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The Economic Impact of the Northern Ireland Conflict

Report for

Bank of Ireland

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Section 1

Introduction

1.1: The Economic Impact of the Northern Conflict

The ongoing conflict of more than 20 years has left many marks on Northern Ireland and to a lesser extent on the Republic of Ireland. While it is difficult to disentangle the impact of the conflict from other economic and regional developments, some indicators are very telling.

GDP per head of population for Northern Ireland has fallen from 80 per cent of the UK measure in 1977 to 76 per cent in 1988. This is the lowest GDP per head figure of any UK region. Manufacturing productivity in Northern Ireland has been at about 80 per cent of productivity in Great Britain and there has been little progress in narrowing this gap over the last 30 years despite huge expenditure on industrial policy. Between 1971 and 1986 three billion pounds of grants were given to industry, but little improvement in comparative productivity has been sustained. Hitchens et al (1989) find that one component of the explanation of this poor performance is the difficulty of getting highly qualified "outsiders" to move to the region because of the troubles.

It has been very difficult to attract foreign investors to Northern Ireland and industrial development and employment have suffered. Political stability and confidence in the future are amongst the most important elements in the investment decision process and until a settlement is reached, investors will be reluctant to commit themselves to the province.

Tourism provides an important source of income for many marginal, less developed regions. However, in Northern Ireland tourism numbers and revenue have been severely affected by the onset and continuance of the violence. In 1988, revenue was still only 83 per cent of the peak 1967 value. Bed capacity has shrunk as a direct result of the violence, ie bomb damage and in response to lower tourist numbers.

The trend in the Republic's tourist figures has also been affected by the bad publicity in the world press.

The absence of an integrated energy and transport infrastructure and of coordinated planning in other areas of economic import has had a negative impact on both regions. The failure of the interconnector between the two electricity grids is one case in point.

Finally, the disturbances place a heavy cost on the Exchequer in the form of excessive security and public order expenditure. On a per capita basis, security costs in Northern Ireland are twice as high as in the Republic. Weaker economic performance induces increased public spending and less buoyant Exchequer revenues.

1.2: The Main Direct Cost Elements

In this report, we will look at four major areas. The New Ireland Forum report identified security and defence costs as the most important element. We will analyse the costs to the Northern Irish Exchequer in comparison with costs in the Republic, Mainland UK, West Germany, another NATO member and two neutral European countries, Austria and Switzerland.

It is more difficult to estimate the cost of the conflict in terms of foregone industrial development and investment. We will study the progress made in Northern Ireland and in the Republic where the IDA has been successful in convincing potential investors that the troubles will not affect them. Grants per head of population paid to industry in Northern Ireland are much higher than in the Republic which may be a reflection of the additional "persuasion power" needed there.

The loss in revenue from tourism has been particularly high in Northern Ireland where revenue dropped by 60 per cent after the onset of the disturbances. The strong growth of the 1960s would, however, have been dented by a number of developments in the world economy and in tourist tastes. Having said that, it is clear that tourism in Northern Ireland has not yet recovered from the setback in the late 1960s and will not reach its full potential until violence ceases.

The Northern conflict has also distorted tourism growth in the Republic but to a lesser extent.

Other areas of economic cost arise in the energy sector where terrorist activity has made impossible the interconnection of the two electricity grids. The main losses arise from the need for higher spinning reserves in both systems. Both utilities gained from the interconnector. The Northern Ireland electricity industry is in a uniquely isolated position and electricity prices in Northern Ireland are heavily subsidised.

The railway connection between the two regions has also been under attack and this has caused severe disruption both to passenger and freight traffic.

1.3: Indirect Economic Costs

The cost of security impositions on citizens in Northern Ireland and also in the Republic are considerable and cannot be enumerated. Delay in international travel times, frequent checkpoints holding up private and commercial vehicles are just some examples of the welfare costs.

The absence of coherent economic planning between the two regions has affected industrial development and tourism and has hit the border areas worst. The difficulty in persuading top managers from the UK mainland or overseas to take up positions in Northern Ireland must have had an adverse effect on human resources there and may ultimately share responsibility for the productivity gap with the UK.

Section 2

Security and Security-Related Costs

2.1: Security Costs in Northern Ireland

Terrorist activity in Northern Ireland makes up a large proportion of all criminal offences committed. Between 1970 and 1988, there were 32,025 shooting incidents, 8,800 explosions using 286,649 lbs. of explosives, 8,288 malicious fires and 13,817 armed robberies. Between 1969 and 1988 2,710 people were killed and 29,524 were injured in connection with the civil disturbances.

Magistrates' and crown courts heard proceedings against 2900 persons under "offences against the state" charges between 1979 and 1987, an average of 363 per year. The expenditure on these court proceedings would be one immediate saving if violence ceased.

There was a rapid growth in the prison population between 1970 and 1977 (numbers increased by 240 per cent), but have fallen by 58 per cent since. Overcrowding of prisons may have been one reason for differential sentencing over time as seems to have occurred in the Republic of Ireland and in Britain. Savings in government expenditure in connection with reduced prison populations as a result of a cessation of the violence may be quite small since crime as a whole has been on the increase over the years.

