proportion in 2021, i.e. 25.7% (€233.9bn and £51.717bn). Implied increases are £57.9m and £125.8m, or a sum of £183.7m. Hence a saving of £629m − £183.7m = £445.3m. This almost certainly *overestimates* the scale of the savings given that there could be other categories of central/overseas spending that might increase, e.g. the IDA network of overseas offices, but I could not find detailed data on this.

[f] Following FitzGerald and Morgenroth, Northern Ireland's contribution assumed to equal 1% of GDP.

[g] Using Doyle's method, which in turn follows FitzGerald and Morgenroth. ONS estimated Northern Ireland corporation tax revenue in 2021–2 as £1,182m and UK corporation tax revenue of £67.625bn. ONS also records Northern Ireland's share of UK gross trading profits in 2018 as 2.14%. 2.14% of £67.625bn is £1,447.2m (ONS, 25 April 2023, 'Regional gross value added (balanced) per head and income components', *Dataset*). So, the implied increase in revenues is 1447.2m − 1,182m = £265.2m.

Sources: As in Table 3.

Pension payments

Doyle is dealing mainly with the state (welfare) pension, more or less universal benefits,[17] and some occupational pensions of public sector employees. He implies that there is a strong case for the UK to retain its liability: that liability was built up during a period when Northern Ireland was part of the UK. Additionally, the UK government does pay pensions for people originally from the UK who are now retired and living in other countries and, as

[17] And, additionally, the means-tested pension credit.

part of the Brexit divorce settlement, a contribution to the pension liabilities of the EU.[18]

However, in the case of a united Ireland a majority of the residents of Northern Ireland would have voted to renounce a connection with the UK. This weakens the analogy with a UK pensioner now living in Spain or a British former European Commission worker. The state pension system is not in any case fully funded. It is, in effect, a pay-as-you-go charge on the taxpayers of today. The argument that the UK government should pay people back for their previous contributions is weakened.

It is perilous to predict the outcome of intergovernmental negotiations. Barrett plausibly suggests that the UK government is less likely to focus on the amount of each individual subcategory of spending than on the total: the combination of debt repayments on the public debt and pension liabilities.[19] In any case, fears of setting a precedent that could feed into any future referendum regarding Scottish independence will add to the caution of the UK government. I conclude that it is rather unlikely that the UK would retain the liability for pensions.

Interest payments on UK public debt

In this case Doyle's assumption is again a strong one: the UK government would retain 100% liability; none this would pass to the Irish government post-united Ireland. Admittedly, it can be asked, given that Ireland is already a sovereign state with a debt rating, why it would take on a debt liability for which it has no legal responsibility (unless to gain something else that was on the negotiating table). Doyle's appeal to the precedent set in 1925, when the UK cancelled the liability of the Irish Free State for a proportional share of UK public debt (as had been established in Article 5 of the independence treaty in 1921), is not entirely convincing. After all, in 1925 the UK government probably had a sense that it had to provide a quid pro quo to the Dublin government. The Boundary Commission had just determined that the Northern Ireland–Irish Free State border as established in 1921 was to remain more or less in its original position. The London government felt it had to

[18] That cumulative liability regarding EU pensions could amount to £12bn: Office for Budget Responsibility, *Economic and fiscal outlook March 2021* (London, 2021).

[19] Alan Barrett, 'Why the "subvention" does not matter: a response', *Irish Studies in International Affairs* 32 (2) (2021), 335–7.

'compensate' its Dublin counterpart for that disappointing outcome.[20] In the context of an agreement regarding a united Ireland, it is much less clear that the Republic of Ireland would be able to offer the UK a sufficiently large quid pro quo to 'pay for' the writing off of the debt liability. One possibility is an agreement to join NATO or, at least, some sort of defence arrangement across the two islands including Ireland making a financial contribution. Defence is the subject of the next section. Alternatively, the Irish government could accept liability for some or all of the pension payments (see previous section).[21] I conclude (and once again the possibility of setting a precedent for Scottish independence will weigh heavily on the UK negotiators) that it is very unlikely that the UK would retain the liability for the interest payments on Northern Ireland's share of UK public debt.

Defence

Doyle's argument here is that whereas as part of the UK Northern Ireland is apportioned a notional level of defence spending amounting to about £1bn annually, post-united Ireland there would be no real need for the Irish government to increase its spending on defence by anywhere close to £1bn. An increase of £1bn would more than double the existing level of defence spending in Ireland. The most up-to-date ONS data show that the level of defence spending allocated to Northern Ireland increased from £1.1bn in 2018–19 to £1.4bn in 2021–2.

Doyle does allow for the possibility that following a united Ireland some of the current UK armed forces personnel who are of Northern Ireland origin would relocate to the Irish defence forces. Doyle therefore allows for a 20% increase in Irish defence spending post-united Ireland but, apart from this, the remainder of the defence spending formerly allocated to Northern Ireland is treated as a saving from the subvention.

My figure work using more up-to-date data largely confirms Doyle's estimation of the saving relating to defence spending, assuming an increase of

[20] Eoin McLaughlin, 'What were the economic consequences of Irish independence?', *Economics Observatory Blog*, 27 April 2021, available at: https://www.economicsobservatory.com/what-were-the-economic-consequences-of-irish-independence (20 July 2023). The sum of debt written off was equivalent to 80% of the GNP of the newly independent Ireland, according to John Fitzgerald and Sean Kenny, '"Till debt do us part": financial implications of the divorce of the Irish Free State from the UK, 1922–26', *European Review of Economic History* 24 (4) (2020), 818–42.

