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Northern Ireland: The Political Economy of Peace

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Abstract

Nearly 30 years of conflict had two main impacts on the N. Ireland economy: one was to accelerate deindustrialization and the other was to make the region overly dependent on a large public sector funded by a subvention from the British Exchequer. This paper assesses the economic impact of almost two decades of peace since the signing of the Belfast Agreement in 1998. It finds that the structure of the regional economy remains more or less the same: the N. Ireland economy remains dependent on a large public sector, although the composition of public expenditure has changed significantly during the period. It finds that the mainstay of the private sector is low value-added business activity in the non-tradable sector. More positively, it finds that there has been a decisive improvement in the labour market performance of Catholics in the region. However, it finds that few meaningful advances that been made towards an-island economy.

Introduction

Political progress in Northern Ireland since the signing of the Belfast Agreement in 1998 has evolved in fits and starts. Apart from episodic incidents by fringe dissident groups, the region has experienced the near complete absence of paramilitary violence. Success in creating robust, well-functioning political institutions has perhaps been less noteworthy. At times, the devolved power sharing executive set up by the Belfast Agreement has looked fragile, with bouts of political deadlock of one kind or another pushing it to near collapse. Trust between the political parties is not abundant, which has caused Government decision-making to be on occasions slow and unadventurous. More widely, the contours of a deeply divided society remain: peace walls are still required: segregated housing and education continue to be a stark feature of regional life; and an uncomfortable level of sectarianism still pervades. Thus, building a fully-fledged political democracy remains a work in progress. But this view has to be kept in perspective. Politically, Northern Ireland is in an incomparably much better place than in the 1970s and 1980s when violence was widespread.

A fair degree of commentary has occurred about N. Ireland's journey towards political stability. In contrast, relatively little has been written, at least not in any in-depth fashion, about the performance of the N. Ireland economy after the Belfast Agreement. This is a deficiency because the consensus view was that the conflict had turned the economy into a 'workhouse economy, to use Rowthorn's (1987) inglorious phase', and the hope was that the Belfast Agreement would yield an enormous peace dividend, which would boost regional economic prosperity and living standards. The extent to which this peace dividend actually materialized in practice has not been systematically investigated. Thus, as things stand a number of important questions remain unexplored: has the advent of peace made an impact on the economic fortunes of N. Ireland? Did a peace dividend of any significant scale arrive in the region? Is the Northern Ireland any less a basket case after near twenty years of relative peace? Or has economic progress been as tortuously slow as political progress? The purpose of this paper is to provide an assessment of these important matters.

The paper is organized as follows. The first section examines the performance of the Northern Ireland economy during the years of violence. The following section explores the extent to which the region's dependence on a large annual subvention form the UK Treasury has changed since the signing of the Belfast Agreement. Then an investigation is made of the extent to which the performance of the private sector in the region has improved since 1998. After this assessment, the paper examines the extent to which a more religiously balanced labour market has emerged over the past eighteen years. The penultimate section assesses whether any significant progress has been made to deepen all-island economic cooperation. The conclusions bring together the arguments of the paper.

The Northern Ireland economy during the violent years

Sharp deindustrialization and a massive growth in the public sector were two standout features of the Northern Ireland economy during the period of the conflict. In the 1960s, before the outbreak of violence, the region was a fairly dynamic area for manufacturing activity, with industrial production growing much faster than in the UK as a whole (Wilson 1989). Traditional industries like linen and shipbuilding did continue their long-term decline, but this was largely compensated by the growth of new manufacturing activity in areas such as synthetic fibres, mechanical engineering and metal goods, which largely occurred due to inward investment by foreign multinationals and companies from other parts of the UK . In 1970, the first year of serious violence, manufacturing employment was only slightly below the levels of the mid-1950s (Brownlow 2012). But this situation changed markedly in the early 1970s. With the eruption of violence many firms external to the region either turned their backs on N. Ireland or did not consider it a viable site for inward investment: between 1966-71, British and foreign multinationals created 11,000 manufacturing jobs whereas between 1972-1976 they created only 900 jobs (Teague 1987). This situation was massively compounded by the world-wide economic slump that started in 1974. All parts of the manufacturing sector were negatively affected by this global slump, with output and employment falling most acutely in textiles, man-made fibres and engineering. The manufacturing sector in the region never recovered from this economic shock and the story of the subsequent twenty years was one of near continual deindustrialization.

The sharp contraction in the region's manufacturing base was accompanied by a rapid growth in service sector activity, the lion's share of it being in the public sector (Rowthorn 1981). During the 1970's, public sector employment in N. Ireland's grew at a rate 2.5 times greater than the UK as a whole. Employment in the police and prison services more than doubled, which presumably was almost entirely due to the region descending more or less into open conflict. But jobs in the health and education and health also expanded rapidly too. This massive expansion in security-related and care-related employment in a relatively short period of time significantly reshaped the employment structure of the regional economy. By the early eighties, almost 40 per cent of the regional workforce was employed in the public sector. Rowthorn (1987) rather unflatteringly suggested that Northern Ireland economy had been transformed into a workhouse economy as huge numbers of people were now engaged in either caring or controlling each other. Such a rapid expansion in the public sector would not have been possible without the British Government sanctioning a large increase in the subvention to N. Ireland – the money provided by the UK Treasury to fund the gap between the amount of tax collected regionally and levels of regional public expenditure. Although the annual subvention involved hefty sums – around £7/8bn yearly in the 1980s – the amount never exceeded more than 1.0 per cent of UK GDP. It seems that a calculation was made at Westminster that the subvention was well worth paying as it indemnified a British Government from the risk of an economic crisis emerging alongside the political crisis in the region, running the danger of pushing Northern Ireland into full scale civil war (Bew et al 1997).

