

DÁIL ÉIREANN

AN COMHCHOISTE UM FEIDHMIÚ CHOMHAONTÚ AOINE AN CHÉASTA JOINT COMMITTEE ON THE IMPLEMENTATION OF THE GOOD FRIDAY AGREEMENT

Dé Máirt, 8 Nollaig 2020

Tuesday, 8 December 2020

Tháinig an Comhchoiste le chéile ag 2 p.m.

The Joint Committee met at 2 p.m.

Comhaltaí a bhí i láthair / Members present:

Teachtaí Dála / Deputies	Seanadóirí / Senators
Rose Conway-Walsh,	Frances Black,
Brendan Smith.	Niall Blaney,
	Emer Currie,
	John McGahon,
	Niall Ó Donnghaile.

Teachta / Deputy Fergus O'Dowd sa Chathaoir / in the Chair.

The joint committee met in private session until 2.06 p.m.

The Northern Ireland Economy: Discussion

Chairman: Apologies have been received from Deputy Pádraig Mac Lochlainn, Senator Annie Hoey, Chris Hazzard MP, Paul Maskey MP, and Francie Molloy MP. Senator Emer Currie will be late as she has a Commencement matter in the Seanad.

I request members to sit only in the permitted seats and in front of the available microphones to ensure that they are heard. This is important as not doing so causes serious problems for broadcasting, editorial and sound staff. I remind them to please maintain social distancing at all time during and following the meeting. Members are requested to use the wipes and hand sanitizers provided to clean seats and desks to supplement regular sanitation in the breaks between meetings. Members are requested to turn off their mobile phones completely or switch them to flight mode.

As this time slot is limited to an hour and a half, I will call each group for a maximum of eight minutes. Is the rota for questioning agreed? Agreed.

On behalf of the committee I particularly welcome Professor John FitzGerald, adjunct professor at the department of economics, UCD, and Professor Edgar Morgenroth, professor of economics, DCU business school. I thank them for attending in the short notice we had to give for this meeting. We look forward to their address and the subsequent questioning.

The evidence of witnesses physically present or who give evidence from within the parliamentary precincts is protected pursuant to both the Constitution and statute by absolute privilege. However, witnesses and participants who are to give evidence from a location outside the parliamentary precincts are asked to note that they may not benefit from the same level of immunity from legal proceedings as a witness giving evidence from within the parliamentary precincts and may consider it appropriate to take legal advice on this matter.

Witnesses are also asked to note that only evidence connected with the subject matter of these proceedings is to be given and they should respect directions given by the Chair and the parliamentary practice to the effect that, where possible, they should not criticise or make charges against any person, persons or entity by name or in such a way as to make him, her or it identifiable or otherwise engage in speech that might be regarded as damaging to the person's or entity's good name. I invite Professor FitzGerald to make his opening statement.

Professor John FitzGerald: I thank the Chairman. We thank the committee for the invitation to attend. We are not taking a position on the desirability or feasibility of a united Ireland. What we are doing is summarising some of the key points from research published in three papers in academic journals that we have already sent to the members.

On the results of the research, the productivity of the Northern Ireland economy is the lowest in these islands, and as a result of this low productivity, Northern Ireland needs a substantial subvention from outside to maintain its current standard of living. There are a number of factors underlying the low level of productivity, including the low educational attainment of the population, which is the lowest of any UK region or Ireland, the failure to invest in adequate productive infrastructure, and, of course, the legacy effect of the Troubles.

There are two factors behind the low educational attainment. The educational system has always selected the pupils into different schools at a young age based on academic achievement. This severely disadvantages pupils from a disadvantaged background, but is a key factor in Northern Ireland having the highest proportion of early school leavers on these islands.

A high proportion of students in Northern Ireland who graduate from university emigrate and never return, which contributes to the very low share of the population with third level qualifications. As we have discovered in the past in Ireland, addressing such a deficit in educational attainment, if tackled urgently, takes more than a generation. Thus, even if urgent action is taken to address the causes of the low human capital in Northern Ireland, the problem of low productivity will remain acute for at least the next 25 years. We began on this journey very intensively in the 1980s and the process matured around 2000.

As a result of its low productivity, Northern Ireland is dependent on a transfer from London of around 20% of GDP to maintain its standard of living. Northern Ireland is treated quite generously within the UK context so the public expenditure per head is 120% of the UK average, whereas the figure for the north-east of England, the next poorest region, is 106%.

Northern Ireland is at risk from rising English nationalism. Brexit and the possible fracturing of the UK could see a redirection of resources to poorer British regions, which would be a major concern.

A note we have supplied updates our previous estimates of a subvention to Northern Ireland from the UK central government and estimates what subvention would be needed in the context of a united Ireland to maintain Northern Ireland's current level of services. If this transfer had to come from central government in Dublin, it would be a very substantial long-term burden on the standard of living of those in Ireland.

This is a very partial examination of the economics of a united Ireland focusing purely on direct fiscal issues, assuming the underlying systems are unchanged. A full analysis would need to specify to what extent social welfare rates might be harmonised and how health and social housing would be delivered. A wider consideration would, *inter alia*, examine the impact on Northern Ireland of losing access to the British market and gaining improved access to the Irish and EU markets. It would also examine the impact on Ireland of shouldering the considerable burden of the ongoing transfer needed to maintain living standards in Northern Ireland.

In conclusion, if Northern Ireland effectively addresses its productivity gap, it would provide for a much more secure future within the UK, if that is what the population desires, and greatly reduce the economic cost of a united Ireland, if that was the long-term option chosen. Thus, addressing the root causes of Northern Ireland's economic problems would benefit the population of Northern Ireland, whatever their particular preferences, and would also have long-term benefits for everyone on this island through increased trade.

Chairman: I thank Professor Fitzgerald. He raised some very weighty and important issues in his paper. I look forward to his colleague's presentation. We will then open the meeting up to debate. Clearly, there is a significant amount of work for those of us who believe in a united Ireland in terms of economic improvements, progress and education. It appears to be a massive task. Professor Morgenroth has the floor.

Professor Edgar Morgenroth: I thank the Chairman for having us. Professor Fitzgerald made the statement on behalf of both of us. We can turn to the questions if that is what the

committee would like to do.

