

FORUM FOR PEACE
AND RECONCILIATION



FÓRAM UM SHÍOCHÁIN
AGUS ÁTHMHUINTEARAS

Consultancy Study

Social and Economic Consequences of Peace and Economic Reconstruction

1. This Consultancy Study was commissioned from a consortium led by KPMG Management Consulting and was presented to the Forum for Peace and Reconciliation at its meeting on 14 July 1995. The views expressed in it are those of the authors and are not necessarily those of the Forum or of its members.
2. You will find attached a copy of the presentation made to the Forum by the consultants. A final version of the Study, incorporating a number of minor additions and amendments, will be published in mid-late August. In addition, the Forum intends at a future date to publish its response to the Study.

Forum Secretariat
17 July 1995

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AND RECONCILIATION



FÓRAM UM SHÍOCHÁIN
AGUS ATHMHUINTEARAS

STUDY ON SOCIAL AND ECONOMIC
CONSEQUENCES OF PEACE AND ECONOMIC
RECONSTRUCTION

PRESENTATION, DUBLIN CASTLE

14 JULY 1995

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Terms of Reference

- Impact on public finances and expenditure
- Effect on patterns and levels of investment and economic activity
- Implications for levels of employment
- Role of international support
- Issues of Para 11 of Forum Paper, eg
 - disadvantage
 - inequality
 - social inclusion
 - those affected by violence



Agenda

- Introduction
- The Economic Context
- The Impact of Peace
- Wider Socio-Economic Issues
- Conclusions
- Discussion



Some Comparative Statistics

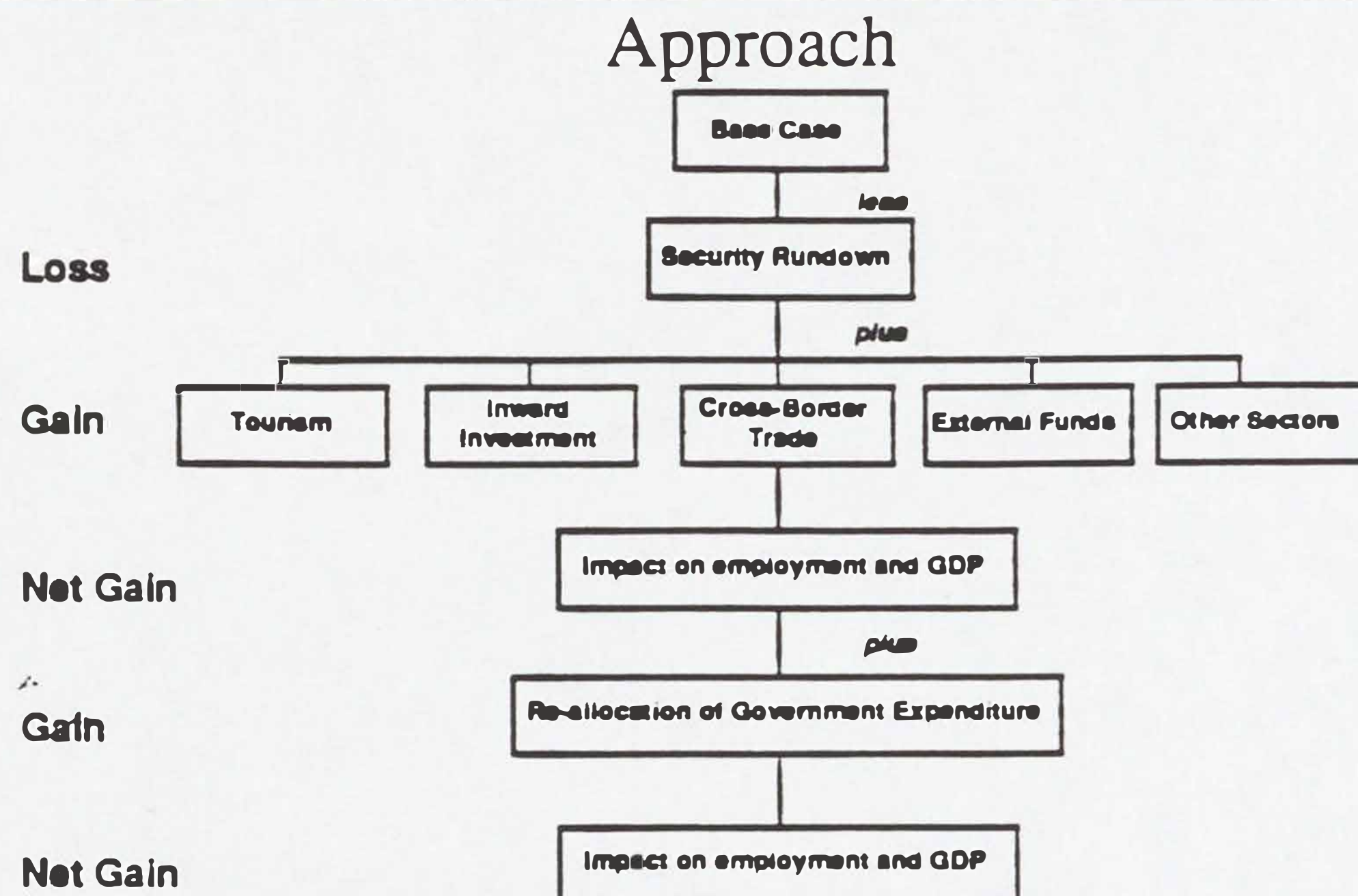
	<i>South</i>	<i>North</i>
GDP (£bn)	32.3	14.7
GDP/head (£'000)	9.1	9.1
GDP/head (EU=100)	81	81
Population	3.57	1.63
Employment	1.18	0.63
Employment Rate (%)	52	62
Public Sector %	24	32
Unemployment ('000)	221	88
Unemployment (%)	15.8	11.7
Tourist Visitor numbers ('000) (1993)	3,800	1,260
Total Employment in Inward Investment (87/93)	12,000	1,700
Economic growth projections:		
1994 - 1999 (ESRI)	4.1	3.9
1999 - 2004 (NIERC/OEF)	3.9	2.4



