

0201/9 25/9/91

02/6 24/9/91

07110 Circular to AMB -

cc Secretary
Mr Hunter
Dr Harbison
Mr Hylton
Mr Frew

You may wish to see. I would be happy to take on board any comments you may have - before 9 October please.

[Signature]
24/9/91

John V R. Johnson

- 1. Mr Conliffe
- 2. Mr Gray
- 3. Mr Thompson
- 4. Mr Keenan
- 5. Mr Dawson
- 6. Return to Mr Johnsto: TO: ESG MEMBERS

ECONOMIC IMPACT OF THE NORTHERN IRELAND CONFLICT ESG (91) 7

1. The Secretary of State has been examining a selection of previous studies on the above topic and has expressed an interest in undertaking an up-to-date review of the subject.
2. As a result, Economics Division has had a preliminary look at most of the the literature in the area and identified the key issues and methodological problems involved. A copy of their report is attached.
3. Central Secretariat has indicated that it would welcome any comments that ESG Members might have on the attached, before forwarding it to the Secretary of State.
4. The attached report has therefore been added to the agenda for the next meeting of ESG on 9 October 1991. Any views that Departments wish to register can be taken into account on that occasion.

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ESG SECRETARIAT

23 SEPTEMBER 1991

ECONOMIC IMPACT OF THE NORTHERN IRELAND CONFLICT: A REVIEW OF THE EVIDENCE

Introduction

In response to the Secretary of State's interest in having an up-to-date review of the above, this note has been prepared with the aim of extracting from the available evidence the main issues involved in assessing the economic consequences of the conflict. The note is structured as follows:

- (i) Section 1 briefly discusses the literature on the subject
- (ii) Section 2 critically evaluates this literature and the methodological approaches which have been adopted to estimate the costs of the Troubles

Section 1

1.0 The studies that have been previously undertaken in this area (listed in Annex A) are characterised by the variety of methodological approaches employed and there are wide-ranging differences in the scope of the respective studies. As a result the final estimates of the economic impact of the Troubles are wide-ranging and are expressed in a variety of measures such as GDP foregone, numbers of jobs lost, the adverse public expenditure consequences etc.

1.1 An added complication is that the lack of a common denominator, in many instances, complicates comparative analysis. A couple of examples may serve to illustrate the above points. **Gibson (1987)**, taking a macro-economic type of approach, finds that the conflict had a distorting effect on the Northern Ireland economy but also concludes that for Northern Ireland:

".....unemployment and the growth of the economy may in actuality have been little different from what they would have been if there had been no crisis."

Conversely, Davy, Kelleher and McCarthy (DKM) 1990, taking a different approach; estimate that.

"..... the continuation of violence in the North costs the Exchequers of the two countries (ie Northern Ireland and the Republic of Ireland) an estimated IR£436 million per annum."

1.2 Some common ground is found, however, if the focus of search is severely restricted. For example, many of the studies come to quite similar conclusions as to the numbers of jobs lost in manufacturing industry during the 1970s and 1980s as a direct result of the Troubles. The consensus would appear to be that around 20-25,000 jobs had been lost by the end of the 1970s with a further 15-20,000 lost by the end of the 1980s.

1.3 Annex B provides, in tabular form, an overview of the scope and findings of the main studies in this area while Annex C provides a more detailed discussion and evaluation.

Section 2

2.0 The limitations of the various studies reviewed partly reflect the intractable nature of the subject matter, with some of the important costs associated with the Troubles difficult or even at times plainly impossible to measure. Most of these costs relate to the indirect effects of the Troubles, such as:

- the deterrent effects on inward investment

- delays in or prevention of plant modernisation at local level
- difficulties in attracting and retaining key managerial and technical staff

To date, none of the above examples have been costed in any detailed manner nor have their labour market and other economic impacts been fully evaluated. This is not surprising since it would be difficult to capture these costs without the aid of detailed surveys and precise targeting methods.

- 2.1 The studies listed in Annex A were reviewed with the dual aim of discovering if any identity in approach could be discerned or if any useful techniques were used in estimating the costs of the NI conflict.
- 2.2 The previous attempts divide roughly into two camps: one may be termed the Macro-economic approach and the other the Public Expenditure/Exchequer cost approach. For simplicity they are subsequently referred to as the Macro and the PE approaches and are dealt with below.

Macro Approach

- 2.3 The technique used here involves selecting from a number of key macro-economic variables such as Gross Domestic Product, unemployment and employment. The "Actual" growth path for one or more of these variables, dating from the onset of the Troubles to a specified date, is then plotted. An "Expected" growth path is then calculated (ie one which would have occurred in the absence of the Troubles) over the same period. A simple subtraction of "Actual" from "Expected" yields a rough estimate of the cost of the Troubles, in terms of GDP foregone etc. The crude result/figure is sometimes adjusted to allow for the impact

of random influences (specific policy measures or economic events) that have affected the economy during this period. The technique can be further refined by using a "Shift-Share" analysis to allow for different industrial mixes between Northern Ireland and any comparator region/country.