Chairman: Of course. We have already had a request from Sinn Féin. Two members have to leave the meeting early so we will take their requests first.

Deputy Rose Conway-Walsh: I thank Senator McGahon for giving way.

Chairman: Fine Gael forgives you for taking the space.

Deputy Rose Conway-Walsh: Absolutely. I am forever indebted.

Chairman: I am glad to hear that.

Deputy Rose Conway-Walsh: I welcome this session today. I sincerely thank the witnesses for their valuable contributions to the all-Ireland economic discussion that must form the essential part of reshaping our island. The papers they have written facilitate and inform a discussion that is currently being held in households and businesses throughout the country and beyond. I propose that all of the people who have taken time to do some analysis and to write papers on this, whether national or international, be invited to appear before the committee. We are doing a service to people today who have genuine questions around what an all-island economy would look like.

Obviously, Brexit and Covid have changed the economic landscape of the islands we are talking about. Among the largest untapped avenues for growth potential in the Irish economy are the green economy and the opportunity cost of partition, in terms of the significant potential of the green economy and the transition to a zero carbon economy.

I want to focus on the subvention and acknowledge that a deficit requiring subvention exists. We need to put that on the table. However, the €10 billion headline figure, or the €13 billion figure I heard mentioned by, I understand, Mr. Ian Paisley Jr. a couple of weeks ago, need further analysis. My first question for Professor Fitzgerald concerns the revenue raised in the North. Would he agree that it is €18.5 billion? I will ask a number of short questions, if that is okay.

Professor John FitzGerald: I do not carry these numbers in my head. The figure for 2018 is €18.5 billion, including corporation tax receipts. The true revenue from corporation tax receipts should be somewhat higher.

Deputy Rose Conway-Walsh: I note Professor Fitzgerald has written about corporation tax. For the purposes of this meeting, the total managed expenditure is €27.88 billion. That is the sum total of the services with the accounting adjustments. When that is subtracted from the revenue raised in the North which is, as we agreed, €18.5 billion, a subvention figure of between €9 billion and €10 billion is often bandied about. Analysis of the total expenditure on services in terms of the identifiable spending, that is, spending that takes place in the North, and the non-identifiable spending, that is, British priorities is needed.

Unidentifiable spending includes things like the British military which, as we know, is one of the most expensive in the world. That share is €1.12 billion. Some €1.6 billion is paid down on British debt. The pension situation, which is often left out, comprises €3.5 billion. We know that pensions and pension rights are not subject to one's citizenship but, rather, the amount of national contributions made. That was established in the discussion around the Scottish referendum on unity, during which Mr. Steve Webb said that the cumulative rights would rest with the person. In the case of Irish unity, the payments that would need to be made on pensions

would be made from the British Exchequer. Is that correct? I ask Professor FitzGerald to speak to the non-identifiable spending.

Professor John FitzGerald: I gave the committee a paper yesterday in which I updated the figures in detail. On non-identifiable spending, €2.4 billion is depreciation but it is also included under revenue. That can be written off as irrelevant. The rest of the non-identifiable expenditure is what we are examining.

The contribution to defence is about €1.1 billion. The contribution to defence of a united Ireland would be about €200 million, a substantially lower figure. The contribution to the EU budget in 2018 was €217 million. That figure would be significantly higher, at €470 million, in a united Ireland. The figure I have for pensions is somewhat lower. I have a figure which is probably closer to the €2.4 billion than €3.4 billion. The Deputy can probably clarify that with the relevant Minister in the North. Leaving that aside, it could well be that in the negotiations for a united Ireland the UK would accept continuing liability for the €2.5 billion or €3.5 billion in pensions. However, using the experience of the deal done in 1921 when Ireland left or the deal which was to have been done if Scotland left in 2014, in the Scottish case, they would have had to pay the continuing debt interest but offset against that would be the pensions. The Deputy could count one or other of those but not both as being something that would not be payable in a united Ireland. Assuming that the UK would continue to pay the pensions, I have provided the committee with different estimates of what the contribution would be in the event of a united Ireland. The base case would be €8.2 billion. If the pensions are excluded, it would be approximately €6 billion. If social welfare payments and pay rates in the public sector were to be rerated to match those the Republic, the budgetary contribution would rise to €11.5 billion in a united Ireland.

Deputy Rose Conway-Walsh: Over what time span would that be in terms of social welfare? Obviously, it is not something that would happen immediately but over a period.

Professor John FitzGerald: The Deputy is quite right. Presumably, that is something which would be negotiated. Professor Morgenroth can speak about what happened in the context of the German experience.

Senator Rose Conway-Walsh: I have no more time left and I do not want to take up the rest of the time available. I thank Professor FitzGerald.

Chairman: Before we go to Fine Gael, I want to get a summary of what Professor FitzGerald said. Putting aside whether one believes in a united Ireland, unless one can get educational attainment and productivity levels up in Northern Ireland, people will never achieve their highest potential. The key question is how to do that if the choice between grammar school and other schools is divisive in that children coming from disadvantaged communities will attain less. Should that not be at the heart of the effort? If we can encourage, support and concentrate on that, North and South and in the UK, under the best possible acceptable regime and putting aside the party politics, and invest in the young people to allow all of them reach their greatest status in life, is that not what we have to do?

In that context, if it is a fair question, and I do not want to be long-winded, in the South, until the mid-1960s, effectively only two people in any county could go into third level education because the only grants available were given to those who were the highest achievers in a particular county council area. If one got four honours in the leaving certificate, one got into college. The grant system transformed educational attainment and access to third level. What

is needed in the North to kick-start that process and accelerate equality and access and the capacity of young people to achieve their best possible potential?

Professor John FitzGerald: On that, I am very much guided by the work of Northern Ireland's leading academic economist, Vani Borooah, and a book by him and a colleague, C. Knox. He would be the highest ranked in the past decade in terms of academic rankings. His work has guided us in our work. Grammar schools are very successful. The bulk of the children who attend such schools go on to university, albeit many of them in Great Britain, but the problem is that the children who are selected into the secondary schools have very poor prospects, particularly those from disadvantaged backgrounds. Vani Borooah's research in that regard is very convincing. There has been much debate on integrating Catholic and Protestant schools but he argues strongly that until we have a system where children from disadvantaged Protestant or Catholic backgrounds have equal access to education, we will have this continuing major problem of early school leavers in Northern Ireland. It is striking that Northern Ireland stands out in that regard against any other British region. We can forget London because of the immigration. The other very good British region is Scotland, which has the lowest proportion of early school leavers and the highest proportion of graduates after London. It is about looking at models elsewhere to improve the educational system. The eleven-plus was got rid of but the problem was that there was no follow through on that so there is still selection into schools and that determines the outcome for children.