[21] FitzGerald, 'Northern Ireland subvention', plausibly suggests that the UK government approach to negotiations might be to offer to pay for either pensions or the interest payments but *not both*.

20% in Irish defence spending. FitzGerald and Morgenroth's approach gives broadly similar results to Doyle. They assume defence spending would increase in proportion to the size of the Northern Ireland economy (measured by GDP) compared to the Republic of Ireland (measured by GNI*):[22] a 27.7% increase in 2018–19 and a 25.7% increase in 2021–2.

The limitation of any increase in defence spending to 'only' about 20–25% may be too optimistic. There are two main reasons for this:

1. The creation of the united Ireland and its immediate aftermath could, sadly, be accompanied by an increase in 'political' violence and/or serious criminality.[23] If that happened the Irish defence forces might struggle to cope given their current resources. Of course, the policy response could be in terms of increasing spending not on the Irish defence forces but on policing and criminal justice systems in Northern Ireland, but any response involving additional spending will likely add to the required fiscal deficit. As recently as the summer of 1997 the total deployment of British army personnel in Northern Ireland combined with the number of police officers peaked at about 30,000.[24] The current (2023) number of Irish defence forces personnel combined with Garda and PSNI police officers totals only about 29,000.[25]
2. An explicit or implicit requirement of unity may be a substantial increase in Irish defence spending. The UK government could try to make unity conditional on NATO membership. That perhaps is fanciful.[26] At the same

[22] 'GNI modified' or 'GNI*/star' is an attempt by the Irish statistical authorities (Central Statistics Office, CSO) to adjust the Irish national output data by excluding 'output' that is more likely to reflect tax-avoiding behaviour than 'real' value added.

[23] In terms of activity of either the loyalist paramilitaries or organised crime gangs. Notwithstanding the 1998 Belfast/Good Friday Agreement and the political/peace process since then, much of the organisational infrastructure of the various paramilitary organisations remains in place. One intelligence assessment is that the two largest loyalist organisations have a membership of about 12,500: Stephen Dempster, 'Loyalist paramilitary groups in Northern Ireland have 12,500 members', *BBC*, 2 December 2020, available at: https://www.bbc.co.uk/news/uk-northern-ireland-55151249 (20 July 2023).

[24] That being the highest level of security force and policing commitment since the early 1970s and largely explained by unrest associated with the parading issue. Wikipedia, 'Operation Banner', available at: https://en.wikipedia.org/wiki/Operation_Banner (19 July 2023).

[25] Total number of Irish defence forces personnel, including the Naval Service and Air Corps, at the end of January 2023: 7,987. Conor Lally, 'Defence Forces crisis deepens as strength drops below 8,000', *Irish Times*, 2 February 2023. Total number of Garda officers (plus reservists) as of end 2021: 14,235 + 425. An Garda Síochána, *Annual report 2021* (Dublin, 2022). Total number of PSNI officers in mid-2023: 6,673. Mark Rainey, 'Grave concern over police numbers but "high harm" crime still a priority: PSNI', *Newsletter*, 19 June 2023.

[26] Also perhaps fanciful is the view that the long-run game plan of US foreign policy is to use a united Ireland as the quid pro quo for the Republic relinquishing neutrality.

time, a previous minister for defence (Simon Coveney, 2020–2) conceded that the existing defence establishment 'cannot protect Ireland from potential attack'. If the Dublin government assumed responsibility for the six northern counties, that would expose the extent to which hitherto the defence of the sea and air approaches to the entire island have been largely dependent on the Royal Navy and Royal Air Force.[27] The Report of the Commission on the Defence Forces (February 2022), using comparisons with other small European countries, recommended that Irish defence spending triple from roughly €1bn to €3bn. The government response was that a smaller increase of about 50% would occur.[28]

Given this context, the approaches taken by both Doyle and FitzGerald and Morgenroth probably exaggerate the scale to which there could be a saving with respect to the defence element of the subvention. While FitzGerald and Morgenroth assumed an increase in Irish defence spending in proportion to the size of the Northern Ireland economy, a case could be made for adjustment in proportion to Northern Ireland's population as compared to that of the Republic of Ireland (the FitzGerald (2020) calculations did in fact use population): that would imply an increase in defence spending of 38.8% in 2018–19 and 38% in 2021–2.[29] By implication, the saving to the subvention would be smaller, although the scale of the impact compared to the total subvention would be relatively small and some (moderate) increase in Irish defence spending is now likely to occur in any case in the mid-2020s.