While the massive expansion of the public sector brought economic relief from the destructive gales of deindustrialization, by no means did it ensure buoyant economic times in the region. Despite the big increase in the subvention, Northern Ireland by the end of the 1970s was an unemployment black spot, with the worst jobless figures in the UK (Gibson and Spencer 1981). The main problem is that even though the total number of jobs increased between 1970-1985 the rate of employment growth was insufficient to keep pace with the numbers entering the labour market due to the high birth rate in the region: too few jobs were being creating to cope with the growth in the working age population. Significant levels of emigration brought some relief to the imbalance between the demand and supply sides of the labour market, but not enough to prevent unemployment reaching 20 per cent at the start of the 1980s. At the same time, those fortunate enough to find employment in the public sector were likely to have enjoyed a standard of living commensurate with, if not exceeding, the UK average. Centralised collective bargaining ensured that the vast majority of public sector workers enjoyed national rates of pay even though property prices in the region were much lower than the rest of the UK. In the wake of the large expansion in the public sector, the Northern Ireland labour market had a distinctly bifurcated feel to it (see Teague 1994a).

Thus, a decade or so after the outbreak of violence the N. Ireland economy had been radically reshaped and it was to retain this character for the remainder of the conflict. A large public sector had emerged alongside a fairly immiserated manufacturing sector (Rowthorn and Wayne 1988). Multinationals more or less shunned the region, preferring instead to invest in more peaceful parts of the UK and Ireland. Unemployment and emigration were high even though employment growth relative to other UK regions was reasonable enough. Government actively sought to turn around the fortunes of a flagging private sector. Local enterprise agencies were created to dispense quite generous grants and other forms of financial assistance to promote the creation of new small firms and the expansion of existing ones (Teague 1989). But in a careful study, Roper (1996) found that the first order effects of these government subsidies were to boost firms' profits in the absence of any expansion of output and employment. On occasions, the eagerness of the British Government to boost private sector activity led it to provide lavish subsidies to highly precarious commercial ventures, the De Lorean project being the most notorious example (Brownlow 2015). A narrative began to take hold that the emergence of a large public sector was simultaneously the saviour of the N. Ireland economy but also its albatross (Bew et al 1997). While the massive increase in the Government subvention may have prevented the economy fully hitting the buffers, it also had the effect of generating a dependency culture inside the region.

A second major debate about the nature of the N. Ireland economy concerned the vexed question of Catholic labour market discrimination. Claims of discrimination against Catholics in all walks of economic and social life go to the heart of the Northern Ireland problem. The years of violence were in part triggered by a Civil Rights campaign that demanded an end to Catholic disadvantage and a deep sense of injustice and grievance within the Catholic community about being treated unfairly undoubtedly helped the IRA attract recruits. That Catholics performed worst in the labour market than Protestants is not disputed to any great extent. In 1970s and 1980s, a fair degree of consensus emerged about the labour market profiles of the two communities, which can be summarized as follows: (1) Catholics males were more than twice as likely to be unemployed than Protestant males; (2) Protestants were over-represented in professional, managerial and skilled occupations whereas Catholics were over-represented in semi-skilled and unskilled jobs; (3) Catholic males were hugely under-represented in security-related employment; (4) Catholic females were under-represented in administrative and managerial jobs and in clerical, secretarial and sales occupations, but, over-represented, curiously, in professional jobs (Teague 1997).

However, when it came to explaining why one group fared better than the other the consensus quickly broke down. A fair degree of acrimony existed about whether or not Catholics faced systematic discrimination in the labour market. One of the first reviews of the evidence by John Whyte (1983) concluded that Catholics experienced direct discrimination in many parts of local government and indirect discrimination in other parts of the public sector, particularly the civil service. With regard to the private sector, he suggested that Catholics were disadvantaged relative to Protestants in the labour market, but he stopped short of concluding that Catholics encountered systematic employment discrimination. Yet reviewing more or less the same data, McGarry and O'Leary (1995) reach the conclusion that Catholics were systematically discriminated against in the labour market. No agreement emerged from these debates and the extent to which Catholics experienced systematic discrimination remains contentious.

Perhaps the biggest controversy surrounded explanations as to why Catholic males were twice as likely as Protestant males to be unemployed. One of the first statistical studies on the matter was conducted by Smith and Chambers (1990) and they found that half the male unemployment differential between the two communities could be explained by factors such as different age and demographic structures, different educational qualifications, location, class and family structure and that the other half was due largely to discrimination. A subsequent study by (Murphy and Armstrong 1994) using quite different statistical techniques and assumptions reached broadly similar findings to Smith and Chambers (1990). Yet a further study by Breen and Gudgin (1996), which used a labour market accounting framework that emphasizes stocks in and out of employment and unemployment, found that the unemployment differential between Catholic and Protestant males could not be attributed to labour market discrimination. They suggested that the entire differential could be explained by Catholics having a much higher rate of labour force growth; by Protestants having a higher propensity to migrate; by Catholics having much higher quit rates; and by Catholics suffering from a range of socio-economic disadvantages that placed Protestants in a better position to obtain a job. This study provoked serious controversy about the robustness of the model employed, data quality defects and unrealistic assumptions about the behaviour of Catholics and Protestants in the labour market (see Bradley 2007; Murphy 2006). At times the strong, and at times heated, exchanges that occurred on the Catholic/Protestant male unemployment differential merely reflected the high polarized unionist/nationalist narratives about the nature of the N. Ireland problem.

Successive British Governments approached the contentious matter of labour market discrimination against Catholics in a more calculating way. On the one hand, it recognised that policy initiatives would be necessary to address the unequal employment performance of the two communities. On the other hand, initially at least, they did not want to create a strong anti-discrimination policy regime as there was concern that this would lend credibility to the nationalist argument that N. Ireland was a sectarian state (Heaton and Teague 1997). As a result, the first fair employment legislation created only weak enforcement procedures to tackle labour market discrimination. Almost immediately concerted campaigns were launched to highlight the inadequacies of this fair employment regime and to demand stronger regulatory interventions – perhaps the most high profile campaign was the McBride Principles, a code of conduct consisting of nine fair employment principles, which was largely targeted at American companies and politicians. These campaigns alongside internal reviews conducted by the British Government, which highlighted the slow progress that was being made to improving the labour market position of Catholics, led to a considerable toughing of the fair employment regime in 1989 (McCrudden 2001.)