Chairman: Is the curriculum in the other schools the problem?

Professor John FitzGerald: No. A huge amount of research has been done which has influenced the development of education in Ireland, going back to Damian Hannan and Emer Smyth in the early 1980s, who showed that selection within schools into classes - streaming in schools - is bad for the bottom half of the distribution and makes little or no difference to the top half. We have moved to gradually reduce streaming within schools but we are fortunate that, by accident, we did not end up with the English model of secondary, modern and grammar schools. We have integrated schools so if one lives in Bandon or wherever, one goes to the local school. Children are not streamed. It is the streaming of children which is the problem. That is not necessarily a reflection on second level schools. Vani Borooah has analysed this and estimates a Catholic ethos advantage in secondary schools in Northern Ireland of approximately ten percentage points. It is significant but that may not be due to the schools; it may be due to parental expectations. He has not done the research, and we certainly have not done the research, on this but there is a big problem in Northern Ireland which we have managed to address in the Republic. Twenty years ago we had 20% of early school leavers. The major success during the years of the financial crisis was a major improvement in educational participation. Education was protected and we went from a figure of 15% to 5% in respect of early school leavers, while everything else was in crisis. How that is dealt with is an issue for politicians in Northern Ireland. It is not for somebody from the Republic to come up with the answer but the research done by Vani Borooah shows that there is a major problem in that regard.

Chairman: The other part of Professor FitzGerald's social research is the question of the failure to invest in adequate productive infrastructure. Would he define that?

Professor Edgar Morgenroth: I might come in on this one, although I would like to finish the previous point. Once we have people who leave school early, their labour market outcomes are particularly bad. Often, they do not ever work. That is a matter I studied in the Republic of Ireland about 20 years ago and it was quite stark. It is a very big issue.

The other issue we point to in the paper is the outmigration of highly skilled people with university degrees. The Northern Ireland economy is leaking those individuals.

In terms of productive investment, there was a time when the infrastructure in Northern Ireland was considerably better than that of the Republic but that is a time in history now. Investment in Northern Ireland in general has been very low. That is another aspect one would need to account for if one looked at the Northern economy and in terms of trying to push this forward. Human capital in education is the most important investment we can make. The second most important would be various kinds of infrastructure. We would need to increase that level of investment and that, *de facto*, would mean that subvention would have to increase to address the shortfall. That goes into various types of infrastructure such as roads. There are some major issues in Northern Ireland. For example, if one tries to get from the second largest city to the largest, the infrastructure is not very good, and one could point to lots of other examples. Making up that shortfall will take a long time and a lot of money.

Chairman: On the professor's final point, from what I understand, the deficit is to the west in the north, rather than to the east. Is it not the case that the road infrastructure is particularly poor in respect of the links between the Belfast to Dublin corridor and Derry and Tyrone? Is he, therefore, saying that significant further investment in that infrastructure will be hugely important to those regions?

Professor Edgar Morgenroth: The most important project that I can see is the transport link between Derry and Belfast, more so than any other link.

Deputy Brendan Smith: I welcome the points made by Professor FitzGerald on education. I am a great believer in progression in education and I have seen the value of it, whether through reducing the number of early school leavers through youth reach, and also through our colleges of further education. I have seen many young people, from families with no big attachment or emphasis within the household on education, go on to further education, third level education, and subsequently graduate, and complete masters degrees. I have seen these people make a very valuable contribution to society and to their local economy.

To my knowledge, the further education sector was developed in Northern Ireland before it was developed in the Republic. As a Deputy representing Cavan-Monaghan, over the years I have had some engagement with the colleges of further education in Enniskillen and Omagh, particularly when Mr. McAleer was principal of those colleges. Does Professor Morgenroth see the need for a greater emphasis on trying to ensure that young people remain in education beyond second level, perhaps through colleges of further education, and then go on to third level education?

With regard to the productive economy, Brexit is very much in the news. I listened Professor Morgenroth two years ago, when he outlined the adverse regional effects that would arise from Brexit. The central Border area, both North and South, which is the least developed area both in Northern Ireland and in our State, would be most impacted by Brexit because of our dependence on the agri-food industry, construction products and the engineering sector. Will Brexit add immeasurably to the difficulties that we have in an economy that is not well developed enough, or that faces its own particular challenges?

Professor Edgar Morgenroth: On the issue of Brexit, the Deputy is right and he recalls it very well. On the southern side of the Border, Cavan-Monaghan is particularly vulnerable to a no-trade-deal Brexit. In fact, I have just redone the analysis and have reconfirmed it us-

ing the UK tariff schedule. Likewise, north of the Border, the weaker regions would be most susceptible, and that is something that researchers throughout the UK have found. The least developed regions would experience the worst effects from Brexit in a no trade deal situation. It would compound the already poor industrial structure and the performance of the economy in those areas. In that sense, this could be tackled through a focus on education, training, skills, infrastructure to a lesser extent, and also a shift in some sectors, because ultimately the Brexit effect will be a sectoral effect. The agri-food sector in particular would be the hardest hit if no trade deal were done, and presumably we will find out if that is going to be the case this week. If there were to be no-deal, a shift away from those sectors would be something that could be done to lessen the blow, and that is not easily done without a skilled workforce.

