

Joint Committee on the Implementation of the Good Friday Agreement, 23rd May 2024

Let me begin by thanking the Chair for the invitation to the ESRI to appear before the Committee and for the opportunity to discuss ESRI work comparing the economies of Ireland and Northern Ireland. I am Prof. Seamus McGuinness and I am joined by my colleague Dr. Adele Bergin.

Together we have been producing comparative research on the economies of Northern Ireland and Ireland for several years. This research journey began with a study on potential constitutional change, published in 2019 in the *Cambridge Journal of Economics*, in which we provided an initial assessment of key economic issues relevant to a border poll on Irish unity. In that study, we demonstrated Northern Ireland's poor economic performance relative to Ireland and hypothesised that this is likely to be due to lower levels of productivity, a widening gap in educational attainment, lower intensity and poorer quality FDI, and lower levels of export orientation. Since then, we have engaged in research that builds and informs several of these topics, and below we present summaries of the research on living standards and overall economic performance, productivity and education.

Others engaged in the debate on future constitutional change have focussed on the implications of the performance gap between the Northern Ireland and Republic of Ireland economies on the size of the fiscal subvention to Northern Ireland and the capacity of the Irish state to absorb this sum in a united Ireland. While clearly this is an important issue, we have sought to broaden the discussion. Specially, our research has focussed on identifying the factors that give rise to the situation whereby the UK government must support Northern Ireland to the degree reflected in the scale of the subvention estimates. A natural follow on from this is to ask, are there policies which could improve the economic performance of Northern Ireland whereby the scale of the subvention would fall over time to a point where it was less relevant in any discussion of constitutional change. It should be noted that irrespective of constitutional change, policies which can potentially yield economic gains to Northern Ireland should be explored and implemented. However, it is also our view that policies aimed at narrowing the productivity gap between Northern Ireland and Ireland should form an integral part of any planning for future constitutional change.

Research findings on living standards and overall economic performance

There is an emerging body of research pointing to the existence of substantial gaps in economic output and living standards between Northern Ireland and the Republic of Ireland. For example, GNI* per capita in Ireland was around 51 per cent higher than GDP per capita in Northern Ireland in 2018.

Other metrics also point towards higher living standards in Ireland relative to Northern Ireland. OECD data showed a gap in household disposable income of 12 per cent in 2017, in favour of the Republic of Ireland. In addition, the proportion of individuals at risk of poverty in Northern Ireland was 14.3% compared to 8.9% in Ireland.

An overarching measure that captures overall differences in living standards is life expectancy. For 2020, OECD data reveal that life expectancy at birth for males and females in Ireland exceeded that of Northern Ireland by 2 years. A broad range of factors including income, education and access to healthcare services will together determine life expectancy in a region. As such, differences in life expectancy across countries can be interpreted as a cumulative measure of differences in general welfare and living standards.

Research Findings on Productivity

The poor performance of the Northern Ireland economy, relative to both the economies of Ireland and British regions, has been previously linked to its relative low productivity levels. Productivity is measured as the value of goods and services produced per worker and is a key performance metric. While productivity levels were broadly similar in 2000, over the period 2001 to 2020 productivity in Ireland increased by 0.2 per cent per annum and fell by 1.1 per cent per annum in Northern Ireland. By 2020, productivity levels were approximately 40 per cent higher in the Republic of Ireland compared to Northern Ireland.

Our research showed sectoral productivity in the Republic of Ireland increases with the share of educated workers employed and with levels of investment. For example, with respect to education, our models suggests that a 1 per cent increase in the share of graduates employed generates a 1 per cent increase in sectoral productivity. The research also finds that export intensity is an important factor in driving Irish productivity. Lower levels of educational provision and investment are important for understanding the current gaps in productivity between the two regions. Our research indicates that the level of productivity in Ireland would be around 50 per cent lower if the country had the same levels of investment and education as Northern Ireland.

However, despite using comparable data sources and the same methodology, we do not find evidence of causal relationships between the usual factors that drive productivity (education, investment, exports etc) and Northern Ireland productivity. This apparent lack of evidence on the relationships between productivity and the usual drivers for Northern Ireland suggests that productivity in the region has historically been relatively unresponsive to single policy levers, such as changes in education and skills provision. Our analysis suggests that a comprehensive strategy is needed aimed at improving underlying competitiveness among Northern Ireland firms, reforming education and skills provision, and increasing investment in an integrated way. A more integrated approach to economic policy making that is strongly co-ordinated across government departments is also required.

Research Findings on the education and training systems of Northern Ireland and Ireland

In 2022 the ESRI published the first major comparative study of education and training systems, Northern Ireland and Ireland. Key findings emerging from the study were that levels of educational attainment in the Northern Ireland are lower than those in Ireland, with a higher share of the population possessing lower levels of schooling. At the upper end of the qualification's spectrum the proportion of people with third-level qualifications are similar in both regions. However, Northern Ireland has only a relatively small proportion who complete a post-secondary, non-third level qualification compared to Ireland where Post Leaving Certificate (PLC) courses have become more popular. Ten per cent of the population in Northern Ireland has this level of qualification, which are typically highly vocational in nature, compared to 30% in Ireland. At the other end of the spectrum, early school leaving is two to three times higher in Northern Ireland compared to Ireland and this gap has widened over time. The proportion of 16-24-year-olds who leave school with at most a lower secondary qualification is 14% in Northern Ireland compared to 6% in the Republic of Ireland. This is concerning as early school leavers are more likely to be non-employed or work in low wage and potentially insecure jobs later in life. At all levels of qualification, wages are around 40% higher in the Republic of Ireland than in Northern Ireland.

Social class is a much stronger predictor of educational failure in Northern Ireland and the ongoing use of academic selection is likely to strengthen this adverse effect. During the course of extensive interviews and workshops with key stakeholders in both jurisdictions, there was a strong consensus that continued academic selection was generally damaging to social progression through education in Northern Ireland. In Ireland, the Delivering Equality of opportunity In Schools (or DEIS) programme was thought to have been very effective in lowering social inequalities and improving the outcomes of children from lower income groups.

More recent research has found evidence of educational downgrading in both regions, whereby a person's educational attainment actually falls below that of their parents. The extent of educational downgrading among young people was approximately 17% in both jurisdictions. On the other hand, 38% of young people in the Republic Ireland exceeded their parents' level of education compared to 29% in Northern Ireland. Given the low levels of education in Northern Ireland among older cohorts we might have anticipated educational upgrading to be more prevalent in Northern Ireland. The continued use of academic selection in Northern Ireland was again identified in our research to be a contributory factor limiting the extent to which the educational system in Northern Ireland facilitates intergenerational educational and earnings mobility.

Other North/South research undertaken by the ESRI

As part of our research programme with the Shared Island Unit, the ESRI has also undertaken research and published reports on topics such as primary healthcare, Foreign Direct Investment, childcare, migrant integration, cross-border trade in services, housing supply, student mobility, social and political attitudes and gender dimensions to the labour market. We do not have time in this opening statement to discuss all of this work, but we can try to answer questions from the Committee.

Concluding Comments

To conclude, much discussion about possible constitutional change on the island of Ireland returns to questions relates to the fiscal capacity of Ireland to absorb Northern Ireland. Much of the ESRI research mentioned here questions the assumptions and analysis underpinning these perspectives. To the extent that the subvention to Northern Ireland from the UK reflects poor economic outcomes which in turn are related to sub-optimal policy, a reduction in the subvention can be achieved (and should be) through improved policy.