Other spending outside the UK and non-identifiable expenditure hitherto allocated to Northern Ireland

Doyle's approach was that the bulk of these could be treated as savings. In his view, such items of expenditure do not represent a real pressing need for increased

[27] The Republic of Ireland already has 16% of the EU's territorial waters. Three-quarters of the Northern Hemisphere's telecommunications cables pass through or near the exclusive economic zone. The Irish navy has six offshore patrol vessels and two CASA CN-235 patrol aircraft. Eoin M. McNamara, 'Ireland's defence deficit', Royal United Service Institute website, *Commentary,* 21 December 2022, available at: https://www.rusi.org/explore-our-research/publications/commentary/irelands-defence-deficit (3 July 2023). Economists characterise defence services as being a public good, which creates the possibility that sometimes some may free-ride on that provision. Mauro Mare, 'Public goods, free riding and NATO defence sharing', *International Spectator Italian Journal of International Affairs* 23 (1) (1988), 7–15.

[28] The Commission on the Defence Forces, *Report of the Commission on the Defence Forces* (Dublin, 2022).

[29] Northern Ireland Statistics and Research Agency (NISRA), '2011–21 Rebased mid-year population estimates' (Belfast, 29 June 2023). CSO, 'Population and migration estimates, April 2022' (Dublin, 24 April 2022).

expenditure post-united Ireland or, at least, any decisions regarding spending could be treated as policy choices for the medium to longer term. They should not really be regarded as implying a need for fiscal transfer to Northern Ireland.

Doyle may also have been implying that various national central services such as overseas diplomatic representation and foreign direct investment (FDI) promotion[30] should properly be considered as largely fixed costs. In other words, regardless of whether Ireland's population is 5 million (the 26 counties) or 7 million (the 32 counties), the same number of diplomats, embassies and IDA offices could service the country. This could be true to the extent that post-unity either the productivity of such services rises[31] or there is a willingness to accept that 'output per head of the population' (perhaps in terms of quality) will drop.

My approach here is cautious. I accept Doyle's argument that there is some uncertainty about what these levels of spending would be post-united Ireland. That uncertainty exists partly because we cannot be certain what approach either the Irish or the UK government would take during any negotiations relating to a united Ireland or about the behaviour of the two governments immediately post-united Ireland. That said, my approach here is to:

1. use the most up-to-date data for 2018–19 while using Doyle's method;
2. use the most up-to-data for 2018–19, but using instead the method of FitzGerald and Morgenroth (the spending on certain major categories of overseas/central spending was increased in proportion to Northern Ireland's GDP compared to the Republic of Ireland's GNI*);
3. consider the position in 2021–2 while using Doyle's method;
4. use the data for 2021–2, using instead the method of FitzGerald and Morgenroth.

Whereas Doyle has assumed a saving from the subvention of £500m, my own estimations, using more up-to-date data and/or the method of FitzGerald and Morgenroth, for either 2018–19 or 2021–2 give a broadly similar result.

Allowing for the possible increase in Ireland's budget contribution to the EU

One subcategory of spending outside the UK about which there is uncertainty as to how it might translate into Northern Ireland's deficit post-united

[30] What is in view here is the global offices of the IDA.

[31] More likely if there is currently some slack in the system. At the same time, Baumol and others have pointed to the difficulties of raising productivity in service sector activities. William J. Baumol and William G. Bowen, 'On the performing arts: the anatomy of their economic problems', *American Economic Review* 55 (1) (1965), 495–502.

Ireland is the balance of transfers (both contribution to and funding from) with the EU: Irish unity would, obviously, represent a 'rejoining' of the EU.[32] So, in addition to the uncertainty relating to negotiating behaviour and future decision-making by both national governments (UK and Ireland), there is also the third party: the EU.

The subvention for 2018–19 and 2021–2, as calculated by ONS, reflects in part Northern Ireland's share of the UK's budget contribution to the EU (the UK continued to make a financial contribution to the EU post-Brexit given the 'divorce settlement', with a proportion of such payments apportioned to Northern Ireland; continued EU spending within Northern Ireland acted in the opposite direction and reduced the measured subvention). At the same time, and acting to reduce the subvention, there was an inflow of EU funds into Northern Ireland. Post-unification, the EU could decide that the Irish government should make a larger budget contribution. We follow FitzGerald and Morgenroth in assuming a Northern Ireland addition to Ireland's budget contribution equivalent to 1% of regional GDP. That 1% equivalent in both 2018–19 and 2021–2 would have been considerably larger than Northern Ireland's actual (inputted by ONS) contribution, which was the population share of the UK's budget contribution.[33] In 2018–19 the implied addition to the subvention would have been about £200m and in 2021–2 it would have been about £500m. Importantly, the EU could decide to in effect reduce the scale of this effect by increasing its funding to be spent within Northern Ireland.

Adjusting for the extent to which the ONS may have underestimated the tax revenues that should have been attributed to Northern Ireland[34]

Doyle's argument here is that often the measures of revenues and receipts received in Northern Ireland are not direct measures. Instead, sometimes ONS uses a share, e.g. share of population or share of GDP, of the measured value of revenues at a UK-wide level. He claims that there is scope for error in such estimations. The adjustment he offers is based on FitzGerald and

[32] That statement is subject to the qualification that under the terms of the Protocol and, now, the Windsor Framework, Northern Ireland has de facto remained a member of the Single Market (for goods) and the EU Customs Union.

[33] Given a rebate system, the UK's budget contribution was actually less than 1% of UK GDP.

[34] I follow Doyle in not attempting to disentangle to what extent depreciation, which does appear on both the expenditure and revenue sides of Northern Ireland's public finance accounts, is contributing to the subvention/deficit and hence, like Doyle, I do not consider whether a change in depreciation post-united Ireland could lead to a smaller or larger deficit.