Senator Niall Blaney: I welcome the report. However, there is something that strikes me about the language used that is really important. The Good Friday Agreement was brought about through dialogue and cross-party agreement. In light of that fact, authors of reports like this - and I do not wish to sound like a dictator - should be careful in their use of language. Given that we do not have an agreement on a shared future or a united Ireland, the other element of society in Northern Ireland will take offence at the talk of a united Ireland. I, as much as anyone in this room, would love to see it happen, but we should change our language until we get that shared consensus. We should be talking about a shared consensus, shared future and a shared Island. All the other things can be agreed around it. In the meantime, we need to be careful, because there are many doors which have yet to be opened, before we get to where we would like to. Language is, therefore, really important and this should be recognised. There are many elements in the report that are very useful and will be so in future. Professor Morgenroth referred to the most important infrastructure, and I am glad he mentioned the Derry-Belfast element but the entire north-west, and not just the part within Northern Ireland, has been very badly affected by a lack of infrastructure over the years. Derry, Strabane, Tryrone and Donegal are now recognised as being part a north-west city region, and it is really great to achieve that, but the link to Dublin is as important as the link to Belfast. One is as important as the other, and both are needed, because they are essential infrastructure. This includes the road that is being planned from Derry to Dublin and the road being built from Derry to Belfast, but equally, it includes the rail infrastructure, and the upgrading to speed rail on the line from Derry to Belfast, and from Belfast to Dublin.

As part of his research, has Professor Morgenroth looked into social welfare attainment in Northern Ireland? People in Northern Ireland hold dear the access they have to free healthcare, but, on the other hand, they do not have access to the same welfare payments as we do in the South. Many people feel that the South would not be able to cater for the needs of those in the North in the longer term. Has the Professor done any research on that issue, and what is his opinion on the matter?

Overall, I welcome the report and any further similar reports. I agree with the Chairman that the more voices we have around us, and the more discussion we have, the better.

Professor Edgar Morgenroth: Obviously, the NHS works better in Northern Ireland, although it has been under pressure in recent years, and the Republic is trying to move in that direction with Sláintecare. I am not an expert on health or on the social welfare system. However, I did calculate the recalibration of social welfare benefits, which are not very generous in the UK, to the more generous system in the Republic. In the note that I sent yesterday, I estimated how much that might cost, but it was a crude estimate, so I would advise the committee to get experts in that area to look at the issue.

Ms Claire Hanna: I thank the contributors for their evidence and submissions, which were interesting. There are two issues I wish to ask them about. They referred to Northern Ireland's heavy reliance on UK subventions. Do they have any thoughts, as we try to manage convergence, on the process of ideally synchronising economies, North and South? What sort of further devolution of fiscal powers should Northern Ireland consider trying to get and make best use of? Do the witnesses have any thoughts on the loss of Structural Funds? It is still a little up in the air in terms of the shared prosperity fund that is proposed to replace Structural Funds. Have the witnesses any thoughts on the loss of the previous funding stream in terms of infrastructure?

I was struck by how highly the witnesses rank the challenges. I agree about the inadequacies in Northern Ireland's education system. I was struck by how firmly they linked academic selection and streaming to those economic challenges. There is probably no such thing as a quick fix but do the witnesses agree with the kind of proposals in New Decade, New Approach for a Bengoa review of education? Is there anything specific the witnesses would point to in respect of that?

Professor John FitzGerald: I will answer the question on education and leave the remaining questions to Professor Morgenroth. Education is a matter for Northern Ireland to work out. When I have presented the results in the North, there has been huge resistance because generally the people to whom I speak are parents who have children in grammar schools and they say the grammar schools are great. They are right; they are great. The one area where there is a possible win - a quick win - in education in Northern Ireland is the fact that there are a huge number of graduates of working age born in Northern Ireland in Great Britain. If one could attract back a substantial portion of them, that would transform the economy. Another paper published for the Department for the Economy by Iulia Siedschlag and colleagues in the ESRI looking at foreign direct investment across the EU with a particular focus on Northern Ireland shows that third-level education graduates are key. How does one attract them back? I am old enough to have been around in the 1970s and 1980s. We would have been very pessimistic in the 1980s. Irish people were emigrating and saying that they would never come back. They turned out to be homing pigeons and came back. Research done by Alan Barrett of the ESRI and others shows that they are 10% more productive having learned how to do things differently abroad. If Northern Ireland got a lot of graduates back from Great Britain, they could change the culture and economy. That is what happened with the Republic of Ireland. We have not paid enough attention to the fact that people coming to Ireland with experience from outside - generally Irish people - have transformed this economy and society. That is a potential quick win for Northern Ireland.

Professor Edgar Morgenroth: I have also written about this. I call it "brain gain" rather than a brain drain, which is what we normally have. Obviously, the loss of the Structural Funds is a big issue. We will have to wait and see how big that will be. One thing that is always good is if one is able to get money from external sources that one does not have to raise locally. That gives an opportunity to fund things that one would not otherwise be able to afford. When that is gone, one is going to have to think about how to prioritise the limited resources that are there. I spent a year at the Strategic Investment Board in Belfast looking at the Irish Society for New Economists, ISNE, 3, where we were expecting big cuts in capital expenditure. The more limited one's resources are, the tougher the choices one is going to end up having to make. Loss of Structural Funds is a really significant issue.

In terms of convergence, this is one of those very interesting things and is the reason we

raised the issue of East Germany. East Germany is a very interesting case in that it has managed to converge slowly and steadily, not like a rocket. It will take at least another 20 years to properly converge. It is a long-term issue even for things that one might think would integrate very quickly such as trade. Trade within Germany has still not properly converged and it is expected to take another 25 years so one is looking essentially at a 50-year project to properly integrate east and west Germany. Obviously, it is a different situation with different starting positions and so on but it just shows that this is not something that happens overnight. In terms of the resources required, so far, German reunification has cost trillions of euro - somewhere between €1 trillion and €3 trillion. It is hard to put an exact finger on it. It has also come with very significant disruption. East Germany now has 12% less population than it had in 1989. There has been very significant outward migration because it did what we call a sharp shock policy, which did kickstart that convergence process but was very painful.

Dr. Stephen Farry: I thank our guests. I will make a few observations and invite the witnesses to respond to them. It was interesting to hear the comments about there being some parallel with Germany. Obviously, the island of Ireland has seen major economic change over the century where historically Northern Ireland or what was previously the north of the island was the economic and industrial powerhouse; it has gone through very significant industrial decline alongside many other economies. To what extent has Northern Ireland perhaps not had the same opportunity to transform in the way some of the other modern economies in Europe have due to the legacy of violence and division? To what extent has this been a drain on our situation?