The table gives the total direct Exchequer costs of public order and safety in Northern Ireland.

Table 2.1: Public Order and Safety Expenditure of Northern Ireland Central Government (Constant 82 £ Million)

	Current Expenditure	Capital Expenditure	Total
1979	253.2	32.0	285.2
1980	257.6	35.6	293.0
1981	279.5	28.1	307.6
1982	296.3	22.0	318.3
1983	316.5	22.4	338.9
1984	313.2	25.0	338.2
1985	318.6	24.0	342.6
1986	348.7	22.8	371.5
1987	368.5	27.8	396.3
1988	343.9	31.7	375.6

Source: Department of Finance and Personnel

The table shows that between 1979 and 1988, security costs in Northern Ireland increased by 32 per cent. It is difficult to disentangle the impact of the unrest from these figures. However, when looked at from a per capita scale, the comparison with other countries is facilitated and will be summarised in Section 2.5. In 1988, the cost of public safety and order per person stood at £241m. (in 1982 money).

2.2: Security Costs in Mainland United Kingdom

The UK is a major participant in NATO and one would thus expect high defence costs. This is borne out by the table.

Table 2.2: **Defence, Public Order and Safety Expenditure of Central Government in Mainland UK (Constant 82 £ Million)**

	Current Expenditure	Capital Expenditure	Total
1979	13466	149	13615
1980	14666	157	14823
1981	14546	135	14681
1982	15237	162	15399
1983	15938	268	16206
1984	16459	229	16688
1985	13647	356	14003
1986	16710	439	17149
1987	16238	407	16645
1988	15748	394	16142

Source: CSO UK National Accounts, NI Department of Finance and Personnel

On a per capita basis, real expenditure on defence, public order and safety in 1988 stood at £293, only 18 per cent above the equivalent measure in Northern Ireland. This indicates that security costs in the North are highly inflated due to the conflict.

2.3: Security Costs in the Republic of Ireland

Being a neutral country with only minor involvement of its security forces in the Northern Ireland conflict, one would expect the Republic's expenditure on security to be lower than in the North and in the UK mainland.

In 1988, the real per capita expenditure on defence and security in the Republic was £121.9, almost exactly half of the expenditure in the North.

Table 2.3: **Government Security Expenditure in the Republic of Ireland (Constant 82 £ million)**

	1987	1988	1989(e)
Defence			
Current	199.0	192.0	189.3
Capital	3.0	4.6	4.5
Total	202.0	197.1	193.8
Gardai			
Current	192.2	177.5	179.0
Capital	3.1	2.2	1.2
Total	195.3	179.7	180.2
Prison Service			
Current	39.3	34.5	38.0
Capital	7.3	3.3	2.8
Total	46.6	37.8	40.8
Total	443.9	414.6	414.8

Source: Budget 1989, Comprehensive Public Expenditure Programmes

2.4: Security Costs Elsewhere in the World

Security costs are a complex function of a country's international commitments and many historical factors must be taken into account. Definitions may also vary widely. It is therefore difficult to directly compare this type of government expenditure across countries without much further analysis. However, for the purpose of this section we have compiled a table which lists the per capita levels of expenditure for a number of countries.

We chose one NATO member and two other European neutral states. The table gives the per head defence and security expenditure in 1988 prices for West Germany, Austria and Switzerland together with Northern Ireland, Mainland UK and the Republic of Ireland.

The Irish Republic has the lowest defence and security expenditure levels per head among the three neutral countries in the table. Northern Ireland's expenditure in this area is higher than West Germany's and only marginally smaller than in Mainland UK. This indicates the high potential savings in the security area which could be expected with the cessation of violence in the North.

Table 2.4: **Comparison of Security and Defence Expenditure per Head, 1988 Current £**

Republic of Ireland	163
Austria *)	198
Switzerland *)	283
West Germany	285
Northern Ireland	325
Mainland UK	395

*) 1987

Source: As Above; Fischer Weltalmanach 1989

2.5: Security Cost Impositions on Citizens

The Northern Ireland conflict has created security cost impositions on citizens, mainly on the citizens of Northern Ireland itself. These include the various measures which have been taken to protect city centres, which consist of security checkpoints in the main shopping areas, as well as the indirect impact of various policing measures.

Roadblocks, which add to journey times, are more widespread in Northern Ireland than they are elsewhere, and cause inconvenience and delay. There are also security checks at air and sea ports which are more intrusive than would be necessary in a more normal environment.

Outside Northern Ireland, citizens suffer some inconvenience also. The conflict has resulted in legislation being enacted in the United Kingdom, largely in response to terrorist actions on the UK mainland, which involve a greater degree of surveillance of travellers between Ireland and Britain than used to be enforced prior to the onset of the current conflict in Northern Ireland.

More generally, the conflict is one of a number which have contributed to the need for increased security measures internationally, with implications of both cost and inconvenience for the travelling public.