Morgenroth's (2019) re-estimate of corporation tax revenues in Northern Ireland whereby if Northern Ireland's share of gross national operating surplus (i.e. economy-wide profits) in the UK is used, the imputed revenues rise by £500m. The argument is that published regional corporation tax revenues may be biased downwards by a 'headquarters effect': multi-regional firms operate in Northern Ireland and, given that the company HQ is rarely located there, profits may have been attributed to the region where the HQ was.

Like Doyle, I apply Fitzgerald and Morgenroth's method to the 2018–19 data, but I use the most up-to-date ONS data. This implies an underestimation of tax revenue of about £167.1m rather than £500m. When this method was used for the 2021–2 data, the underestimation was £265.2m.

Over and above the question of whether measured tax revenues in a region have been underestimated there is the policy question of whether post-unity tax revenues could be increased. Debates about tax devolution to Northern Ireland have usually focused on cutting tax rates, notably corporation tax.[35] The recent report of the Northern Ireland Fiscal Commission highlighted the difficulties surrounding increasing tax-varying powers.[36]

Assessment of the overall impact of Doyle's method

When Doyle's method is retained but the most up-to-date data are used, there is a modest uplift in the subvention in 2018–19: £3.6bn instead of £2.4bn. When some of Doyle's assumptions are modified (the UK does not retain liability for the interest payments on state pensions and public debt, more modest savings relating to defence, overseas and central and non-identifiable expenditure, more modest gains to corporation tax revenues), the subvention/deficit that remains is a more substantial £8.8bn.

When Doyle's method is applied to the data for 2021–2, a deficit of £6.8bn is implied. If, instead, some of Doyle's assumptions are relaxed, a deficit of £12.6bn is implied.

[35] The Republic of Ireland experience exemplifies that low rates *can* be compatible with relatively high revenues. However, it cannot be assumed that if Northern Ireland copied the 12.5% corporation tax rate, revenues would be as buoyant as in the (Southern) Irish experience.

[36] Admittedly, and obviously, this all relates to tax *devolution* within a UK context and not how tax harmonisation in a united Ireland might play out. Northern Ireland Fiscal Commission, 'More fiscal devolution for Northern Ireland?', *Final report* (Belfast, 2022).

Whereas Doyle characterised the subvention as 'a symptom of … weakness', a more nuanced approach recognises it as both an economic blessing and a bane.

It is a good thing to the extent that it maintains levels of demand in the regional economy and hence levels of output and employment. Some indication of that aspect of the subvention is indicated when we consider the size of the subvention for each of the UK regions[37] (see Table 5).

Table 5 indicates that the relationship between relative level of GDP per capita and level of subvention is as would be expected. If having a relatively low level of GDP per capita suggests greater socio-economic need, then richer regions should have smaller subventions. The two richest UK regions in 2021 were the only two regions where the subvention was negative, i.e. they were net contributors in fiscal terms. At the same time, the three poorest regions (North East England, Wales and Northern Ireland) have by far the highest levels of subvention per capita. The relationship, however, is not straightforward. Scotland, for example, was considerably more prosperous than the West Midlands and yet these two regions had the same level of subvention in per-capita terms.

From a specifically Northern Ireland point of view, what Table 5 is implying is that to some extent the high subvention (per capita) can be explained by Northern Ireland's relative need (proxied by relative GDP per head).[38] However, comparison with, say, Wales and the North East of England implies the subvention is higher than might otherwise have been expected in terms of need. A gloomy assessment of the subvention's impact could be that it has contributed over the longer term to lowering the level of GDP per person compared to other regions. It is such potential negative effects of the subvention that I now consider, particularly in terms of any impact on the quality of decisions in both the public and private sectors.

[37] Doyle makes the interesting point that if Northern Ireland was like the Irish region 'Cork–Kerry', there would be no subvention. This may well be the case, but there are no official data regarding fiscal transfers between regions in the Republic of Ireland: Doyle, in '(Evidence to) Finance and economics: discussion'.

[38] For more refined measurement of Northern Ireland's relative need see Northern Ireland Fiscal Council, *Updated estimate of the relative need for public expenditure in Northern Ireland,* (Belfast, 2023), available at: https://www.nifiscalcouncil.org/publications/updated-estimate-relative-need-public-spending-ni (20 July 2023).

Table 5. How regional subventions per capita (2021–2) compare across the UK: the relationship to relative levels of GDP per capita (2021)[a]

Region	GDP per capita in 2021 as % of the UK average	Subvention per capita, £
London	177.4	−4,313[b]
South East England	107.2	−1,501[b]
Scotland	91.5	4,340
East of England	90.2	378
North West England	88.0	4,901
South West England	87.8	2,129
Yorkshire and the Humber	82.1	3,270
West Midlands	82.1	4,366
East Midlands	81.5	2,562
Northern Ireland	80.4	7,320
Wales	76.1	6,536
North East England	72.8	5,524

[a] The revenues collected through North Sea oil and gas are allocated across the regions by notional (geographic) share of the North Sea area and hence of the revenues. This implies zero revenues for Northern Ireland.
[b] Minus sign indicates that the region made a positive transfer into the UK exchequer, i.e. total expenditure was less than the revenue raised.
Sources: ONS, 25 April 2023, 'Regional economic activity by GDP, UK: 1998 to 2021', Release; ONS, 26 May 2023, 'Country and regional public sector finances, UK: financial year ending 2022', Release.