Another aspect that might be worth commenting on is the different approach to inward investment in the two parts of the island. In a very crude sense, it could be differentiated in the sense that the south of the island benefits from what one would call the attraction of profit centres due to the lower level of corporation tax. That tends to bring in the more productive economic activities whereas due to the more limited fiscal levers, Northern Ireland is more dependent on bringing in what are effectively cost centres. The model in Northern Ireland is based upon providing skilled labour at a low cost and a more competitive rate than would be the situation in other places. It is a combination of quality and comparatively lower costs than one would find in places like the US.

Regarding some of the other structural aspects of the Northern Ireland economy in addition to the points around division in terms of education and the lack of higher education graduates, difficulties also lie in terms of lower levels of exports and a much higher level of economic inactivity. Between that and unemployment, we have a relatively low percentage of labour force participation. The real pressure point in terms of skills is not necessarily at the graduate level but just below graduate level in terms of levels four and five involving the higher-level technical skills. We have a good further education offering but that is where the real pressure lies in terms of investment in skills.

Professor John FitzGerald: When I looked at the history, I was amazed that Northern Ireland had an awful 1920s and 1930s and that the Republic of Ireland grew faster than the North during that period. It was the Second World War that transformed the Northern economy. Regarding where Northern Ireland really missed out, it was doing reasonably well in the 1960s and then along came the Troubles and EU membership. The Republic of Ireland embraced EU membership. The adjustment was difficult but it built an economy round that where Northern Ireland missed out on 20 years. It is very difficult to replace those 20 years.

On inward investment, corporation tax was important in terms of growth up to 2000. How-

ever, since then, it is education that counts. If the corporation tax rate disappeared, we would lose much tax revenue but we would lose very few jobs. George Quigley, whom I really respected and who was the Northern Ireland equivalent of T.K. Whitaker, was very much of the view that corporation tax was the answer for Northern Ireland. It might have been an answer 30 years ago but it is not today. Today, it is education. A paper for the Department for the Economy by Iulia Siedschlag on how one will not get valuable foreign direct investment unless one has the third level graduates is important.

Finally, on labour force participation, that is also related to education. Research I have done on the Republic shows that one third of the Celtic tiger was generated by women. Women, on average, were better educated than men traditionally in Ireland. My wife says they were clever. They were better educated but they were not in the labour force. Suddenly the economy woke up and said we need them. One third of the Celtic tiger resulted from women participating in the labour force who had good skills and good education and were not being exploited. Perhaps that is an issue for Northern Ireland, though I am not sure.

Professor Edgar Morgenroth: I published some work along with others not so long ago in which we looked at attracting foreign direct investment and start-ups within the Republic of Ireland outside of Dublin and the factors that drive that. We found that education, having a highly skilled workforce, was ten times more important than the most important infrastructure one could invest in, which is broadband. Even broadband was three or four times more important than roads. There is a hierarchy and at the top of that is human capital. One cannot make a mistake by investing in people. That seems to be a no regrets policy, nothing to do with a united Ireland or otherwise. That is something that will be good for Northern Ireland regardless.

Chairman: I call Mr. John Finucane.

Mr. John Finucane: I may have to leave shortly after contributing, therefore, I appreciate being brought in. I thank Professors FitzGerald and Morgenroth. Like everybody else, I echo my thanks to them for attending and adding to this debate. It shows that what we need is informed debate. We have said for a long time that informed debate is an essential component of planning. People need to be very clear what it is they are discussing when they talk about the constitutional future and economics goes to the heart of that.

I have two observations to make with brief questions and I will not take up too much time. The first deals with the focus on the North as the region. Research conducted by NERI on the productivity of Ireland's various regions shows that all regions are behind the EU average by their measure of productivity with the notable exceptions of Dublin, greater Cork and Belfast. A peer review paper by Seamus McGuinness and Adele Bergin of the ESRI, which was referenced earlier and which I believe is from last year, found that the growth rate in GDP *per capita* in the North, and its relative ranking over the period from the beginning of the century up to 2014, is very close to that observed in the Border, midlands and western region in the southern jurisdiction. In that area, is it not, therefore, fair to conclude that this overall context is fundamental to any discussion such as this?

The second observation I wish to make is that in the witnesses' papers they examine the fiscal impact of Irish reunification and present three possible scenarios: one, the North instantly loses subvention from Britain and it essentially self-funds; two, the Irish Government instantly assumes the fiscal deficit of the North; and, three, a gradual transfer. I do not couch this in any critical terms but I note only one paragraph is afforded to the third scenario of a gradual transfer. Would it not be more realistic to say that the third scenario was the most likely and, therefore,

possibly the one most deserving of a detailed analysis and discussion? That is something I also noted in the McGuinness and Bergin paper. I thank the witnesses once again for their attendance today.

Professor John FitzGerald: On Mr. Finucane's final point, I think he is right. The gradual scenario is probably the more realistic. I would have concerns in dealing with the UK Government in that it might sign up to something but would they deliver on it afterwards? I may be too guided by the current circumstances. The point about the BMW region is an interesting one, to which Professor Morgenroth might respond.

Chairman: We cannot hear Professor Morgenroth.

Professor John FitzGerald: He is muted.

Professor Edgar Morgenroth: That is the famous sentence these days. On the unification issue and the graduate transfer, I guess if one wanted to properly look at this, one would need to do a much more detailed analysis. We were just looking at relatively hypothetical examples that are instructive in some ways but certainly not realistic.

On the regional conversion issue, we know that peripheral regions more generally in the EU have struggled and Northern Ireland would be within that mix as well as other parts of Ireland. There have been some movements. We often assume the west is the poorest but it is nowhere near the poorest region. Within the west, there are aspects that are much more like Dublin than, for example, most of the midlands. There have been shifts and shifts are possible. They require substantial policy interventions and also sometimes a bit of good luck. In the case of the west, basically focused on Galway and the quality of life aspects of Galway, they have managed to build clusters around pharmaceuticals and medical devices that are doing extremely well. There are ways of turning around some of these lagging regions but, as Mr. Finucane said, there are more structural issues in regions such as Northern Ireland that are very similar in other parts.

Chairman: I call Senator Black and apologise for forgetting to call her as an Independent in the first round.

