Response to ‘Modelling productivity levels in Ireland and Northern Ireland’

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Productivity is key to an economy’s long-run performance. Higher productivity drives higher wages, and ultimately better living standards. The UK’s productivity growth has stagnated over the past decade, with large regional disparities. Of the UK’s twelve regions, productivity is lowest in Northern Ireland, at around 17 per cent below the UK average (Jordan, 2022).

Despite this clear picture of Northern Ireland’s underperformance within the UK, we know relatively little about how productivity compares across the island of Ireland. This report by Bergin and McGuinness, into productivity levels in Ireland and Northern Ireland, makes an important contribution to answering this question across three main areas.

Firstly, the report furthers our understanding of the scale of North-South differences in productivity. Measuring Ireland’s productivity is complicated by the distortionary effect of large multinationals. The authors’ approach of excluding sectors with high concentrations of multinationals helps address this problem. While an effect from multinationals may remain across some sectors, productivity in Northern Ireland lags across 14 of the 17 comparable sectors, demonstrating the widespread existence of low productivity. The overall productivity gap to Ireland is found to be 40 per cent. This partly reflects a differing industrial structure, but relatively similar sectoral employment shares emphasises the importance of within-sector productivity failings for Northern Ireland.

Secondly, the report offers a new perspective on Northern Ireland’s low productivity and its causes. The finding that Northern Ireland experienced a real terms decline in productivity since 1998 is concerning. Total employment in Northern Ireland has increased during this time, and has been stronger than most other UK regions (ONS, 2022), but this has not been matched by growth in output. That the econometric model for Northern Ireland contains few variables reaching statistical significance, and with a negative effect of greater graduate employment on productivity, supports the authors’ view that the underlying competitiveness of Northern Ireland’s economy is weak.

Thirdly, the report highlights the scale of the challenge in raising productivity in Northern Ireland. The statistically significant econometric results for Ireland, but not for Northern Ireland, suggests the two economies are not currently functioning in the same way. As the authors conclude, the failure of Northern Ireland’s economy to respond positively to increases in education, investment, and export intensity, suggests that other barriers to productivity growth exist. Until we fully understand the extent of these other barriers, there may be limited potential for policy lessons to be applied from Ireland or elsewhere.

As the report notes, there are a variety of potential explanations for Northern Ireland’s low productivity. Previous research has examined some of these in isolation, and the evidence supports a combination of factors being relevant, including: economic structure, peripherality, capital and investment, human capital, infrastructure, public policy, and institutions and governance (Jordan and Turner, 2021).

The report suggests improving skills at post-secondary level, rather than just at graduate level, as a key way to raising Northern Ireland’s productivity. This aligns with evidence that Northern Ireland’s ‘brain drain’ of graduates is no longer as severe as it once was, with a recent rise in the proportion of the workforce with a degree (UUEPC, 2022). The failure of this to translate into improved productivity suggests other aspects of human capital may now be increasingly important, including the workforce having appropriate skills, and the potential existence of a management skills gap for firms.

The legacy of The Troubles provides another potential explanation. Public expenditure was used to stabilise Northern Ireland's economy, with policymakers balancing economic and non-economic considerations (Brownlow, 2013). However, weaknesses in Northern Ireland's economy pre-date The Troubles (Ó Gráda and O'Rourke, 2021). While the resulting large public sector has been suggested as a barrier to productivity growth, it has also been argued that the effectiveness of policy is more important (Brownlow and Birnie, 2018). The legacy of The Troubles may be greatest for individuals: long-term health problems, such as post-traumatic stress disorder, have been linked to lower productivity at work (Ferry *et al.*, 2015).

Policy and institutions may provide the best explanation for Northern Ireland's persistently poor productivity. Past policy misdiagnosed problems, with subsidies poorly targeted, and Northern Ireland less successful than Ireland at attracting FDI (Brownlow, 2020). Improving productivity has often been an aspiration of policy rather than a measure of outcomes (Jordan and Turner, 2021), and policy has also been criticised for operating in silos (Nelles *et al.*, 2020).

Overall, this report supports the view that there is no single cause of Northern Ireland's low productivity. Greater understanding of the barriers to productivity growth is therefore needed if Northern Ireland is to emulate Ireland's success.

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