Recently, the rail link between Dublin and Belfast has been the object of repeated terrorist attacks, and the line has been out of action regularly. One Northern Ireland politician, scheduled to appear on a TV programme in Dublin, flew to London, and then back to Dublin, rather than risk the train journey.

wimp!?

It is clearly impossible to place a monetary value on the inconvenience to ordinary citizens caused by the activities of terrorists and the response of the security forces to these activities. Particularly within Northern Ireland itself, these costs cannot be dismissed as trivial, and have added to the burdens of everyday life. They may indeed constitute one of the largest hidden costs of the Northern Ireland conflict.

2.6: Conclusions

A comparison of security and defence costs per head in different regions showed that they are 2 times as high in Northern Ireland as in the Republic.

In the Republic, the Northern troubles have resulted in

- Additional Army activities in border areas, extra barracks, air support costs, a special Border Duty Allowance for soldiers.
- Extra police activities along the border.
- Additional activity by both Army and Gardai throughout the country, including intelligence works, cash escorts etc.
- Extra court and prison costs.

A minimum figure for these extra costs is 10% of the total budget, allowing for the fact that resources may have been diverted from other uses to which they would be a re-allocation should violence cease.

The Republic would save £55m per annum on this assumption. If costs in Northern Ireland could then be brought down to the same per capita costs as the Republic, the savings would be £286m. per annum. Both figures are in sterling at 1988 prices.

Section 3

Impact on Industrial Development

3.1: Industrial Development in Northern Ireland

Industrial Policy

Northern Ireland suffers from the worst economic and social conditions of any region of the UK. At mid-1989 unemployment stood at around 108,000 or 16 per cent of the working population, over double the national rate and around 6 per cent above the rates for the North of England and Scotland, the worst hit areas in GB.

Contributing factors are an outdated industrial structure, the small size of the domestic market, the problems of peripherality and the economic costs of the "troubles".

Two bodies share the responsibility for industrial policy in Northern Ireland: the Industrial Development Board (IDB) and the Local Enterprise Development Unit (LEDU). As in other depressed regions, industrial policy has been based largely on capital and labour subsidies.

On a per head of population basis, direct financial assistance to industry in Northern Ireland in 1987-88 was three times higher than in the assisted areas of Scotland, and seven times higher than in England. Compared with the average for all assisted areas in GB, industrial assistance per capita in Northern Ireland was almost 5 times higher.

In 1988 an annual survey of European regional incentives found that only designated areas in Italy came above Northern Ireland in terms of net grant equivalent expenditure per head in recipient regions within EC countries.

Table 3.1: **Net Grant Equivalent Expenditure Per Head of Population in Recipient Regions, 1988, £ 1975 Prices**

Italy	42.7
Northern Ireland	26.1
Republic of Ireland	17.2
Britain	14.1
Belgium	11.3
Netherlands	10.1
West Germany	7.3
Luxembourg	6.5
France	3.0
Denmark	2.2

Source: Yuill et al, eds, European Regional Incentives, 1988

This comparison shows that the level of expenditure on industrial development in Northern Ireland is very generous compared to most of the other regions in the EC. The range of incentives and the flexibility of aid in Northern Ireland are also generally viewed as an advantage in comparison with other EC countries. However, the IDB has not been particularly successful in attracting foreign direct investment because of the conflict and negative international publicity arising from it.

Political stability is one of the most important factors in investment and plant location decisions. In a 1983 study 60 per cent of British, German and American businessmen questioned said that they found the risk of investing in Northern Ireland too great.

This clearly makes the IDB's job of promoting the region very difficult as long as the violence continues. The following sections reflect this.

Job Creation and Cost per Job.

Between the years 1982-83 and 1987-88 the cumulative number of net new jobs created by firms assisted by the IDB was 9,300. The attainment ratio (job creation as a percentage of job promotions) of firms which received assistance between 1982-83 and 1984-85 was very low with significantly less than 50 per cent of job promotion targets actually being achieved. Since 1985-86, however, over half of the job promotions were achieved by 1987-88. Overall, over the full 1982-83 to 1987-88 period, IDB assisted firms created 41 per cent of their job promotion targets.

In 1988 almost two-thirds of employment in companies assisted since 1982 was in textiles, clothing and food, drink and tobacco industries. A breakdown of IDB assisted firms by nationality of ownership is contained in the next table. Only 15 per cent of employment in IDB assisted firms was in companies from outside the UK and Ireland.

Indigenous firms assisted by the IDB performed best with 6,700 new jobs (47 per cent of total). US owned companies created only 443 jobs over the period, and less than one in ten jobs promoted by these firms had been created by the end of the period. On the other hand, European firms, which account for only 3 per cent of total employment in Northern Ireland, generated 550 jobs over the period and beat their promotion targets by 8 per cent.

Broken down by industrial group, the cost-per-job created was highest for the minerals, metals, man-made fibres sector (£22,000) and lowest in the non-manufacturing (£5,000) and clothing (£7,000) sectors over the 1982-83 to 1987-88 period.