Senator Frances Black: I thank Professor FitzGerald and Professor Morgenroth for their attendance and for their interesting presentations. It is important for us to get the views of the economic experts when we are considering the future of this island. I have a few general questions. The first concerns the economic impact of Brexit. What economic impact will Brexit have on Northern Ireland over the next five years? Many believe that partition remains economically disastrous for the North. What are their thoughts on that? Do they agree? Much analysis of possible constitutional change on the island neglects the reality that any transition will happen over time and include EU and international assistance and support. What role do the witnesses believe the EU could play in a transition to a united Ireland? I hope that was not too many questions and I look forward to hearing their replies.

Professor John FitzGerald: Does Professor Morgenroth want to take the question on Brexit and the North?

Professor Edgar Morgenroth: Yes. On the impact of Brexit, obviously it depends very much on the nature of Brexit. Brexit has happened but will we have a trade deal or not? That will make a very big difference. I note earlier that the Commission and the UK agreed on the implementation of the Northern Ireland protocol, which is a good thing. If there is a trade deal, the unique status Northern Ireland would have in those circumstances would be a platform from

which to build because having access to both the Great Britain market and the wider EU market in a relatively unencumbered way would give Northern Ireland an advantage that certainly no other part of the UK would have and, likewise, no other part of the EU has. That is a platform form which to build. If, on the other hand, we end up with a situation where there is no trade deal, the Northern Ireland protocol will come into play and how that will be implemented matters hugely both in terms of east-west as well as North-South trade. In that circumstance, there is a possibility Northern Ireland would be the most negatively affected of all parts of Europe from Brexit. On one hand is this binary possibility of having a relatively benign and positive outlook to one that is pretty negative. I will not use the word “catastrophic” but “negative”. That is one thing.

The EU support is an interesting question. There is no doubt EU support is important. Consider, for example, the situation in East Germany. EU support was there but the bulk of the heavy lifting was done, and is done to this day, by the West Germans. An extra percentage, a so-called solidarity contribution, was put on income tax and that still exists. It is an ongoing thorny issue in politics in Germany.

Senator Frances Black: I will ask one final question if the Chairman does not mind. Do the witnesses agree that the island of Ireland would be better off in the longer term as one fully integrated economic unit within the EU? I would like to hear their thoughts on that.

Professor John FitzGerald: I have a view. As Professor Morgenroth said, we looked at a partial analysis of what a united Ireland would look like in terms of an economy. One would have to look at the cost to Northern Ireland of losing access to the GB market. The Northern Ireland economy is totally integrated into the GB market and the loss of that would be extremely serious. One must then think about what Northern Ireland would get in terms of increased access to the Irish and EU markets. The point made by Professor Morgenroth is that there is a possibility of a major opportunity for Northern Ireland if the UK honours the deals it has already signed up to. The benefits in terms of increased access to the EU and Irish markets would probably not offset the loss of the GB market. There are many other things we have not looked at. As Professor Morgenroth said earlier, we have looked at a partial analysis here. One needs to take account of many other things.

Professor Edgar Morgenroth: In addition, convergence and good economic performance are not guaranteed. The German example is positive but it is easy to pick other regional policy experiments that have not gone well. The Italian *Mezzogiorno* has been in receipt of substantial attention and investment for more than 60 years and it has not at all converged. It is not therefore a given that a change of regime will suddenly result in a positive outcome. It could also easily result in a bad or negative outcome. That is all dependent on the right policies being adopted and those are not guaranteed.

Senator John McGahon: I thank Professors FitzGerald and Morgenroth for their contributions. It is great to see Professor FitzGerald again. I heard his presentation to the Joint Committee on Climate Action a few weeks ago. It is always enjoyable to hear him speak.

I was reading over the weekend and it is amazing how the history of the economy on this island changes. At the turn of the 20th century, Belfast was the economic powerhouse on the island of Ireland. Dublin was a backwater economy in comparison. Professor FitzGerald mentioned how Northern Ireland picked up again in the 1960s and then, perhaps, another real difference is that it did not avail of the European Union funding as quickly as we did. It is fascinating to see, when one looks over the history of the last 100 years, how the economy fluctuated

between the two parts of this island.

I will ask a couple of questions about the low educational attainment. For me, education is very much the silver bullet to fix most of society's ills. It is a way for people from tough backgrounds to do well. It really is a great way to go about it. When I was thinking about this, it struck me that four of my cousins, funnily enough, are from just across the Border from me in south Armagh. All four went to university in the UK and ended up working there for a long time. None of those four are actually in Northern Ireland now. That really struck me. One looks at that and asks what we must do to try to get those people back into Northern Ireland. Is it a case where the Northern Ireland Executive or societal sectors in Northern Ireland, must ask people to come back to help rebuild Northern Ireland, a bit like we did here in the Celtic Tiger years? We saw it was really taking off and everyone who had emigrated in the 1980s wanted to come back and play a part. We need a clear message around why it is important for graduates to come back to Northern Ireland and play a part.

I wish to discuss two final points. In their conclusions, Professors FitzGerald and Morgenroth asked how Northern Ireland can effectively address its productivity gaps. That is my question on the issue. They said in their opening statement that Northern Ireland's expenditure per head is 120%, which is actually much higher than the rest of the UK. They estimate that subvention would still be needed in the context of a united Ireland. At the same time, they said that if the transfer had to come from central government in Dublin, it would be a substantial long-term burden on the standard of living of those in the Republic of Ireland.

For want of a better question, what can Northern Ireland do to get itself into that kind of position where it can address its productivity gap? I do not mean to say this in a simplistic manner. My simplistic view from looking at the witnesses' statement, however, it is that on one hand, it relies massively on funding coming from London and on the other hand, if that were to continue, it would rely on funding from the Republic of Ireland. Essentially, what can Northern Ireland do to address that productivity gap?

I will return briefly to the issue of what we are doing in my part of the world with the M1 corridor, which is something the Chairman will also know much about. The concept of the M1 corridor is to promote the entire region from Dublin right up to Belfast. It is an investment-ready region with 35% of Ireland's workforce and one third of the population. It is a really good area to attract jobs and investment. Perhaps, however, it does not have the same level of promotion it should be getting from both the Government here and in Northern Ireland. Do the witnesses believe a real way forward to advance the economic integration of this island is by promoting such types of regions right across the world to bring businesses here?