In terms of the public sector, given that the subvention softens budget constraints, it may reduce the quality of decisions made. At the very least, it is probable that the relative priority placed on maximising the fiscal transfer from Great Britain to Northern Ireland in terms of the block grant payment from the UK exchequer reduced the attention given to gaining value for money or improving the quality of policy decisions.[39]

A large subvention may also have produced problems in terms of soft budget constraints, dependency, X-inefficiency and poorer quality of decision-making in the Northern Ireland private sector. The impact would be indirect: a large subvention funded substantial subsidies to the private sector

[39] The public inquiry into the funding scandal relating to the RHI did evidence a tendency among senior Northern Ireland civil servants to concentrate on maximising the block grant. Sam McBride, *Burned: the inside story of the 'cash-for-ash' scandal and Northern Ireland's secretive new elite* (Dublin, 2019).

and those subsidy payments, in turn, impacted on decision-making. Hitchens et al. argued that high subsidy rates to manufacturing during the 1970s and 1980s contributed to a persistent productivity gap between Northern Ireland and Great Britain.[40] Crafts widened this argument by noting that it appeared that Northern Ireland missed out on the 'golden age' of post-war Western productivity growth in the 1950s through to the mid-1970s.[41] A high rate of public spending/subsidy[42] and the consequent impact on competitiveness may been part of the explanation. Various sectors in Northern Ireland, notably farming and manufacturing, continued to be more heavily subsidised than their Great British counterparts.[43]

It is simplistic to characterise the subvention as a 'symptom of ... weakness'. On the one hand it provides a short-term boost to the economy in terms of demand effects but on the other it may interfere with the quality of decision-making. To the extent that it does the latter, it could be an explanation and not just a symptom of weakness.

THE UK FISCAL UNION COMPARED TO THE SMALLER UNITED IRELAND FISCAL UNION: QUESTIONS SUCH AS POOLING RISK

The subvention is a consequence of Northern Ireland's membership of a larger fiscal union, that of the UK. Alongside any questions about the current or future size of the subvention (or deficit) there is the equally important question of whether there are benefits (or costs) to being part of such a larger fiscal union, and whether such benefits (and costs) would be different if Northern Ireland were part of a smaller fiscal union, i.e. a united Ireland. Doyle does not consider these questions. They are sufficiently important to merit a review.[44]

[40] David M.W.N. Hitchens, Karen Wagner and John Esmond Birnie, *Closing the productivity gap* (Aldershot, 1990).
[41] Nick F.R. Crafts, 'The golden age of economic growth in postwar Europe: why did Northern Ireland miss out?', *Irish Economic and Social History* 22 (1995), 5–25.
[42] Itself largely a reaction to the instability generated by the Troubles from 1969 to the mid-1990s.
[43] Agricultural support spending per head of the population is about three–four times that in England. Unlike its counterpart in England, Northern Ireland manufacturing enjoys a 70% relief from property taxation (the rates). Northern Ireland has a well-funded regional development agency (Invest NI) whereas the English regions do not have such bodies. The relatively high rates of spending in Northern Ireland on enterprise and economic development and on agriculture, fishing and forestry in recent years are shown in HM Treasury, *Public expenditure statistical analysis 2022* (London, 2022).
[44] Particularly given that these issues have been raised in the debate about Scottish independence: Jim D. Gallagher, 'Pooling and sharing: the UK as a fiscal union', Gwilym Gibbon Centre for Public Policy, Working Paper 2019-04 (Oxford, 2019).

One theoretical benefit from membership of a wider fiscal union is that it could act as an insurance against region-specific shocks.[45] If Northern Ireland suffers a demand or supply shock to a sector (say, farming) that is relatively large within the region, the wider fiscal union will be able to provide extra support. The likelihood is that such support would be manifested by an increase in the size of the subvention.[46] Given that over the years the structure of the Northern Ireland economy has become more similar to the UK average, the likelihood of regionally specific shocks may have declined. That said, the Troubles of 1969 to the mid-1990s could be thought of as a regionally specific supply and demand shock. Of course, following unity the wider Irish fiscal union could attempt to take on the role of cushioning Northern Ireland against region-specific shocks. The extent to which it would be able to do so really leads back to the question of the likely scale of the required transfer.

Some shocks are not region-specific but more general. Three recent examples are the banking crisis in 2007–8, Covid in 2020 and the Ukraine war in 2022 and 2023. In such cases the questions are of which fiscal union, UK or a united Ireland, would be more prone to such shocks and more able to fund a cushion. The UK was better placed in 2007–8 to fund a bank bailout[47] but both the UK and the Republic of Ireland were liable to such a shock in the first place given that they had outsized banking sectors.[48] In 2007 IMF data suggested that bank assets were equivalent to 169% of GDP in the UK and 159% in the Republic of Ireland, the sixth and eighth most outsized national banking sectors in the world at that time.[49] Both fiscal unions were able to fund fairly comprehensive employment support and energy price support packages during 2020–1 and 2022–3, respectively.