The more effective enforcement of fair employment legislation during the 1990s led to a steady reduction in labour market inequalities between Catholics and Protestants (Muttarak et al 2013). But even more concerted moves to create a fairer labour market in N. Ireland were introduced as part of the Belfast Agreement. The Patten Commission that recommended the overhaul of the existing police force in N. Ireland, the Royal Ulster Constabulary (RUC), and the creation of a new service, the Police Service of Northern Ireland (PSNI) was adopted by the British Government. A key recommendation of the Commission was an employment quota system that would allow for 50:50 recruitment of Catholics and

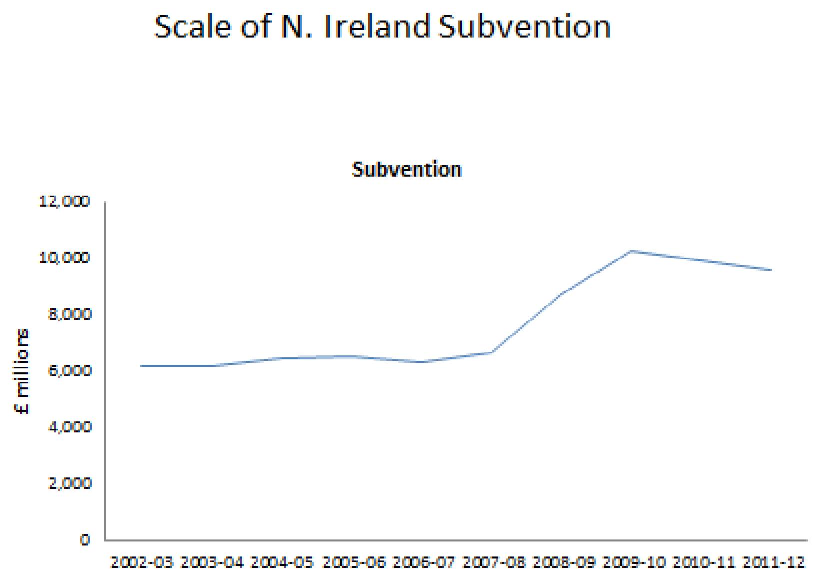
Protestants into the new police service until Catholics made up 30 per cent of the organization (Murphy 2013). In addition, section 75 of the Northern Ireland Act 1998, which is the legal foundation of the Belfast Agreement, established an equality duty on public bodies and a public monitoring system to assess the extent to which this obligation was being met in practice (Muttarak et al 2009). Thus, whilst the debate about the nature and extent of the labour market disadvantage of Catholics continued to rage, Government had accepted the need for a comprehensive battery of public policy measures to realise fair employment in N. Ireland. Creating a more religiously balanced labour market had become integral to the wider political project of building a new, more inclusive N. Ireland, without which no peace deal would be sustainable. Thus it is important to ask whether progress has made towards this goal since the signing of the Belfast Agreement.

The third key economic debate about the N. Ireland was the extent to which stronger economic links should be fostered between the north and south of Ireland. Nationalists have long argued that the partition of Ireland in 1921 hugely distorted the geographical integrity of the all-island economy, thus causing both parts of the Island to perform sub-optimally. But in the decade before the end of violence, the idea of an all-island economy gained currency amongst the north's (and south's) business elites (Teague 1994b). To a large extent, the call for greater north-south cooperation was motivated by the idea that if the north's over-dependency on the public sector was to be challenged effectively then the Northern Ireland economy would have to be significantly reconfigured (Bradley and Hamilton 1999). The notion of an 'economic corridor' between Belfast and Dublin was at the centre of the demand for an all-island economy. Influenced by the economic geography literature on industrial districts, the argument put forward was that a Belfast-Dublin economic corridor would generate new external economies of scale – dynamic effects that were external to firms, but internal to the corridor – that would create new businesses and improve performance of existing ones (Quigley 1992).

Just what form these external economies of scale would take and how they would be generated was never spelt out with any precision. Similarly, other proposals for greater north-south cooperation were set out in fairly schematic ways. Nevertheless, the broad idea that substantial benefits would arise if business and economic connections were strengthened between the two parts of Ireland gained considerable support (Bradley 1996). It can be reasonably argued that the Belfast Agreement provided institutional support to this idea by creating six cross-border implementation bodies to cover areas such as trade, tourism, food safety, inland waterways, language and the administration of special EU programmes. The purpose of these bodies was to enact all-island cooperation initiatives agreed by the Irish Government and the Executive of the newly established Northern Ireland Assembly (O'Leary 1999). In the wake of the signing of the Belfast Agreement, the big question was whether the creation of six cross-border implementation bodies alongside other formal arrangements for cooperation and collaboration between the two parts of the island was mostly a political move to provide institutional expression to the nationalist identity held by many Catholics or a new institutional platform to launch initiatives designed to strengthen economic integration between the two parts of the island.

Thus, three economic challenges faced N. Ireland in the immediate aftermath of the signing of the Belfast Agreement. One was whether the decisive moves that had been taken towards peace and the political would also trigger economic renewal of some from or another. The second was whether strong economic foundations would be created for the new N. Ireland by deepening the process that had already begun of reducing religious discrimination from labour markets in the region. Finally, whether any structural configuration of the N. Ireland economy has occurred through forging extensive and meaningful economic connections between the two parts of the island. Eighteen years after the signing of the Agreement, it seems appropriate to review developments that have occurred on these related issues.