Chairman: Before the witnesses answer those questions, we have a slight difficulty with time. We must be out of here by 3.30 p.m. We have no choice as the room must be sanitised in an appropriate way before the next group comes in. We have very little time left. I hope to take the next speakers in the order of Sinn Féin, Fianna Fáil, SDLP, Alliance and Fine Gael. We might squeeze them all into ten minutes or less and allow our speakers then our guests to come back in. I appreciate I am asking a lot. We will try to take the contributions and then get the answers altogether, if that is respectful to everybody. I will take Sinn Féin first. I understand Ms Michelle Gildernew wishes to speak.

Ms Michelle Gildernew: I thank the Chairman. Senator Ó Donnghaile will also come in with a question.

Chairman: I want to try to get everybody in by rotation so there is no problem. I will, however, taking them as I outlined, which is fair to everybody.

Ms Michelle Gildernew: I will be brief. I welcome Professors FitzGerald and Morgenroth. Today's discussion has been a useful and informative and we must take cognisance of what they have said. I accept it is a partial analysis. There are differences, certainly, between the experiences in West and East Germany, for example, and here. We already have an integrated economy in Ireland. There are two ex-agriculture Ministers in the room and we know how fully integrated the agriculture and agri-food sectors are but this also is the case in terms of manufacturing and other things. It is also helpful that we now have a higher education alliance which will help to be transformative across the island.

The witnesses mentioned the issues around higher and further education. We recognise that County Fermanagh has a high level of students with A levels but a low level of graduates who work there. Notwithstanding the huge issues in attracting foreign direct investment, FDI, namely, our local broadband and roads infrastructure, we do not manage to hold onto all those graduates. That is certainly a problem for the economy.

I particularly want to ask, however, the witnesses' thoughts on the views of Mr. David McWilliams, who recently spoke about how the combined GDP of the Southern and Northern economies could absorb the subvention. Obviously, we would have priorities that would not necessarily be in parallel with those in Britain. One of the things that the subvention does not do is to look into the tax take, etc., that big multinationals enjoy in the North. The revenues of the likes of Asda, Tesco and Sainsbury's supermarkets are not counted as part of our overall revenue; those moneys are counted where the companies are headquartered. The point I want to make is that the economies in the North and the South could absorb the subvention even "before the commercial dynamism of unification kicks in", to quote from David McWilliams. What are the witnesses thoughts on that? I am going to leave time for Senator Ó Donnghaile to ask his question. I appreciate the witnesses being here.

Chairman: There is not enough time. I will bring in Senator Ó Donnghaile later but I must take representatives from Fianna Fáil now. The time allocated for our meeting has run down. Every party must be treated fairly and equally. If Fianna Fáil wants to make a contribution, followed by the SDLP and the Alliance Party, then Sinn Féin followed by Fine Gael, if we can fit them all in.

Deputy Brendan Smith: I have a very brief question to put to Professors FitzGerald and Morgenroth. We have seen the all-Ireland economy grow, thankfully, due to the Good Friday Agreement and the new structures that were put in place. With the fallout that there will be from the Covid-19 pandemic and, in particular, Brexit - no matter what type of Brexit occurs - what would our guests advise the Government about making investments in the economy on an all-Ireland basis? What would they recommend as a major type of investment in human capital and in physical infrastructure that could help to mitigate the effects of the pandemic and Brexit, particularly in the less developed regions of our country, such as the central Border area?

Chairman: I will take a contribution from the SDLP, followed by the Alliance Party. I am sorry about all this but time is limited.

Ms Claire Hanna: I squeezed three contributions into my previous contribution so in the interests of time, I am happy to forgo my turn and let someone else have a crack.

Chairman: If the representative from the Alliance Party wishes to speak, he may.

Dr. Stephen Farry: I am the same as Ms Hanna in that I am happy to move on.

Chairman: That takes us back to Senator Ó Donnghaile. Our guests have been very helpful.

Senator Niall Ó Donnghaile: That is handy. I thank my fellow “Nordies” for their assistance. I will also be brief and will just make a couple of points and observations. The primary point is to welcome this discussion at the committee because it gives it the authority and where-withal that it needs. That is warranted because of the live and numerous discussions that are taking place on this issue all around us and within our society.

I take the point that Senator Blaney made earlier but there will always be disagreement about some of the language because there are divergences of opinions on this matter. I always like to remind people that when we are talking about the economics of constitutional change down the line that, if we treat the Good Friday Agreement as our bedrock, as I believe we always should, the agreement did not settle the constitutional question, it asks us the question. That is an important point to remember.

Our witnesses’ submission refers to research carried out and published in the paper The Northern Ireland Economy: Problems and Prospects. I understand that the paper was first published in a Trinity economics working paper in July last year. I wonder whether it was peer reviewed.

Our witnesses’s submission refers to research carried out and published in the paper The Northern Ireland Economy: Problems and Prospects. I understand that the paper was first published in a Trinity economics working paper in July last year. I wonder whether it was peer reviewed.

I second the proposal outlined by my colleague, Deputy Conway-Walsh, at the beginning of the meeting. I think there is great merit in inviting a series of economists and academic figures in to contribute on this matter. Some of those people who have already been referenced this afternoon could really assist this committee in its work and the broader dialogue.

Chairman: On that point, we have a list of our proposed work programme which we will give to the Senator.

Senator Niall Ó Donnghaile: Perfect. I appreciate that.

Senator Emer Currie: I thank Professors FitzGerald and Morgenroth. It has been an interesting conversation and I could literally listen to them all day. I am reflecting on what Professor FitzGerald said about changing dynamics. When I grew up in Tyrone, we felt our roads were much better than the ones in the South of Ireland. I am showing my age in saying that. There have been shifting fortunes. I am also thinking about the Butler Act and the impact it had on the Catholic community in the 1950s with access to secondary and third-level education. Here we are now talking about the legacy of the eleven-plus that I did and having to fix secondary schools in order to offer equal opportunities. I very much welcome the focus on that today.

I find the report incredibly interesting in terms of a united Ireland. I am wondering about the costs of not prioritising reconciliation, duplication, as the professors have pointed out, and the brain drain. I also wonder about things such as mental health. It is great that we have the

paper and research into the cost of a united Ireland, but I am wondering about the cost of not prioritising reconciliation. We have not had a great couple of weeks in that regard. I would not mind hearing the professors' thoughts on that.