Table 3.2: **Job Creation by Firms Assisted by IDB by Country of Ownership, 1982-83 to 1987-88**

	Employment Change 82-88	% Share of 1988 IDB Emp'mt
N. Ireland	6,741	46.9
GB	1,115	34.3
USA	443	10.9
Europe	550	3.5
Rep. Of Ireland	198	4.0
Other	216	0.5
Total	9,263	100.0

Source: NIEC

The cost of promoting jobs in firms from different parts of the world does not differ substantially, but the cost-per-job created figures range from around £6,000 for firms from the Republic of Ireland to over £205,000 for US owned firms. Many factors play a role in this outcome, but the problem of promoting the region abroad is compounded by the negative image that the continued violence creates.

3.2: Industrial Development in the Republic

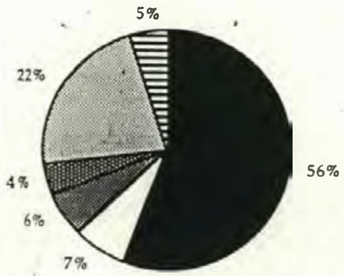
Industrial development in the Republic has relied heavily on foreign investment. At present there are approximately 900 foreign firms located here. They are attracted by generous incentives and, in the case of countries from outside the EC, free access to the Single Market. The United States and the UK are the most important investors. Between 1960 and 1987 foreign investment of IR£9.2 billion was approved for grant assistance by the Industrial Development Authority (IDA).

The IDA has achieved a broader spread of nationalities of foreign investors than its counterpart in Northern Ireland as the figure (page 12) shows. Irish and UK companies together account for 63% of grant-aided employment. The US accounts for 22 per cent of jobs.

No break-down of cost-per-job created by nationality of firm assisted is available. The overall average cost per job created in the 1982-1988 period was IR£ 17,812.

According to the IDA's overseas marketing division, the Northern Ireland problem hardly features on the agenda of potential investors. It is the IDA's policy to introduce potential clients to firms already located here, which it is hoped dispels fears of political unrest.

SHARE OF IDA GRANT-AIDED EMPLOYMENT BY NATIONALITY



SOURCE: CIP 1986

The IDA feels that the cessation of violence in the North would have no impact on its ability to attract foreign investors.

3.3: Conclusion

There is strong competition between nations and even regions for direct foreign investment. High levels of grants and incentives are offered in order to compensate for the disadvantages of a region. In their investment decision, firms consider a multitude of factors. Political stability has been named as the foremost consideration of multinational firms by a number of studies and it is given the highest weight in most "operations risk criteria" lists. Clearly this applies also to the investment decisions of domestic firms. Northern Ireland is at a clear disadvantage when competing with regions like Scotland, Portugal, Spain and Italy in the security area. If violence ceased tomorrow, past investment decisions would not be changed, firms would not relocate their plants. However, the Province would probably be more successful in attracting overseas investment than hitherto.

As seen above, the level of grant aid available in Northern Ireland is high by European standards but we do not expect that it should fall drastically if the political situation changes, since the IDB would have to compete with many other, already well established areas. The solution of the conflict would make a combined industrial policy possible which would be of benefit to both regions.

Section 4

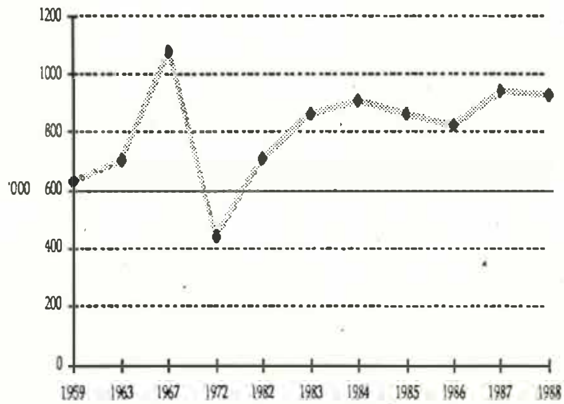
Impact on Tourism Growth

4.1: Tourism Growth in Northern Ireland

The conflict in the North has been widely covered by the international media and therefore creates a negative image of the province as a holiday destination. In 1988, tourism revenue accounted for approximately 1.5 per cent of Northern Irish GDP. For the Republic the equivalent share is 5.4 per cent.

The figure traces the development of visitor numbers between 1959 and 1988. The impact of the onset of the disturbances can be clearly seen.

TOURIST NUMBERS IN NORTHERN IRELAND



Tourist numbers plummeted from a high of 1.1 million in 1967 to 400,000 in 1972, a year with record numbers of deaths arising from the conflict. In a paper studying the relationship between violence and tourism in Northern Ireland Henderson and Mullaghan (1983) not surprisingly find a very close relationship between the number of deaths per year and the willingness of respondents in the UK to visit Northern Ireland.

In 1987, the highest number of tourists since 1970 was recorded. Between 1982 and 1988 the number of tourists visiting Northern Ireland increased by 31 per cent. The average number of nights spent in the Province has stayed constant at around one week.