Figure 1



Source: UK Treasury

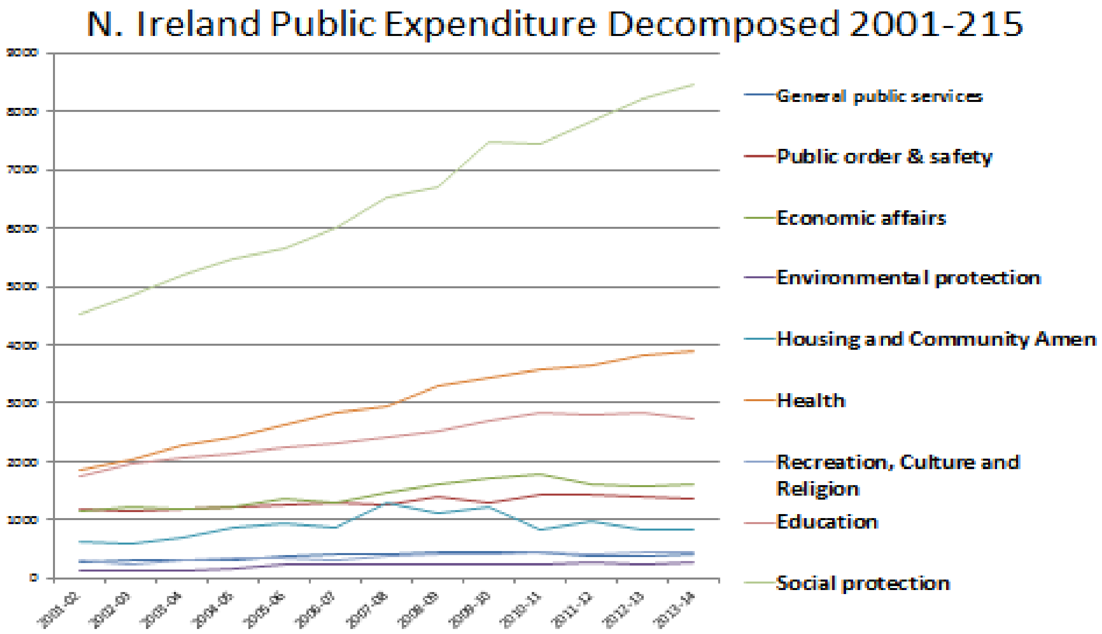
The Subvention after the Belfast Agreement

Thus, when the Belfast Agreement was signed, the N. Ireland economy was dependent on a large public sector to maintain the prevailing standard of living in the region. This core feature of the N. Ireland economy has not changed since 1998: the N. Ireland economy still remains heavily dependent on public expenditure, which makes up over 50 per cent of regional GDP.

The British subvention, as shown in Figure 1, continues to act as an economic life line to the region: if the subvention were to end regional living standards would fall by about 30 per cent. Thus, over the near twenty years since the Belfast Agreement only tiny steps appear to have been made to alter the core characteristic of the N. Ireland economy: the region continues to be heavily reliant on the public purse for its well-being. On the one hand, the level of per capita public expenditure in the region is the highest across UK regions. On the other hand, in terms of disposable household income, N. Ireland is the poorest region of the UK. High dependency on public expenditure has not been the ticket for the creation of a dynamic economy in the region.

This observation that the core dynamic of the N. Ireland economy remains unchanged needs qualified in several important ways. First of all, the composition of public expenditure has changed significantly over the past eighteen years. Figure 2 plots trends in different public expenditure streams since 2001. The standout trend is the big increase in public expenditure on social protection, which involves the financing of disability/ unemployment benefits as well as various programmes for families and children. In 2001, the social protection bill was £4.5bn, but by 2015 this had increased to about £8.5bn. No other aspect of Government expenditure increased as rapidly: the budgets for health and education also show notable increases, but pale into insignificance compared with the hike in social protection expenditure; other parts of public expenditure registered relatively small-scale growth, with some areas like housing and community expenditure recording a decline. The lion's share of the growth in the social protection budget is due to the need to finance the large numbers of people of working age who are economically inactive: N. Ireland's economically inactive population is by far the biggest share of all any UK region. Just why N. Ireland has a higher rate of economic inactivity than other UK regions has yet to be fully explained. But the evidence is pretty clear: N. Ireland has a big problem of economic inactivity, which can be a huge drain on public expenditure.

Figure 2



Source: NISRA

A second point to note is that local politicians and policy-makers have made significant efforts to increase the efficiency of the public sector – to increase public sector productivity. Radical changes have been made to the structure of local government in the region (Knox 2010). For about four decades, N. Ireland possessed 26 local councils. Although it took the best part of a decade, a Review of Public Administration, which was launched in 2002, concluded that the region had too many local councils and recommended that the number be reduced to 11. This recommendation has been implemented in full. In addition, the Review led to a significant reduction in the number of public quangos in the region, from 32 to 12, most of the reduction was achieved through amalgamations of one kind or other (Birrell and Gormley-Heenan 2015). Plans were also drawn up to replace the five education and library boards that existed with a single administrative body, but these ran into political objections which blocked their implementation. Nevertheless, all the indications are that the creation of a single board to administer education is imminent. However, in the education field a fairly large scale school rationalization programme has been enacted in an effort to save money. A series of reports have highlighted the poor productivity of the health sector in the region, which was largely attributed to over-administration and on too many hospitals existing in the region for the size of the population (see for example Appleby 2011). Little policy action was taken on this matter until recently when it was announced that a single health authority was to be created to replace the current four health boards. So far, the politically sensitive matter on hospital rationalization has been side-stepped. Overall, a significant level of rationalization was occurred in the public sector in N. Ireland even in the context of continuing high levels of public expenditure (Knox 2015).