The Border Sub-Region : Some Indicators

	<i>Border</i>	<i>South</i>
<i>Population ('91)</i>		
– Density	33	51
– Pop 86/91 (% pa)	-0.38	-0.08
– Age Structure (% 20-64)	49	52
<i>Wealth Indicators ('93)</i>		
– Vehicle Ownership	221	243
– House Completions/1000	5.6	6.3
<i>Social Welfare & Unemployment (1994)</i>		
– Recipients per '000	391	368
– Unemployment Rate %	14.7	14.2
– Long Term Unemployment	15.8	13.8





Scenario 1 - Ceasefire (CF)

- Slow run-down in security numbers & expenditure
- Initial wariness among investors and tourists
 - *wait & see* attitude
- Modest injection of external funds
- Private sector cross-border initiatives continue



Scenario 2 - Peace and Political Agreement (PPA)

- Decisive progress towards a political settlement
- Investment decisions without risk premium
- Faster return to normal security levels
- Potential increase in external funds
- Higher level of private sector cross-border activity
- Any potential benefit from cross-border co-operation realised sooner
- Lower degree of incentives required



Overall Security Expenditure

- Law, Order & Protective Services Budget
 - Police £593 m
 - Prisons £145 m
 - Compensation £121 m
 - Other £69 m
- Army Expenditure
 - Extra Cost of being in the North £510 m
- Total £1,438m



Security Rundown

	Present	Scenario 1 (CF)	Scenario 2 (PPA)
Police Staff	16,400	10,950	8,600
Prison Staff	3,100	2,800	2,100
Royal Irish Regiment	5,000	3,000	2,000
Total	24,500	16,750	12,700
Reduction from Present (say)		8,000	12,000
Related-Employment Reduction		4,000	5,000
TOTAL REDUCTION		12,000	17,000



Re-allocation of Security Expenditure

- Inward Investment *plus*
- Tourism *plus*
- Other
 - Economic/Urban programmes
 - Community Employment
 - Tax Incentive
 - Infrastructure



Policy Options on Security Expenditure
Re-allocation

- Option 1 expansion in urban & economic programmes
 (16,100 to 23,900 jobs)
- Option 2 expansion in community employment schemes
 (15,800 to 23,500 jobs)
- Option 3 reduction in Corporation Tax
 (9,000 to 13,500 jobs)
- Option 4 infrastructure spending
 (20,400 to 38,900 jobs)