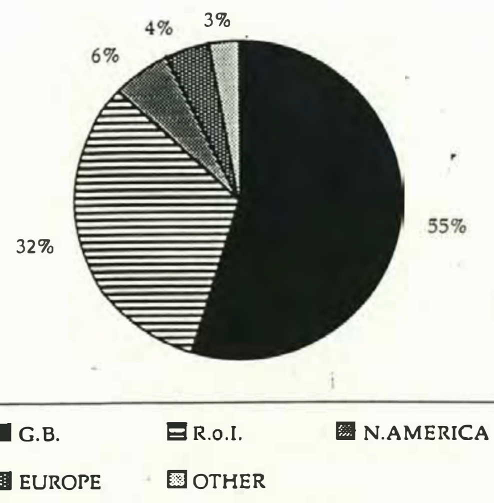
Great Britain is the most important country of origin of tourists in Northern Ireland: 55 per cent came from there in 1988, the Irish Republic comes next in importance with 32 per cent, as the figure shows. Only 13 per cent come from other destinations.

Visiting friends and relatives are the most important tourist group and account for 49 per cent of visits. "Pure holiday visitors" (PHVs) accounted for only 14 per cent of visits in 1988. The NITB has targetted this group for future expansion since it is at a very low level and discretionary. The projected PHV figure for 1990 is 150,000, a planned growth of 9 per cent per annum.

However, the supply of tourist accommodation has declined dramatically between 1968 and 1988: the number of hotel bedrooms fell by 32 per cent, the number of bedrooms in guesthouses is down by 57 per cent. Only the number of bedrooms in self-catering accommodation increased, but this rise is by no means sufficient to make up for the losses in the other categories.

This reduction in capacity may have been a direct result of the disturbances, i.e. distruction of hotels, but must also reflect the drop in tourist numbers. Major investment would be needed to cater for increased visitor flows after the cessation of violence.

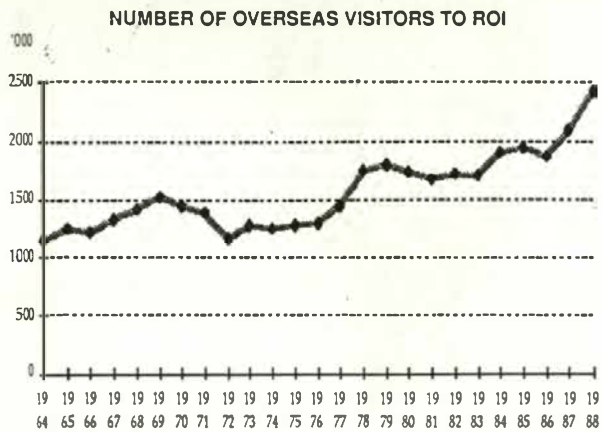
N.I.: ORIGIN OF OVERSEAS VISITORS, 1988



4.2: Tourism Growth in the Republic

The image of the Republic is not really tarnished by the violence in the North, in fact it is often associated with a country that is peaceful, unspoilt, green etc. and has an easy going way of life.

Tourism has been moderately successful here and in 1988, foreign and domestic tourist expenditure in the Republic accounted for 5.4 per cent of Irish GDP. The figure gives the development in overseas tourist numbers since 1964.



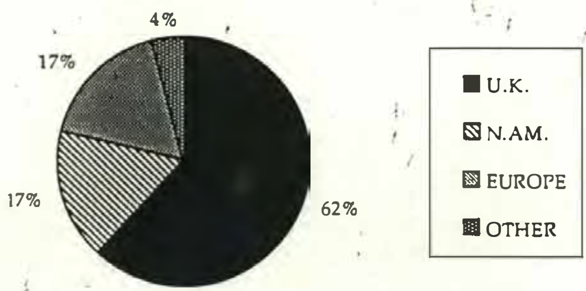
A drop in visitor numbers occurred in 1972, the year of escalating violence. However, numbers dropped by "only" 23 per cent between the pre-troubles peak year of 1969 and 1972 (compared to a 60 per cent drop between 1967 and 1972 in Northern Ireland).

The number of overseas tourists reached 2.4 million in 1988. The results for 1989 indicate a rise to 2.8 million, an increase of 17 per cent.

The figure shows the composition of visitors in 1988.

Tourism has been targetted as a major growth area: tourism numbers and revenue should double in the five year period 1988 to 1992 inclusive. This means an extra 1.831 million visitors in four years. It appears that the target for 1989 has been met. Major investment programmes such as the BES scheme and the expenditure plan for tourism out of Structural Funds are expected to contribute to continued growth in the sector.

ORIGIN OF OVERSEAS VISITORS TO ROI, 1988



4.3: Conclusion

While tourism in both parts of the island has been adversely affected by the onset of the troubles, Northern Ireland has undoubtedly suffered more. Visitor numbers to Northern Ireland dropped by 60 per cent between 1967 and 1972, real tourist revenue also fell by 63 per cent over the period. By 1988, real revenue was still only at 83 per cent of its 1967 value. However, it is unreasonable to assume that the buoyant growth of the 1960s (around 8 per cent per annum) would have continued at the same rate. "Cold water resorts" lost appeal as the more affluent consumer turned to "sunshine destinations". Both Northern Ireland and the Republic would have felt the impact of this development. However, under peaceful conditions the tourist industry in the North would have developed its tourist attractions more vigorously and would have diversified into other activities.