[45] For fiscal unions and asymmetric shocks see Emmanuel Farhi and Ivan Werning, 'Fiscal unions', *American Economic Review* 107 (12) (2017), 3788–834.

[46] Given that the UK exchequer would be supporting additional spending in the region, e.g. higher welfare payments or extra grant support to businesses, at a time when it is likely that tax receipts would have declined.

[47] The UK did not have to use an EU/IMF bail-out. The Republic of Ireland took out a £3.23bn loan from the UK in 2010 (repaid by 2021). This compares to £19.25bn borrowed from the IMF and smaller loans from Sweden and Denmark. As of early 2021, £35bn of loans from the EU were still outstanding. John Campbell, 'Irish make final repayment on UK emergency "bailout" loan', *BBC News*, 26 March 2021, available at: https://www.bbc.com/news/world-europe-56539764 (10 July 2023).

[48] In terms of high bank lending or turnover compared to national GDP.

[49] 'Bank assets to GDP – country rankings', available at: https://www.theglobaleconomy.com/rankings/bank_assets_GDP/ (4 July 2023).

HOW THE NORTHERN IRELAND GOVERNMENT–UK TREASURY RELATIONSHIP COULD INDICATE CHALLENGES FACING A POST-UNITED IRELAND SYSTEM OF FISCAL TRANSFERS: MORAL HAZARD WRIT LARGE?

It is worth emphasising that the subvention per se is not a policy variable: it is more of a residual. Its size is not something that policy-makers can manipulate directly. To reduce it the UK authorities would have to either adjust some of the accounting conventions or increase spending in Northern Ireland relative to the amount of tax revenues collected. That said, the two parties to the financial relationship between the Northern Ireland administration and the UK exchequer are aware of the existence of the subvention and its scale probably has coloured that relationship, which has been a difficult one throughout most of the century since 1921.[50] An interesting question is whether the fiscal relationship between Northern Ireland and a post-united Ireland Irish government would be any better. Might it be more troublesome?[51]

Northern Ireland's fiscal relationship to the UK exchequer in recent years has been liable to moral hazard.[52] There have been repeated near or actual breakdowns of the devolved government. This produces a cycle whereby breakdown is followed by a negotiated agreement. Each political agreement tends to be accompanied by a financial package. It is highly likely that the Northern Ireland political parties know that they now possess the mechanism of actual or threatened collapse of the institutions to leverage extra funding resources from the London government.

Assume that a fiscal transfer into Northern Ireland continues post-united Ireland but is now funded by the Irish government. Assume also that under the terms of unification some sort of devolved regional government continues in Northern Ireland.[53] The 'financial package/moral hazard problem'

[50] The historian Buckland notes that even before the foundation of the state of Northern Ireland in 1921, teams of civil servants were making repeated trips to London to negotiate with the treasury. Patrick Buckland, *The factory of grievances: devolved government in Northern Ireland 1921–1979* (Dublin, 1979).

[51] My point here overlaps with Doyle's ('[Evidence to] finance and economics: discussion') comment that while decentralisation in a united Ireland might appear attractive, there is 'not a single example of a two-unit federal system in the 20th century'. One was proposed for Cyprus in 2004 but voted down by the northern part of the island. Federal systems, such as the USA for most of the period since 1900 or Switzerland, may work relatively well when there is shifting pattern of geographical alliances but not when most political divides are reduced to the same geographical duality: US North versus South in 1840–60 or Greek Cyprus versus Turkish Cyprus, 1960–74.

[52] Northern Ireland Fiscal Council, *Public finances in Northern Ireland.*

[53] A plausible situation given a desire to ensure as little as possible practical change in terms of political arrangements, especially from the point of view of unionists and other non-nationalists in Northern Ireland.

would probably continue under unification but would be worsened given the bargaining power of the two parties, would now be much closer: a regional government representing 2 million people confronts a national government of 7 million, as compared to the situation in the UK of 2 million versus 68 million. Added to this is the likelihood that in the years immediately following unification the Irish government would feel itself constrained to ameliorate almost every grievance coming from its northern subsidiary. That political constraint is one reason why the Irish government post-unity would find it difficult to implement certain policies in Northern Ireland that might reduce the scale of the subvention, such as cutting back the size of the Northern Ireland public sector,[54] reducing the scale of welfare benefit uptake[55] or raising taxes within Northern Ireland.[56]

HOW LIKELY IS DOYLE'S POST-UNITY ECONOMIC UPSURGE?

Doyle claims that the immediate and direct effect of unity would be an upsurge in economic performance in both Northern Ireland and the Republic of Ireland. Admittedly such claims about hypotheticals are hard to assess given that unity would shift the entire policy context and policy mix. Doyle does claim that unity would lead to the Northern Ireland tourist product being increasingly jointly marketed with the 26 counties and hence better marketed. Similarly, FDI into Northern Ireland would increase. However, Tourism Ireland already jointly markets Northern Ireland with the Republic of Ireland.[57]

[54] It has been suggested that following unity the proportional size of the Northern Ireland public sector (percentage of total employment) could be scaled back to be equivalent to the rate in what is now the Republic of Ireland. Paul Gosling, *A new Ireland: a new union, a new society* (post-Brexit edition, self-published, 2020).