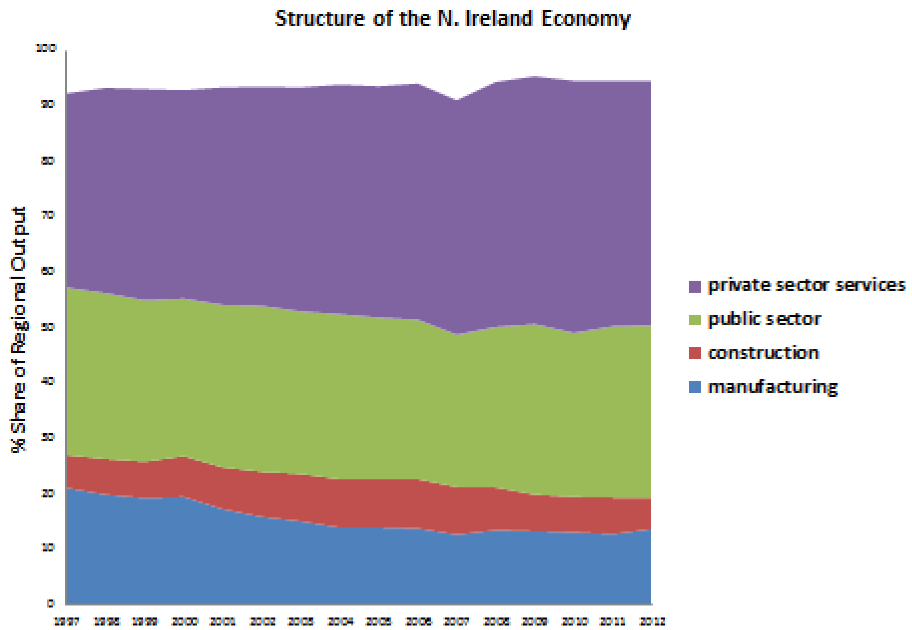
Private Sector Performance since the Belfast Agreement

Another way of describing N. Ireland's need for an annual subvention from Westminster is to say the region runs a current account deficit with the outside world: per capita income and per capita consumption is greater than per capita output. If the subvention were to be reduced then a significant rise would have to occur in per capita output, particularly in tradable activity, to sustain existing living standards. The key to increasing per capita output over a sustained period of time is improving productivity. But the evidence on this score for

N. Ireland is not particularly encouraging as it stands at about 77 per cent of the UK average, the worst performance of any UK region. What throws this figure into sharper relieve is the fact that the UK's overall productivity performance is poor relative to other countries, including France, Germany and the USA.

What are the possibilities of turning around this situation? Conventionally, a strong manufacturing sector is considered a key way of improving the terms of trade as overseas income can be generated through increasing exports. In N. Ireland, as shown in Figure 3, there has been no appreciable expansion of manufacturing output since the signing of the Belfast Agreement and certainly nothing of the order to reverse the chronic 'negative deindustrialization' that occurred in earlier decades. The figure shows that the share of manufacturing in regional economic output has remained more or less constant with only modest fluctuations up and down over the past 18 years - it currently stands at about 15 per cent of regional output. A more disaggregated view of manufacturing trends offers little comfort. About 55 per cent of manufacturing output in the region consists of middle-range manufacturing activity, mostly in the mechanical and chemical engineering sectors. Roughly 35 per cent of manufacturing output is concentrated in low value-added sectors such as textiles and food production. Only about 8 per cent of regional manufacturing output can be classified as being in high value-added sectors such as computing or electronics. Thus, on present trends the possibilities of building a strong, vibrant high-tech manufacturing sector are not promising.

Figure 3



Source: NISRA

If manufacturing activity is unlikely to be the locomotive to pull N. Ireland out of the economic doldrums, can the service sector perform this role? There is no doubt some really far reaching and successful initiatives have occurred in the service sector. The development of the Titanic Quarter is hugely important for Belfast. But it is important to look beyond the success of single projects and examine aggregate trends. The service sector activity makes up the bulk (66 per cent) of the private sector in N. Ireland, constituting about 36 per cent of regional output. It is still not fully appreciated that parts of the service sector are an important source of tradable activity – tourism, finance and business services can all play a similar role to manufacturing in generating foreign exchange. However in N. Ireland, tradable services make up only a third of total service sector output and over the past few years output from the business services sub-sector, the area most likely to consist of well-paying jobs, has declined. Thus, N. Ireland is dominated by non-tradable service activity, much of which is not in the higher value-added areas that are the source of decent jobs. It is not an exaggeration to say that the key economic driver in the region is a circular flow of income in the non-tradable sector in which employment in the public sector generates demands for a range of relatively low value-added non-tradable services. It is important not to be too negative about this development. An important aspect of the expansion of the non-tradable service sector represents the building of modern cultural and leisure infrastructures in cities and towns in N. Ireland whose growth was probably stunted during the violent years. But a concern is that too much growth of the non-tradable service causes the competitive dynamic in the regional economy to be too inward orientated: firms in the non-tradable sector for the most part are not exposed to international competition.

The overall lack of structural change in the regional economy since the Belfast Agreement is further highlighted by a series of studies highlighting that firms in N. Ireland suffer from a catalogue of competitive failings. A number of studies have found that the level of R&D activity within private sector firms is unimpressive. The top ten companies in the region consistently account for about 50 per cent of total annual R&D expenditure and external companies are responsible for more than 60 per cent of R&D expenditure year-on-year. Small firms, those with less than 50 employees that are the bedrock of the Northern Ireland private sector, accounted for 22% of total business R&D expenditure during 2014-15 (DETI 2015). Another study suggests that inflows and outflows of knowledge from firms in the region to accelerate innovation are lower in N. Ireland than anywhere else in the UK. A further report found that management skills in firms in the region were significantly below those prevailing in other parts of the UK and internationally. A litany of factors were seen as causing this serious deficiency in managerial skills – the preponderance of small firms in the region; the heavy concentration of family-owned businesses (which can mi against productive forms of investment); poor overall skills levels; and the relative absence of multinationals from the regional economy (DETI 2009). This is a damning assessment because the identified failings are hard to fix.