It is thus a minimum measurement of cost if we assume that the Northern Ireland tourist industry would have been able to maintain its real revenue at the 1967 level under peaceful conditions. Transformed into 1988 price levels, this would give a revenue figure of £117.3 m, some £20.3m above the revenue level actually achieved in that year.

As seen in Section 4.2, the beginning of the violence in the North also made an impact on the Republic's tourism performance. Tourism numbers dropped by 23 per cent between 1969 and 1972, real revenue fell by 22 per cent over the same period. By 1988, real revenue was 32 per cent above the 1969 peak.

However, a number of other factors came into play over the period: loss of competitiveness versus the British market, high access costs, the impact of the oil crises etc. But it would be going too far to suggest that a cessation of violence would have no beneficial effects on tourism in the Republic. Particularly in the British market, certain events had a pronounced negative impact, including the murder of Lord Mountbatten. The prevailing coolness in Anglo Irish relations cannot have helped either. As a guesstimate, we suggest that a 5% improvement in revenue arising from UK visitors equivalent to. IR£13m. per annum in 1988 prices, would be appropriate.

Section 5

Other Areas of Economic Cost

5.1: The Energy Sector

The absence of an interconnection between the electricity grids of the Republic and Northern Ireland is wholly due to the troubles in the North. Interconnection brings many potential benefits.

* Spinning reserves can be pooled, thus for the same level of security the margin of spinning reserve can be reduced in each system.

* At any given time the most economical generators can be operated regardless of ownership. The resulting trade in electricity can benefit both partners.

* Total capacity in the pooled system needs to be less than the sum of both unconnected systems if peak loads are needed on the different systems at different times of the day and if the annual peaks occur on different days.

* Other economies of scale are generated by the use of larger individual sets.

The construction of an interconnector started in 1968 and was completed in 1970. A three phase alternating current connector of about 300 MV firm capacity was chosen and it ran between Tandragee in Northern Ireland and Maynooth in the Republic. However, the interconnector was in operation for only 30 per cent of the time due to bomb damage within Northern Ireland on six occasions. Since the last outage in September 1975 the interconnector has not been reconnected.

The ESB estimate that the re-establishment of the interconnection between the two grids would yield potential savings of IR£1m to IR£1.5 m per annum. The main savings would arise from the capacity and reserve side. Given the political situation, the ESB no longer includes the interconnector with Northern Ireland into its long term plans.

The electricity supply industry in Northern Ireland is worst hit since it mainly relies on oil for its feedstock supplies and the size of the domestic market is too small in relation to the capacity available. As a result the cost of supplying electricity to consumers in the province has generally been higher than in GB. This was alleviated by heavy subsidies from the government. Between 1981-82 and 1985-86, the last year when a subsidy was required, this cost the exchequer £350m. Northern Ireland Electricity estimate that, given current fuel costs, the loss for Northern Ireland from the absence of the interconnector amounts to £1m per annum.

5.2: The Transport Sector

The railway line between Dublin and Belfast has been subject to over 100 terrorist incidents between December 1988 and April 1990. However, strong public protest followed the announcement by the IRA that they intended to close the line down completely. This has brought about a modification of the campaign and recent times have seen only one minor interruption every two months, causing little more than nuisance value.

At its height, the campaign caused severe disruption and the number of first class passengers dropped to one quarter of its normal level, the number of all passengers fell by half. Passenger journeys have normalised since the let-up of attacks.

Freight had to be transferred to the road and producers lost the benefit of the economies of bulk loads gained by rail transport.

5.3: Unexploited Economic Policy Opportunities

A result of the conflict has been the politicisation of decisions which involve North and South which might otherwise have been taken on a purely business basis. Again, it is fatuous to attempt to place a monetary value on missed opportunities, but this does not mean that the opportunities missed could not have been important in a different political climate.

We have already mentioned the interconnection of the electricity systems. The failure to pipe Southern natural gas to Northern Ireland had elements of a pure commercial disagreement about it, but a better political atmosphere could have been conducive to a successful deal being done. Cross-border road links appear to lack planning co-ordination, and terrorist activity has disrupted rail links.

In the tourism sector, it would clearly be easier to market the whole island as a holiday destination than to have two separate entities doing the work, and similar comments apply to industrial promotion. This is not to deny that worthy efforts at co-ordination are being made all the time, but it seems almost self-evident that these initiatives would stand a greater chance of success if the current conflict could be resolved.

The frontier between North and South is not a natural frontier, like a river or a mountain range. There are thus additional costs generated in a host of practical areas, particularly the provision of public services, which could be ameliorated in a better climate. Some local authorities along the border are well aware of this and have pursued cooperation solutions. But it seems clear to us that, in the absence of conflict, greater progress would have been feasible.