- 2.4 The attractions of this approach are that the data requirements are not large and its speed and ease in generating cost estimates. There are a number of fundamental difficulties however, not least of which is the problem of disentangling the effects of the Troubles from other factors affecting the economy simultaneously and even disproportionately - for example, oil price shocks. One remedy is to select a comparator region/country and to assume that the economic relationships prevailing before the onset of the Troubles continued thereafter. Again, any difference between what actually occurred to the economic variable(s) chosen and what might have been expected, in the absence of the Troubles, is reckoned to be the cost of the Troubles. The choice of region/country, however, is problematic - previous attempts have included, GB, Scotland, Wales, North England and Leicestershire. An additional difficulty stems from the fact that it is necessary to assume that economic relationships remain constant over time.

PE Approach

- 2.5 This technique, used largely to date by ROI commentators, attempts to quantify the cost of the Troubles by examining the trends in and disposition of public expenditure (PE) before and after the start of the Troubles. The PE costs are usually split into direct and indirect costs. The former mainly comprises expenditure on the Army, police, prisons and court services. Compensation costs are also

included. Indirect costs mainly relate to unquantifiable costs, such as the inconvenience to business and disruption to "normal" life caused by bomb scares, checkpoint delays etc.

- 2.6 In contrast to the macro approach, the PE method operates on a more detailed level and quantification is, of course, in monetary amounts. The technique and outcomes are therefore readily understood and the required data are usually available in published form. However, a similar problem found in the macro approach is again encountered; namely having to make assumptions about what might have been the public expenditure consequences in the absence of the Troubles. The PE approach also encounters the problem of the unquantifiable nature of many of the indirect costs.

Other Considerations

- 2.7 Both of the approaches above have at times been supplemented by a sectoral analysis of the economy ie an investigation by sector of the economic impact of the Troubles. The sectors commonly chosen include energy, transport, tourism and manufacturing industry. Again, the sectoral impact is frequently difficult to measure and, in the absence of detailed survey-based information assumptions need to be used.
- 2.8 It is also worth noting that some of the studies are not strictly confined to investigating the economic impact of the Troubles. These mention, but rarely quantify, the social dimensions. These aspects would include the psychological distress induced in the NI population as a result of the Troubles; the impacts on health, education etc.
- 2.9 In addition to the social dimensions, there are a number of other hidden effects that have never been fully discussed or

enumerated. One example is the adverse economic impact resulting from higher than expected levels of net migration from NI as a result of the Troubles, particularly during the early 1970s.

- 2.10 All of the above areas have been relatively unexplored in detail and any further review should consider to what extent and at what cost they might be included.

Summary of Costs

- 3.0 Bearing in mind all of the caveats mentioned above, the following represents a synoptic view of previous estimates of the costs of the Troubles.

Macro-economic costs

3.1	(i) Employment	Jobs lost/gained
	- Manufacturing	-35-45,000
	- Public Sector (security and related)	+15-24,000

The net effect on total employment, however, ranges widely and from positive to negative.

(ii) Unemployment and GDP

Only one study (Gibson 1987) examines the impact on these variables and finds that they have been largely unaffected by the Troubles. As regards GDP, however, its composition is likely to have been altered and the emerging imbalance between the public and private sectors might in turn have reduced the local economy's potential to achieve self-sustaining economic growth.

Public Expenditure Costs

- 3.2 As a broad order of magnitude, the UK Exchequer has had to bear additional annual costs of some £500-550m (at 1990 prices), primarily in security and related expenditure.

Sectoral Costs

- 3.3 The Troubles have cost the NI tourism industry about £20-25 million (1990 prices) per annum since 1969. The costs to the energy sector are put at about £1 million (1990 prices) per annum.

Conclusions

- The studies previously undertaken in this area exhibit wide-ranging differences in their scope and findings.
- There is also considerable diversity in the methodological approaches taken to estimate the costs of the Troubles. A lack of consensus exists as to the correct method that should be adopted. On balance, no single approach seems to offer any clear advantages over its rivals.
- All previous approaches have had to contend with the fundamental difficulty of not knowing precisely what would have happened to the Northern Ireland economy in the absence of the Troubles.
- Many of the costs associated with the Troubles are practically unquantifiable, especially those which have social dimensions.
- For all of the above reasons, any future study, is unlikely to provide significant improvements on the costs mentioned in the summary above.

- Some progress might be made by undertaking detailed analyses at the microeconomic level but these are likely to be time-consuming, expensive and marginal in terms of any additional accuracy secured.

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