Employment Impact in Northern Ireland

	Scenario 1 (CF)	Scenario 2 (PPA)
Job Losses in Security-related Activities	12,000	17,000
Job gains before security expenditure re-allocation:		
• Inward Investment	5,000	7,500
• Tourism	6,000	10,000
• Cross-Border Trade	2,000	2,000
• Existing Industry	2,000	2,000
• External Funds	7,500	15,000
Job Gains through Re-allocation	9,000 - 20,400	13,500 - 38,900
Net Gain	19,500 - 30,900 (10,500 - 17,600)	33,000 - 58,400 (12,000 - 22,400)

figures in brackets relate to permanent jobs



Economic Impact on the South

	Scenario 1 (CF)	Scenario 2 (PPA)
Increased Employment of	1,700	9,100
• Industry	700	3,300
• Market Services	1,000	5,500
• Non-market Services	-	2,000
• Agriculture	-	2,000
GDP		
• Annual Growth (%) 1996 - 2000	4.3	4.6
• GDP - 2000, £b constant 1993 prices	44.6	45.1
• Differential £m; base = £44.5b	109	608



Impact of Peace on Employment ('000)

	Scenario 1 (CF)		Scenario 2 (PPA)	
	<i>before re-allocation</i>	<i>after re-allocation</i>	<i>before re-allocation</i>	<i>after re-allocation</i>
North	10.5	19.5 to 30.9	19.5	33.0 to 58.4
South	1.7	1.7	9.1	9.1
North & South	12.2	21.2 to 32.6	28.6	42.1 to 67.5

assuming no displacement



Impact of Peace on GDP (£m)

	Scenario 1		Scenario 2	
	(CF)		(PPA)	
	<i>before re-allocation</i>	<i>after re-allocation</i>	<i>before re-allocation</i>	<i>after re-allocation</i>
North	253	380 to 672	336	625 to 1,004
South	109	109	608	608
North & South	362	489 to 781	944	1,233 to 1,612

assuming no displacement



Impact of Peace on GDP
(% Overall Change on Base Case)

	Scenario 1		Scenario 2	
	(CF)		(PPA)	
	<i>before re-allocation</i>	<i>after re-allocation</i>	<i>before re-allocation</i>	<i>after re-allocation</i>
North	+1.6	+2.4 to +4.2	+2.1	+3.9 to +6.3
South	+0.0	+0.0	+1.4	+1.4
North & South	+0.6	+0.8 to +1.3	+1.6	+2.0 to +2.7

assuming no displacement



Wider Issues to be Addressed

Our Terms of Reference require us to address

- The means of maximising the positive impact of peace
- The distribution of the benefits
 - areas, groups most disadvantaged
 - victims of the conflict
- The contribution to reconciliation & social inclusion



Maximising Economic Benefits

- Similar processes under way North and South, with little interchange of ideas
- The tempo of border area co-operation is increasing, particularly since the ceasefire
- There are further opportunities for wider North-South co-operation, but
 - a more strategic approach is needed
 - a baseline study and knowledge of other border regions are needed



Tackling Disadvantage

- Disadvantage is complex with spatial, social exclusion and community dimensions
- The rising tide does not raise all boats
- Community economic development is a flexible tool to tackle economic disadvantage, but it takes time
- EU Peace Fund is an important opportunity to try new approaches, including social inclusion monitoring



Community Economic Development

- Traditionally seen as dealing with the distribution of economic activity, not the volume of activity, eg community based tourism activity
- In some cases there have been significant effects on the overall volume of activity
- Developing effective capacity takes time
 - begin the development now & do not expect too much too soon
 - ring-fence funding for later stages



Reconciliation & Economic Development

- Economic development can be divisive if the allocation of benefits is not equitable
- Economic development can make a major contribution to reconciliation if specifically targeted
- A socially-inclusive approach
 - does not greatly change the volume of jobs generated
 - but shifts their composition towards jobs which require continuing subvention
 - underpins peace and social stability