A current example concerns the development of regional airports. There is one at Eglington, in Co. Londonderry, to the east of the city of Derry. But there is a second at Carrickfin, in Co. Donegal in the Republic. This is in the western part of Donegal. Both airports have limited services, and there must be a case for considering one airport for the Northwest , to serve both Derry and Donegal.

5.4: Impact on the Quality of Economic Policy

It may be a coincidence, but the economic policy problems, some would say the deterioration in the quality of economic policy, in the Republic date from the onset of the current Northern conflict in the early nineteen seventies. Up to that time, the Republic had no significant foreign debt and had rarely found itself with any serious public finance problems.

The first planned budget deficit was announced in 1972, and the seventies ended with a widespread acknowledgement that the Republic was heavily over-borrowed after a succession of planned deficits and unplanned over-shoots. Dubious capital projects, on a scale new to Ireland, accounted for much of the borrowing.

From 1981 onward, successive Governments have wrestled with the public finance crisis, and a semblance of normality in public finances has only been achieved quite recently. It would be no exaggeration to describe the 1970's and 1980's as the two least praiseworthy decades for Irish economic policy since the State's foundation.

Is it entirely fortuitous that these two decades coincide with the period of turmoil in Northern Ireland? The causes of the deterioration in the quality of economic policy making in the Republic in this period are many and complex, and are ultimately a matter for the historians. But there is at least an a priori case for the view that there was a substantial diversion of political attention away from the routine problems of economic management. Attention has focussed instead on the intractable political difficulties, including security crises and conflicts in Anglo Irish relations, which have proved to be the continuing accompaniment in the South to the Northern troubles.

Irish Governments have negotiated two major agreements, the Sunningdale and Hillsborough agreements, during this period, have established new and energy-absorbing consultative mechanisms with the British, and have had to contend with more or less continuous problems of internal subversion, gun-running, kidnappings, hunger-strikes and extradition controversies. These have on occasion spilled over into the political arena proper, most notably in 1981, when 4 candidates with Republican sympathies were elected to the Dail (they did not take their seats).

Thus the diversion of political and media attention from the economy to the Northern Issue may well have had a contributory role in the poor economic performance of the Republic's economy over the last two decades, independently of the measurable costs imposed, through an adverse impact on the quality of economic policy.

5.5: Conclusions

The main quantifiable area of economic cost in this section is the energy sector. The absence of an interconnector imposes costs on both electricity systems, mainly due to the loss of the ability to reduce spinning reserves. Both utilities put the potential savings foregone at approximately £1m per annum.

The disruption to the railway line with over 100 incidents between December 1988 and April 1990 has caused a drop in passenger numbers and major organisational problems for commercial undertakings using the line for the transport of bulk goods. It is felt that the paramilitary campaign has been modified due to growing public protest and that the number of disruptions will be smaller in future.

The politicisation of interactions between the Northern and Southern government has led to a number of lost economic policy opportunities. They range from the absence of coordination in the infrastructure area to lost opportunities in the joint marketing of the tourism resources and a joint approach to industrial development.

The conflict has also diverted policy makers' energy from the many pressing economic problems which the Republic and the North have faced since the onset of the violence.

Section 6 Summary and Conclusions

The continuing conflict in Northern Ireland has made an impact on the social and economic aspects of life both in the North and in the Republic. In this report we try to assess the economic impact and, where possible, enumerate the costs involved.

Security and Related Costs

One obvious consequence of civil disturbances is the escalation of security and public order costs. Terrorist activity in Northern Ireland has resulted in over 32,000 shooting incidents, almost 9,000 explosions and almost 14,000 armed robberies between 1970 and 1988. 2,700 people were killed and almost 30,000 injured in connection with the conflict between 1969 and 1988. An average of 363 persons a year have been charged with "offences against the state" in Northern Ireland in this period. As a result of the conflict, per capita security costs in Northern Ireland are twice as high as in the Republic.

At present, 91 "subversive" prisoners are held in the Republic's prisons. In the Republic, the conflict has resulted in additional Army and police activities along the border and the need for extra barracks as well as additional activity throughout the country by both Army and Gardai. The conflict has also led to extra court and prison costs in the Republic.

If violence ceased, both Northern Ireland and the Republic would benefit. We estimate that the extra costs in the Republic amount to 10 per cent of the total security and defence budget. The saving on this assumption would be £55m per annum.

If costs in Northern Ireland could then be brought down to the same per capita costs as in the Republic, the savings would be £286m. per annum. Both figures are in sterling at 1988 prices.

However, one of the largest hidden costs of the Northern Ireland conflict may well be the inconvenience to ordinary citizens caused by the activities of the terrorists and the response of the security forces to these activities.

Industrial Development

Northern Ireland suffers from the worst economic and social conditions of any region in the UK. At mid-1989 unemployment was over double the UK rate and higher than in the North of England and Scotland, the worst hit areas in GB. Manufacturing productivity in Northern Ireland is at about 80 per cent of productivity in the UK, which itself is a low productivity nation by international standards.