[55] For the argument that the rates of receiving certain benefit, especially for long-term sickness and inactivity, are higher than can be explained by the relative position in terms of health and other socio-economic indicators, see Graham Gudgin, '[Evidence to] Review of the operation of the Barnett formula', Northern Ireland Assembly Department of Finance and Personnel Committee, Belfast, 2015, available at: https://aims.niassembly.gov.uk/officialreport/minutesofevidencereport.aspx?AgendaId=11739&eveID=6839 (20 July 2023).

[56] Interestingly, FitzGerald's later estimates ('Northern Ireland subvention') include allowance for a possible increase in public sector pay and welfare benefit rates to the Republic of Ireland levels. This would imply a sizeable increase in the subvention.

[57] One of the seven North–South bodies established under the Strand 2 Arrangements of the 1998 Belfast Agreement. There has been a criticism that the joint marketing by Tourism Ireland in Great Britain *actually reduces* the number of tourists coming to Northern Ireland: Rebecca Black, 'Tourism Ireland chief "shocked" by airport director's criticism', *Irish News*, 19 June 2023. The opportunity to market a distinctive six-counties product as opposed to the 32/26 counties may have been reduced. Unity per se would not change the reality that most external visitors enter the island via Dublin Airport. It would, however, remove some potential visa-type requirement frictions at the land border (e.g. the electronic travel authorisation).

It is true that in recent decades rates of FDI going into the Republic of Ireland have been higher than those going into Northern Ireland. At the same time, Northern Ireland has outperformed the UK average and most parts of the Western world.[58] It is not clear how far bringing investment promotion in Northern Ireland under a single all-Ireland body would improve outcomes. How would cases of competition between the two Irish economies be handled? In any case, over the past two decades Northern Ireland and the Republic of Ireland have rather different competitive advantages in terms of attracting FDI: the former in terms of services (particularly back-office, legal and IT) and the latter in terms of data centres, manufacturing and technology. So, the gains from joint promotion become less obvious.

In addition to these arguments about possible improvements in terms of FDI and tourism, Doyle relies heavily on Hϋbner and his and KLC Consulting's use of macroeconomic forecasting to consider the economic feasibility of a united Ireland and also to answer the question of whether unity would be accompanied by an increase or a decrease in prosperity in the two economies.[59] The appendix provides a more detailed asssessment, but four assumptions used in their modelling were questionable.

1. Unity would be accompanied by a de facto currency devaluation in Northern Ireland. In fact, a sizeable devaluation occurred in 2016.
2. Removal of the Irish border would lead to a major upsurge in North–South trade. In fact, no allowance was made for the likely reduction in trade between Northern Ireland and Great Britain.
3. Unity would be followed immediately by an upsurge in Northern Ireland productivity growth. In fact, improving some of the main drivers of that comparative productivity performance may require at least a generation (25+ years).
4. Replacement of the subvention would be unproblematic. The 2015 modelling somewhat anticipates Doyle's argument. How Northern Ireland's deficit would be financed remains unclear.

[58] Thomas Byrne, *Trends in foreign direct investment from the United States, 2003–2015: Fulbright Scholarship Report 1*, Department for the Economy (Belfast, 2017), available at: https://niopa.qub.ac.uk/bitstream/NIOPA/7387/1/Fulbright-Report-1-Trends-in-US-FDI.pdf (20 July 2023).

[59] Kurt Hϋbner and KLC Consulting, *Modelling Irish unification* (Vancouver, 2015), available at: https://cain.ulster.ac.uk/issues/unification/hubner_2015-08.pdf (19 July 2023). Hϋbner updated his modelling in 2018 but I have not been able to source this version: Kurt Hϋbner and Renger Herman van Nieuwkoop, *The costs of non-unification: Brexit and the unification of Ireland* (publisher unknown, 2018). See Rebecca Black, 'United Ireland "only winning scenario" after Brexit, report finds', *Irish News,* 7 November 2018. In the latter report Hϋbner remained very optimistic about the extent to which unity would provoke an upsurge in Northern Ireland productivity. He continues to assume that no trade frictions would develop between Northern Ireland and Great Britain.

CONCLUSIONS

I agree with some parts of Doyle's argument. The question of the size and funding of the subvention has had *some* presence in Northern Ireland political debate. The definition used by the ONS would not apply entirely to a united Ireland.

However, I disagree with key elements of Doyle's argument:

1. It is not plausible that the UK government would retain 100% liability for *both* public pension payments and the interest payments on Northern Ireland's share of public debt.
2. It is not likely that post-Irish unity the Irish government would be able to sustain the current very low levels of spending on the Irish defence forces.
3. Doyle has probably underestimated the extent to which spending on various central and overseas services, particularly the contribution to the EU, would have to increase post-unification.
4. There can be no certainty as to the precise scale of any fiscal transfer required post-united Ireland, but we can be confident that it will be considerably larger than the £2.4bn proposed by Doyle. There are three main reasons: (1) the most recent ONS data for 2019 revise upwards the size of the subvention; (2) as indicated above, some of Doyle's assumptions were overly optimistic; and (3) spending relative to revenues increased massively given Covid (and now the war in Ukraine) and there is likely to be a ratchet effect.