I have two other quick questions about women's participation. How does it differ between North and South at the moment in terms of the labour force? There is, at the moment, double taxation on remote working. It has been removed for the pandemic, but there is a double taxation if one works in the North but lives in the South and has to work remotely. The professors have talked about the opportunity for an all-island economy. How do they think that could work? Might people be able to work in Belfast, for example, but live in Bantry, if more companies go further in terms of remote working? Would that have a positive effect on the all-Ireland economy?

Chairman: We have about ten minutes left for our guests to address some of those issues. I ask the members of the committee that if they have any further suggestions for speakers in the coming weeks, in addition to those they have already submitted, or other issues, they should let the clerk know and he will follow them up and make sure that invitations issue.

Professor John FitzGerald: The paper was originally a Trinity economic draft paper and was not peer reviewed at the time. It is now being published and has been peer reviewed. That is a part of the process. We felt it was worthwhile getting it out there to get comments and that is normal in the academic world. It has now been extensively reviewed and will appear in a journal this winter.

The first question related to third level education and graduates leaving the country. The proportion of A-level students in Northern Ireland who go to university in Britain has increased because of constraints on third level funding in Northern Ireland. That is lethal. People form their social networks and expectations when they are doing an undergraduate degree and the chances of getting them back are far slimmer once they have gone to Liverpool Brookes University, formed their friendships and whatever. That is why two thirds of the people who go to Great Britain for university never come back. The problem with putting more resources into third level in the North is where are they going to come from? That may be a priority.

Education is the key to addressing productivity. Ms Gildernew, raised the question about absorption of the cost of funding Northern Ireland and we looked at that in the paper. It would be the equivalent of the financial shock to Ireland in the 2008 to 2010 period. That is the kind of magnitude we are talking about. It is very large. That is why it is so important to deal with the productivity problem in Northern Ireland which gives one the choice. I will leave the politicians to ask what the reaction would be to that.

Deputy Brendan Smith asked about investment post Covid. Wearing my climate change hat, I would like to see significant State investment in retrofitting. In particular, we said that this should begin in rural areas or outside of Dublin where people are using oil or coal. The case is similar for Northern Ireland. We could learn from the Housing Executive. We have been saying all of these things and indicating where Northern Ireland could do better. Where the Republic could do better is on social housing and management. We could learn from the Housing Executive. In terms of the green deal, jobs and regional balance, investment would help.

Senator Currie asked about reconciliation. It is the soft things that make economies successful. Twenty years ago I had to talk with the then Tasmanian Prime Minister about the Celtic Tiger. I gave him the usual spiel about education, corporation tax and so on. At the end, he

asked a very good question regarding what role Irish music played in the Irish success story. I was stumped. Professor Morgenroth touched on this in terms of Galway. Why is Galway the success story in Ireland and Waterford the failure? Galway has two successful theatre groups. Belfast City has picked itself up in the past 20 years. Making somewhere an attractive place in which to live is at least as important as anything else. I am not an expert on that. I stick to discussing the economy.

Professor Edgar Morgenroth: Yes, that last point is really important. Westport is one of the most remote towns on the island yet it is a thriving place and not just because of tourism. Westport does not have a motorway or anything like it so it is not the infrastructure. It is the quality of life. Graduates like a good quality of life. That is something Northern Ireland can really look to. Northern Ireland is a fantastic place. I live in south County Monaghan, which Deputy Brendan Smith knows, and I can see south Armagh from my house. I regularly, when allowed, cross the Border to visit the Mountains of Mourne, etc. There are some fantastic places in Northern Ireland. That is something to actually use. It is something Northern Ireland has and nobody can take it away. It is there - make the best of it. That is one investment that people in Northern Ireland will not regret either. I have already mention education and good quality of life. If it is going to have to be physical infrastructure, then, as Professor FitzGerald quite rightly pointed out, there must be a focus on retrofitting and environmental infrastructures. If it is going to have to be something more conventional, then broadband is where I put the money.

Chairman: As I understand it, broadband is ubiquitous in the North and every community has high-speed broadband.

Professor Edgar Morgenroth: Yes.

Chairman: The situation is completely different in the South. Many people are unaware that every community in the North has high-speed broadband. It is a huge piece of infrastructure that gives a great advantage to small and big businesses.

Ms Michelle Gildernew: Can I clarify the position in that regard? Every exchange has been enabled for broadband. However, the further one is located away from the exchange, the less likely it is that one will have broadband or a decent speed. That is the difficulty.

Chairman: It is fibre to each cabinet.

Ms Michelle Gildernew: Yes. I want to outline what many people need-----

Chairman: I do not want to have a row with Ms Gildernew on this point. In the South, we do not have fibre to every cabinet as is the case in Northern Ireland. In more report areas, obviously there is copper wire after that. Northern Ireland has a massive advantage in this regard and I would not gainsay it.

Deputy Brendan Smith: I hope that when we return to normal times in the new year and our meetings are not as restrictive, both Professor Fitzgerald and Professor Morgenroth will come back for a further detailed discussion.

Chairman: Yes.

Deputy Brendan Smith: It is heartening for all of us that a vaccine has been rolled out in Northern Ireland and Britain today.

Chairman: Hear, hear.

Deputy Brendan Smith: We wish those people every success with that valuable and important work which got under way this morning. The best of luck to all involved.

Deputy Rose Conway-Walsh: Each of the pieces in the papers would deserve to be the subject of an entire.

I need to comment on life in the west. A vivid picture of Galway has been painted, with which we are delighted but which belies the lack of investment in the western rail corridor, Ireland West Airport in Knock, broadband and several other infrastructure projects. I like that Professor Morgenroth alluded to Westport. However, the Western Development Commission has shown that Westport is one of the towns most vulnerable to Brexit.

Young people are always asking me how will we meet our zero-carbon rates and deliver on the green economy if the island remains partitioned. Young people just see that and it drives their desire for a united Ireland. They do not want us to lose the opportunity to tackle climate change on an all-island basis.

Chairman: One of the good things to come from the Good Friday Agreement was an investment in the rail and roads infrastructure, which has helped public transport.

I thank our guests for their time, knowledge, insights and wisdom. Their papers very much deserve consideration and debate so, please God, we will meet again. The committee will spend the remaining five minutes in private session to discuss essential business.

The joint committee went into private session at 3.26 p.m. and adjourned at 3.30 p.m. until 2 p.m. on Thursday, 14 January 2021.