The level of grant aid available to industry in Northern Ireland is high by UK and European standards, but industrial development in the North has been hampered by a low investment rate and a reluctance of multinational firms to locate there. Political stability has been named as the foremost consideration of multinational firms by a number of studies and many of these companies clearly consider investment in the North as too risky. The composition of IDB assisted jobs reflects this: 85 per cent of assisted employment is in indigenous, Irish and UK firms, only 15 per cent in overseas companies.

The cessation of violence would improve the North's position in the international competition for multinational investment and would also encourage investment by resident firms.

The Republic's industrial development agency has been able to convince international clients that the political climate here is stable and has succeeded in attracting a large number of overseas companies. The cessation of violence in the North would hardly have an impact on the IDA's activities. However, both parts of the island could benefit from a consolidated approach to industrial development and the marketing of Ireland as a location for foreign direct investment.

Tourism

The onset of the disturbances is clearly reflected in visitor numbers and tourism revenue in Northern Ireland. Tourist numbers and revenue fell by over 60 per cent between 1967 and 1972 from 1.1 million to 400,000. In 1988, real revenue was still only 83 per cent of the 1967 figure. Tourism accounted for only 1.5 per cent of Northern Irish GDP in 1988. Only 13 per cent of visitors came from outside the UK and Ireland and "pure holiday visitors" accounted for only 14 per cent in 1988.

In response to the fall in visitor numbers and also partly as a direct consequence of the violence, the supply of tourist accommodation in Northern Ireland has fallen dramatically since the late 1960s. If violence ceased, major investment would be needed to cater for the expected increase in the flow of visitors.

Taking account of this need for additional spending on the tourism infrastructure in peaceful conditions, we estimate that tourism revenue in Northern Ireland would increase by £20m per annum if violence ceased. This would maintain real revenue at 1967 level, adjusted for 1988 prices.

Tourist numbers and revenue in the Republic also reflect the onset of the violence in the North, dropping particularly in 1972, a year of escalating terrorist activity. However, the effect was smaller, numbers and revenue fell by about 20 per cent between 1969 and 1972. Growth in real revenue between 1969 and 1988 was modest at 32 per cent.

62 per cent of overseas visitors to the Republic come from the UK. Given this dependency, even allowing for the high proportion of "visiting friends/relatives", it is very likely that the level of terrorist activity in the North and the ensuing media coverage have had an adverse effect on tourist numbers and revenue from the UK.

We estimate that a 5 per cent improvement in UK tourist revenue can be expected after the cessation of the violence in the North, yielding IR£ 13m. per annum. Again, both regions would benefit from a combined tourism marketing strategy.

Other Areas of Economic Cost

Energy Sector : The absence of an interconnection between the electricity grids of the Republic and Northern Ireland is wholly due to the troubles in the North. Both electricity utilities put the cost of the absence of an interconnector at approximately IR£ 1m.

Transport Sector: The railway line between Dublin and Belfast has been subject to a terrorist campaign which disrupted it over 100 times between December 1988 and April 1990. In recent times there was a considerable let-up in the number of incidents due to increasing public opposition to the campaign.

Unexploited Economic Policy Opportunities: The conflict in the North has resulted in the politicisation of decisions which involve North and South. The opportunities lost in a combined effort in marketing the island for international tourism and foreign investment have been mentioned above. There are also additional potential savings in the provision of infrastructure and local services in border areas.

Impact on the Quality of Economic Policy: The period since the onset of the current Northern conflict has seen a deterioration in the Republic's economic performance with heavy over-borrowing. Public finances have been stabilised only quite recently. It can be argued that this poor performance was, at least in part, due to the diversion of political attention away from the arena of routine economic management. Political difficulties, including security crises and conflicts in Anglo-Irish relations have continually demanded policy makers' attention.

The negotiations of the Sunningdale and Hillsborough agreements and the associated consultation procedures have been energy absorbing for the Governments involved. The direct spill-overs of the conflict in the form of internal subversion, gun-running, kidnappings and extradition controversies have also diverted the attention of politicians and media from the economy to the Northern issue. This may well have had an impact on the quality of economic policy pursued and contributed to the poor economic performance in the Republic in recent decades.

Summary of Computed Costs of Northern Ireland Conflict

We have attempted to make rough estimates of the cost of the continuation of the conflict to the Exchequers in Northern Ireland and the Republic in a number of areas. These costs, converted into Irish pounds, are summarised in the table.

Table 6.1: **Costs of Continuation of Northern Conflict Per Year**

	1988 IR£ Million
Security Costs	
Republic of Ireland	64
Northern Ireland	334
Total	398
Tourism	
Republic of Ireland	13
Northern Ireland	23
Total	36
Energy	
Republic of Ireland	1
Northern Ireland	1
Total	2
Total	436

The table shows that the continuation of violence in the North costs the Exchequers of the two countries an estimated IR£ 436m per annum. This figure does not include various unquantifiable costs, which are discussed in the report. These costs are a substantial additional burden on citizens, particularly the citizens of Northern Ireland.