Yet not everyone would agree with this catalogue of failings. Although, it would be hard to find anyone arguing that the scale of high quality inward investment projects has reached the levels anticipated in the immediate aftermath of the Belfast Agreement, there is a strong view that N. Ireland has been very successful in attracting foreign direct investment. An upbeat 2012 report suggested that on a per capita basis N. Ireland has been more successful in attracting high valued FDI projects than anywhere else in the UK and just behind the performance of the Republic of Ireland (FDI Intelligence 2012). The report said that over 50 per cent of the jobs created by multinationals investing in the region during 2006-2010 were either very value-added or high value-added. Other assessments are not as sanguine, suggesting that FDI is overly concentrated in the low skilled/low value-added call centre sector (New Economics Foundation 2015). It is virtually impossible to establish an authoritative assessment of the nature and scale of FDI in the region in the absence of reliable and systematic official government data on the topic.

The labour market consequences of a weak private sector

The prevalence of low productivity non-tradable service activity in the region has unsurprisingly led to N. Ireland having a low wage private sector economy. Median gross weekly earnings in N. Ireland are significantly below the UK average. One report estimated that in terms of occupational distribution, a large majority (69%) of employees working in sales and customer service jobs in 2012 could be classified as low paid. The report also showed that the industries with the highest proportion of employees in low pay were accommodation and food services activities (74%), agriculture, forestry and fishing (56%), wholesale and retail trade (50%) and administrative and support service activities (40%). Nearly 10 per cent of the N. Ireland workforce is covered by the minimum wage, which is more than double the coverage in the entire south of England and Scotland for that matter. N. Ireland is the low wage region of the UK. It is interesting to note that N. Ireland is the UK region with the highest average actual weekly hours worked for employees, irrespective whether they are in full time or part-time work. This suggests that employees in the region are prepared to work longer hours to help increase their weekly pay packet.

The impact of low wage private sector activity in N. Ireland on the regional employment structure is hard to discern. Elsewhere in the UK, the expansion of low wage/low skill economic activity is widely seen to have triggered a rapid increase in self-employment, and part-time and temporary work. For the most part, this has not been the experience in N. Ireland (OECD 2015). Apart from a growth in part-time work, which has been appreciable, but not huge, the nature of employment has stayed more or less the same during the past eighteen years: the explosion in self-employment that has occurred in the UK has yet to cross the Irish sea: almost 2/3 of employment has remained full time for the past two decades. Just why N. Ireland is standing apart from these wider UK trends remains unclear.

All in all, the private sector in N. Ireland has remained mostly embedded in low value added economic activity. A range of blockages, what Hausmann and Rodrik (2003) call binding constraints, are preventing a more virtuous pathway of economic development emerging in N. Ireland. The core binding constraint is the negative symbiotic relationship between an enlarged public sector and a weak private sector. On the one hand, a large public sector ensures that living standards are maintained at a reasonably high level, but few positive spill overs emerge from the large annual injections of public expenditure in terms of promoting sophisticated business activity. On the other hand, the local private sector is not a strong enough locomotive to pull the economy towards a more flourishing, entrepreneurial future. The presence of this negative symbiosis is widely recognized and indeed the economic strategy of the current regional government *Rebalancing the Economy*, is predicated on its removal (UK Treasury 2011). Yet the actions to do so have neither been focused nor sustained enough.

Fair Employment

If attempts to create a more dynamic economy through expanding high quality private sector business activity have been broadly disappointing, a more positive story emerges with regard to creating a fairer labour market in the region, at least in relation to the employment of Catholics and Protestants. As already noted, progress had been made on rebalancing the performance of Catholics and Protestants in the labour market before the signing of the Belfast Agreement. Since 1998 this progress has continued and it has been significant on many fronts. Since the early nineties, the labour market performance of the two communities has been slowly converging. Consider first the trends in the working age economic activity rates between the two communities (see NISRA 2014a). In 1992, 77% of working age Protestants were economically active, compared to 66% of working age Catholics – an 11 percentage point difference. By 2012, 75% of working age Protestants were economically active compared to 70% of working age Catholics – a five percentage point difference. A similar pattern emerges with regard to economic inactivity. In 1992, 34% of working age Catholics were economically inactive compared to 24% of working age Protestants, while in 2012 the corresponding figures were 30% and 25%. In relation to unemployment rates, which were the source of such controversy about Catholic labour market disadvantage during the 1980s and 1990s, the gap between the two communities has narrowed: in 1992 the unemployment rate was 9% for Protestants and 18% for Catholics. By 2012 these rates had decreased to 6% and 8%, respectively. A similar pattern has been unfolding with regard to employment rates. In 1992 the difference in the employment rate between the two communities was 16 percentage points (70% for Protestants and 54% for Catholics), however this had decreased to five percentage points by 2012 (70% for Protestants and 65% for Catholics).

Other indications of the improving labour market performance of Catholics can be found from the fair employment monitoring survey that captures the record of designated organizations in terms of promoting 'fair participation' of Catholics and Protestants (See Equality Commission 2014). These surveys show that the share of Catholics in the workforce of monitored firms increased by 6.7 per cent between 2001 and 2013, up from 40.3 to 47.0 per cent, whereas the Protestant share decreased by the same amount, down from 59.7 per cent to 53.3 per cent. These aggregate figures reflect important changes to labour market behaviour and outcomes. Catholics now represent a greater proportion of applicants for jobs at firms that participant in fair employment monitoring. They also comprise a greater proportion of successful appointees. In addition, the Catholic share of promotions within monitored firms has been steadily increasing over the last decade and more. Conversely Protestants comprise a greater proportion of leavers than Catholics.

Emblematic of the narrowing gap in the labour market performance of the two communities is the changing religious composition of the new police force, the PSNI. As a result of a (generous) severance programme and an 50:50 recruitment rule (50 per cent Catholic and 50 per cent non-Catholic), more than 30 per cent of the police force is now Roman Catholics. In 2001, the police force in N. Ireland consisted of 7558 Protestant officers and 708 Catholics whereas in 2014 the streamlined force had 4,558 Protestant officers and 2,090 Catholic officers. Within the PSNI, the position of Catholics has also improved. During the old RUC days, Catholics only made up 8% of Chief Superintendents and Superintendents, while since the creation of the PSNI this has increased to 20% and 15% respectively. The number of Catholics making up the ranks of sergeant, inspectors and chief inspectors, has also increased between 2001-2014 (see PSNI 2015). Greater progress would probably have been made in promoting Catholics to middle ranking police positions were it not for a freeze on promotions that the PSNI was obliged to make between January 2009 and August 2014 due to budgetary cutbacks.