25 Years of Conflict - The Human Legacy

- A particular focus with much to be done
- Numbers high - individuals and families
- Many in communities in highly deprived areas
- Major programme of counselling support required
- Need for broad geographical coverage with easy access to professional services
- Pain clinic
- Peace process and EU Fund offer the opportunity to address



Re-Integration of Politically-Motivated Prisoners

- Prisoner release and remission: sensitive and complex
- Strongly held and different views on level, form and channels of support
- NIACRO Report noted that *prisoner re-integration is an integral factor in rebuilding our communities*
- Intervention required to rebuild a constructive life and overcome certain employment constraints
- Low record of recidivism & benefits of education and training while in prison
- EU Fund specifically available



Conclusions

- Up to 67,500 jobs and £1,612 m (3%) in GDP for Island
- PPA scenario provides enhanced benefits
- Economic importance of security expenditure re-allocation
- Longer-Term Benefits
 - larger and more confident market-oriented economy
 - improved official co-operation
 - private sector and cross-border trade links to evolve
- Need to tackle the many areas of disadvantage
- Particular focus on those most affected by the conflict
- Style and form of Economic Development crucial
- The outcome of Reconciliation must be specifically targeted
- To secure a more stable and equitable society on the Island



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Media Release, 13 July 1995

Forum Study highlights the economic benefits of a political settlement

The Forum for Peace and Reconciliation today launched a major study entitled The Social and Economic Consequences of Peace and Economic Reconstruction which suggests that the economic benefits to be derived from the ending of violence could be more than doubled in the event of a political agreement being reached. The study looked at two different peaceful scenarios - one, the continuation of the ceasefires and two, an agreed political settlement. It assesses the effects in each instance on public expenditure, economic growth, investment and employment.

Commenting on the study, the Forum's Chairperson, Judge Catherine McGuinness pointed out that "its findings highlight the importance of securing a political agreement from which both parts of Ireland would reap significant economic benefit. The report's analysis underlines the extent to which benefits in tourism and inward investment depend on potential tourists and investors being convinced that the conflict has genuinely been resolved."

This study was prepared on the Forum's behalf by a consortium of consultants led by KPMG Management Consulting (Dublin) and including Colin Stutt Consulting (Belfast), the Northern Ireland Economic Research Centre and Fitzpatrick Associates (Dublin). They were asked to examine the social, economic and financial challenges and opportunities presented by a stable and lasting peace in Ireland. Their report covers the five years to the year 2000. The Forum has commissioned a related study from the Economic and Social Research Institute dealing with the longer-term impact of peace in developing "an island economy".

The Extent of the Economic Gains

The Forum's consultants foresee gains in relation to tourism, inward investment, cross-border trade, the inflow of external funds and the ability to switch funds from security to more

productive and socially-beneficial purposes. Under the continuing-ceasefires scenario, up to 30,900 extra jobs could arise in Northern Ireland even allowing for reduced security-related employment. In these circumstances, Northern Ireland's GDP could be as much as £672 million (4.2%) higher at the end of the five year period surveyed in the consultants' report. These predictions assume that savings on security are fully spent on other activities within Northern Ireland. If not, the predicted benefits for Northern Ireland would be correspondingly smaller, for example there might only be 10,500 additional jobs.

If there is a political agreement within 2 to 3 years, the employment gain in Northern Ireland could be as high as 58,400 with a GDP boost of up to £1 billion (6.3%). These again are best case scenarios based on a full re-allocation within the Northern Ireland economy of anticipated savings on security.

Economic gains in the South are predicted to be smaller, and will only be significant if there is a political agreement. This could generate a gain of up to 9,100 jobs and a GDP bonus of around 1.4% over the five-year period covered by the consultants.

The Two Economies

Comparing the two economies, the report finds that they suffer from similar problems in being small, open economies and in having comparable employment patterns. Measured in GDP terms, the North and the South now enjoy the same wealth levels at £9,100 per head in 1993 (however, in the Northern case, this figure does not take full account of the effect of British Exchequer transfers). This puts them at 81% of the EU average. Both qualify for the highest rate of EU structural funding. The consultants' find that in terms of economic growth both economies have performed relatively well over the last 30 years, the South's success being based mainly on greater industrialisation, the North's mainly on benefits derived from continued transfers within the UK. By Western European standards, however, both have had persistently high levels of unemployment, a large proportion of which is of a long-term nature.