Doyle estimated a deficit/subvention of £2.4bn in 2018–19. I think it more likely to have been in the range £3.6bn to £8.8bn. In 2021–2 replication of Doyle's method implied a deficit/subvention of £6.8bn but when some of his assumptions are relaxed, that increases to £12.6bn. Given such figures it is highly likely that the subvention continues to matter. We cannot be confident that unification per se would produce a direct upsurge in economic growth that would render such a deficit irrelevant.

When Doyle characterises the subvention as 'a symptom of … weakness', this is partly true. However, at least in the short run, the subvention brings certain benefits to the economy. Also, especially over the longer run, it is likely to do harm by reducing the quality of the decisions made by policy-makers and private businesses.

An under-appreciated point in most of the burgeoning literature about the subvention/economics of a united Ireland is the tricky balance that policy-makers will have to strike.[60] Under any set of constitutional arrangements they must try to increase the competitiveness of Northern Ireland and hence nudge the subvention back onto a downward trajectory while avoiding the negative shock that would be the consequence of a sudden reduction in that subvention.

APPENDIX: ASSESSING THE HÜBNER–KLC (2015) MODELLING OF THE ECONOMIC GAINS FROM UNITY

This model forecast that incomes would rise in both Irish economies in the 5 to 10 years following unification. Hübner argued that it was possible to apply to Northern Ireland the type of economic modelling that had been used in the case of German unification after 1989.[61] In practice, such forecasting models often have not been a reliable way of predicting what could happen in the economy, especially when there are very large structural changes. A united Ireland would certainly be a big structural change. Not only did almost no one foresee the timing of German unification in 1990, but there was little appreciation in 1990 that West Germany was committing itself to at least three decades of very substantial annual subsidies to the former East Germany.[62]

Over and above such general grounds for caution, four assumptions used by Hübner and KLC are particularly problematic:

1. *That the exchange rate depreciates given Northern Ireland's adoption of the euro.* Given the devaluation of the pound that occurred in the summer of 2016, to a large extent that adjustment has already taken place without Northern Ireland leaving the UK.
2. *That there would be a big boost to trade.* Hübner and KLC took a lead from economic research that suggests that borders are bad for trade. What they did not allow for is the fact that Northern Ireland's 'export' trade with Great Britain is about two and a half times times greater than that with the

[60] FitzGerald and Morgenroth, in 'The Northern Ireland economy', do recognise this when they recommend that rather than simply reduce public spending in Northern Ireland the challenge is to redirect it away from short-run subsidisation of consumption towards a longer-term promotion of productive investment.
[61] Hübner and KLC Consulting, *Modelling Irish unification.*
[62] Points made by the German economist Gunther Thumann, 'Timeline of events in German unification', in Gunther Thumann and Mark Daly, 'Northern Ireland's income and expenditure in a reunification scenario', research paper for the Joint Oireachtas Committee on the Implementation of the Good Friday Agreement (Dublin, 2018).

Republic of Ireland. If there was a border between Northern Ireland and Great Britain then surely, using their logic, that trade would be reduced? Indeed, it is very likely that the loss in terms of trade with Great Britain would exceed the gain in terms of trade with the Republic of Ireland.[63] This assumption is probably wrong-headed.[64]

3. *That there would be something approaching an economic miracle in terms of productivity growth in Northern Ireland.* Hübner and KLC assumed that the Northern Ireland economy would suddenly start to look like the Republic's in terms of the rate of corporation tax, the structure of industry and, very importantly, the level of productivity. For Northern Ireland to close its productivity gap with the Republic of Ireland over fifteen years, as their report assumes, would require the sort of very rapid economic growth, perhaps of the order of 6% annually, that the local economy has never sustained over any period since the Second World War. This assumption is therefore highly unrealistic even given that the official statistics exaggerate the true volume of Irish productivity (once allowance is made for tax-avoiding behaviour).[65] Northern Ireland could, of course, adopt policies to improve its productivity while remaining within the UK.[66]
4. *That the Republic of Ireland could without much cost to itself replace the fiscal transfer that the UK currently provides to Northern Ireland.* Hübner and KLC anticipate Doyle's argument but their answer to the question of how the fiscal transfer would be dealt with remains unclear.

[63] In 2021 total sales from Northern Ireland to Great Britain were £12.8bn and sales to the Republic of Ireland £5.2bn. NISRA, 'Northern Ireland economic trade statistics' (Belfast, 2022).

[64] Their debatable assumption of a net gain to trade overall anticipated some of the issues that have arisen since the start of 2021 given the operation of the Protocol and (now) the Windsor Framework. Considerable increases in Northern Ireland–Republic of Ireland trade may have been accompanied by trade diversion. It is much less clear that there has been any net gain to the Northern Ireland economy. Geoffroy Duparc-Portier and Giole Figus, 'The impact of the new Northern Ireland Protocol: can Northern Ireland enjoy the best of both worlds?', *Regional Studies* 56 (2021), 1404–17.

[65] Graham Gudgin, *The island of Ireland: two distinct economies* (London, 2022).

[66] Including policies as outlined in Hitchens et al., *Closing the productivity gap*, and Esmond Birnie, Richard Johnston, Laura Heery and Elaine Ramsey, 'A critical review of competitiveness measurement in Northern Ireland', *Regional Studies* 53 (10) (2019), 1494–1504.