A similar process of Catholic advance has occurred in the N. Ireland Civil Service, an organization held up as representative of the wider employment discrimination experienced by Catholics during the Stormont years, particularly in terms of them being excluded from senior management positions. Between 2000 and 2013, Catholic representation at all occupational grades has improved, with the most rapid change occurring at senior managerial positions. The scale of the change that has occurred can only be described as far reaching and could only have come about within the time period through concerted and sustained action. The advances made by Catholics in the PSNI and the N. Ireland Civil Service reflect wider labour market progress that has been made towards fair employment. Table 1 sets out the religious composition of employees in all the major business sectors in the region in 2012. If the Catholic share of employment in a particular business sector is equivalent or broadly equivalent to the overall Catholic share of the regional workforce, which stands at 47 per cent, then we can say that the religious composition of employment in that particular sector is in balance. The table shows that in 7 out of the 13 business sectors Catholics employment is equal to or in excess of the wider Catholic share of the regional workforce. In five out of the 13 sectors, the Catholic share of employment is below what would be expected, but not significantly so. There are only two outlier business sectors, transport and storage and finance and insurance activities, where employment composition of Catholics, standing at 39 per cent and 38 per cent respectively, is significantly below the Catholic share of the N. Ireland workforce. Table 2 replicates the above analysis only this time for occupations. This table shows that in 4 out of the 9 classified occupational groups Catholic representation is equal to or exceeds the overall Catholic share in regional employment. In the remaining 5 classified groups, the Catholic share is just below what would be expected, apart perhaps for the Associate Professional and Technical Occupations group where Catholic representation is 5 per cent off what would be expected.

Table 1

Religious composition of major industrial sectors (all aged 16+ in employment stating industry) 2012

Industrial Classification	Protestants (%)	Catholics (%)
Agriculture, Forestry and Fishing	52	48
Manufacturing	55	45
Construction	48	52
Wholesale, Retail and Repair of Vehicles	53	47
Transport and Storage	61	39
Accommodation and Food Services	53	47
Finance and Insurance Activities	62	38
Prof, Scientific and Technical activ	47	53
Admin and Support Services	58	42
Public admin and Defence	56	44
Education	54	46
Health and Social Work	50	50
Other service activities	57	43
All in employment stating industry	53	47

Table 2

Religious composition of occupations (all aged 16 + in employment stating occupation), 2012

Occupational Group (SOC)	Protestants	Catholics
Managers, Directors and Senior Officials	55	45
Professional Occupations	48	52
Associate Professional and Technical Occupations	58	42
Administrative and Secretarial Occupations	57	43
Skilled Trade Occupations	52	48
Caring. Leisure and Other Service Occupations	55	45
Sales and Customer Service Occupations	50	50
Process, Plant and Machine Operatives	54	46
Elementary Occupations	51	49
All in employment stating an occupation	53	47

Source: Labour Force Survey

These tables suggest that the N. Ireland labour market is not in complete balance in terms of its religious composition. At the same time, the tables provide no evidence for the argument that Catholics are being systematically disadvantaged in the N. Ireland labour market. Whether or not Catholics faced systematic employment discrimination in the past will be a matter of ongoing debate, but it is hard to sustain this argument now. If anything, the figures lend support to the argument that systematic and successful moves have been made to create a fair employment society in N. Ireland. This development is significant as it represents the creation of a fairer, more equal N. Ireland. In the past, Catholics were reluctant to commit to the N. Ireland state as they viewed themselves to be effectively excluded from all walks of economic and political life, no more so than in the labour market. This situation has been radically changed as the undoubted improved labour market performance of Catholics has seriously eroded, if not completely eradicated, the material basis of Catholic political alienation from N. Ireland.

Building an all-island economy

The Belfast Agreement gave rise to a new institutional architecture to develop deeper collaboration between the two parts of Ireland across a wide range of areas. At the forefront of this architecture is the six implementation bodies set up to deepen co-operation in defined policy areas. These bodies have been efficient in performing their assigned duties and responsibilities, but they have not acted as an institutional locomotive to widen and deepen north-south cooperation on the island (Bradley and Best 2012). This is not surprising for these bodies must be viewed, to use the language of political integration theory, as inter-governmentalist in character: the implementing bodies cannot take autonomous action, but only concern themselves with enacting policies agreed by the Ministers from the two jurisdictions that arise from what is known as the North-South Ministerial Council. Thus, unlike key institutions of the European Union, the EU Commission for example, north-south implementation bodies cannot act as policy entrepreneurs. As a result, unlike the European integration process, the important dynamic of spill over is missing from the north-south co-operation process (Teague 1996). The spill over dynamic is the situation in which a particular policy action to support a specific goal triggers the necessity for even further policy action to realize the original goal. Over time, the spill over dynamic ensures that the scope and purpose of integration is enlarged. This dynamic is all but absent from the institutional framework set up by the Belfast Agreement to oversee north-south co-operation. As a result, the implementation bodies do solid if unadventurous work (Henderson and Teague 2006).

Beyond the work of the implementation bodies, Government Departments in Dublin and Belfast increased contact with each other to explore the possibility of developing north-south cooperation initiatives or at least to embark upon joint work. Probably, most work has been done in the area of Healthcare. A battery of small scale initiatives has been launched in the border areas to improve the delivery of health care services. In 2014, it was decided to concentrate all children's heart operations across Northern Ireland and the Republic in Dublin's Crumlin Hospital, which put an end to paediatric heart surgery in Belfast. Greater all-island collaboration is now taking place on transport matters to ensure that that road and rail planning both sides of the border dovetail with each other. The police forces are now cooperating closely on specific issues such as cross-border fuel smuggling. Thus a whole range of practical projects have been launched to increase the scale of cross-border cooperation on the island. However, a sense of perspective has to be kept about these initiatives. It is highly questionable whether these initiatives together amount to a large, concerted push to deepen policy cooperation north and south of the border. For the most part, the Belfast Agreement has not required government departments either side of the border to change what they do in any significant way. Action on north-south policy cooperation is trivial relative to their mainstream portfolio of activities.

Thus, at the institutional level there has been no concerted action to build a north-south dynamic into the workings of the two economies. The same conclusion emerges when we examine the extent to which north-south economic cooperation has occurred through the market. Consider the matter of trade. Although assessing the trade relationship between Ireland and Northern Ireland is fraught with difficulties due to data limitations, a number of important trends can be identified. In 1974 about 9.3 per cent of Irish exports went to Northern Ireland, however by 2014 this share had declined to 1.8 per cent: the share of exports from Ireland going to Northern Ireland declined more over the 1973 to 2014 period than that going to the UK as a whole. A similar trend emerges when imports are considered. The share of imports into Ireland from Northern Ireland reached a high point in 1981, accounting for 5.1 per cent of total imports. But since then the share has steadily declined to just 1.8 per cent in 2014 (Barrett et al 2015). Yet despite this decline in overall export performance from N. Ireland to Ireland, statistics on the sales destination of the Northern Ireland manufacturing sector for 2013-2014 show that Ireland accounted for over 25 per cent of sales (exports) by firms in Northern Ireland outside the UK (see NISRA, 2014b). Thus, in the context of the overall poor export performance of domestically-owned manufacturing firms in Northern Ireland, the Irish market remains hugely important for many of these companies. Plainly, the Belfast Agreement has done little to deepen trade connections between the two parts of the island.

In terms of fostering an all-island business infrastructure, perhaps the most significant development was the creation of a Single Electricity Market (SEM) for Ireland in 2007, which led to the trading of wholesale electricity on an all-island basis. In particular, the Single Electricity Market (SEM) consists of a gross mandatory pool market, into which all electricity generated on or imported onto the island of Ireland must be sold, and from which all wholesale electricity for consumption on or export from the island of Ireland must be purchased. Since 2007 the consensus view is that the SEM has functioned effectively (Di Cosmoa and Lynch 2015). Another positive development has been the increase in tourist flows north and south of the border. Cross border tourist flows have increased by more than 250 per cent since 2000, with the lion's share of flows going from the north to the south. Although the numbers from the south to the north have increased substantially in the past fifteen years, the numbers only amount to about a third of the flow going the other way (Inter-Trade Ireland 2015). Overall, however, these numbers should be interpreted positively as it suggests that a new socio-psychological community may be unfolding on the island which involves people both sides of the border regarding each other more warmly and with less suspicion.

These two developments in energy and tourism are notable, yet they should not disguise the lack of overall progress in building an all-island economy. It would be harsh to say that initiatives to advance north-south economic and business cooperation since the signing of the Belfast Agreement have been tokenistic, but these cannot be regarded as building substantial, wide-ranging connections between the two parts of the island. For the most part, only a minimum level of convergence has occurred between the two Irish economies since the signing of the Belfast Agreement. Both continue to function as distinctively as they did in the mid-1990s (Bradley 2015). To some extent, this should not be a surprising conclusion as the all-island institutional framework set up by the Belfast Agreement was explicitly designed not to disrupt in any serious way the two different economic pathways being travelled each side of the Irish side border. At the same time, one would have expected that the euphoria and enthusiasm generated by the signing of the Agreement to have triggered greater north-south business cooperation through the market. However, spontaneous market developments towards greater cross-border cooperation have not materialized to any significant extent. As a result, the grand idea of an all-island economy effectively remains a chimera.

Conclusions

Two key points emerge from this analysis. One is that the most positive economic development since the signing of the Belfast Agreement in 1998 has been the rapid progress towards a more religiously balanced labour market in N. Ireland. The employment performance of Catholics has improved to such an extent that it is hard to argue that this community now faces labour market disadvantage or discrimination. The other less upbeat conclusion is that nearly 20 years of peace has left the broad structure of the N. Ireland relatively untouched. The region still remains heavily dependent on the UK subvention and the public sector is the locomotive of the local economy. The broad structure of the private sector has remained the same, with growth in non-tradable services the only significant development. The growth of the non-tradable service sector is broadly desirable even though it gives rise to low wage employment as it involves the modernization of towns and cities and is a symbol of the growing normalization of the region. Although the region is the home to some very high performing firms, overall, the productivity of the private sector is poor, the worst of all UK regions. The result is that N. Ireland private sector mainly consists of low paid employment. Moves towards closer economic north and south cooperation overall have been unimpressive. Apart from important developments in energy and tourism, the two economies on the island are more or less connected in the same way as they were in the mid-1990s. Thus apart from equality, the economic implications of peace have not been far-reaching.

The structural weakness of the N. Ireland economy is the co-existence a large public sector and a weak private sector: a large public sector is needed to maintain income levels because the private sector does not produce enough output to finance existing standards of living. The deteriorating fiscal position may aggravate this structural weakness as it might reduce the ability of the public sector to sustain living standards without leading to any noteworthy improvement in the performance of the private sector. In truth, there is no easy way the mainly low-skilled, low-paid N. Ireland private sector can be transformed into a high-skilled, well-paid one. The big hope is that the imminent lowering of the corporation tax in N. Ireland will trigger this transformation. While this policy is very important and should be implemented without delay, it should be seen as a necessary, but not sufficient condition for improving the performance of the private sector in N. Ireland. A battery of other complementary action will be needed to ensure that regional institutions – universities and bodies like Invest NI – function even more effectively, that local collective action is smarter, that business and organizational strategies are more sophisticated and that individuals become more skilled and active. To effect this change, political leadership is required of a kind not yet displayed on economic matters in the region. If this leadership does not emerge then the biggest economic outbreak of peace will be to make N. Ireland a fully paid up member of the beleaguered UK regions outside of the south-east of England.

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