With an average annual increase over the last 30 years of around 4%, the South's GDP growth has been amongst the highest in the EU whereas the Northern performance at 2.6% has exceeded the overall UK average. The latest growth projections to the year 2004, which take no account of the ceasefires, are already quite encouraging, at around 4% for the South and 2.4% for the North.

Investment

With the arrival of a durable peace founded on political agreement, investment is expected to increase as a result of improved confidence, a more positive image of Ireland as a home for foreign investment and possible increases in external funding. The report demonstrates that the South's performance in attracting foreign investment has been much stronger than the North's -

33,000 as against 5,000 new jobs in the period since 1980. Northern Ireland's record has been improving in recent years and it is argued that a political agreement could give rise to 7,500 extra jobs by the year 2000 through inward investment in Northern Ireland with an additional £80 million in direct foreign investment for the South.

Tourism

The report shows that both parts of Ireland suffered severe tourism losses as a consequence of violence in the early 1970s. The number of tourists visiting the South has increased rapidly since the mid-1980s, but the North has not yet recovered from the losses sustained with the outbreak of the troubles. On a pro-rata basis, visitor numbers in the South are 50% higher than in the North and the total spending by tourists is three times as high.

The report cites evidence to the effect that many potential tourists are adopting a "wait-and-see" attitude with regard to the peace process which implies that the peak increases will come in 1998 and 1999 if political developments permit. Looking forward, and assuming a political agreement, the consultants conclude that tourism could yield 10,000 more jobs and an additional 1.2% in GDP growth in the North by the year 2000. The tourism impact on the South of the achievement of a political agreement is put at an extra £400 million in revenue and 4,000-5,000 more jobs in the sector.

Cross-border trade and co-operation

As a percentage of total external sales, in 1992, North-South trade accounted for only 5% in the South and 11% in the North. Recent estimates suggest that North-South trade is now growing steadily, at about 10% annually. The report forecasts the establishment of a larger and more market-oriented economy in the North and enhanced private sector, cross-border business relationships and trade links. There may be opportunities for combining strengths by building strong economic clusters on an island of Ireland basis rather than with competition between North and South. It is expected that peace will accelerate recent trends in North-South trade, resulting in 3,500 extra jobs between both parts of Ireland. To maximise the benefits of peace, the report calls for a private sector led initiative and a review of economic development policies in the South to identify further opportunities for North-South co-operation.

The Impact of Reduced Security Expenditure

The report examines current levels of security expenditure and employment and estimates how these will be influenced by continued peace and an eventual political agreement. In the North, security force numbers are predicted to drop by between 7,750 and 11,800 with savings over the period of between £800 and £1,450 million depending on which scenario is employed. This is after redundancy costs.

From the point of view of achieving a significant short-term economic dividend, the report sees

it as crucial that security savings be used for alternative purposes within Northern Ireland. Part of these savings will need to be directed towards tourism (up to £108 million) and attracting inward investment (up to £188 million). For the remainder, a number of options are examined - (i) an expansion in urban and other economic programmes, (ii) community employment schemes, (iii) a reduction of Corporation Tax for manufacturing to 10% and (iv) infrastructural spending - and these are seen likely to bring different levels of employment benefit, up to a maximum of nearly 40,000 additional jobs.

Benefits for the Border Counties

The report sees particular benefits accruing to the six border counties - Cavan, Donegal, Leitrim, Louth, Monaghan and Sligo - mainly from increased tourism revenue and receipts from the EU peace fund. It maintains that the likely outcome is that these counties will capture a quarter of the net economic benefit flowing to the South from the peace process. This would create 2,200 extra jobs in the counties concerned by the year 2000 and would bring about a drop of around 1% in the region's unemployment rate, bringing it into line with that for the South as a whole.

Tackling Disadvantage and Optimising Economic Benefits

An important feature of this Report is that it explores questions related to the distribution of the peace dividend, both in relation to the situation of disadvantaged groups and to areas which have been most severely hit by the effects of violence. It makes the point that optimisation of benefits will not just happen but will call for an appropriate policy mix to foster economic growth and promote social inclusion. Realisation of the benefits of peace will require a period of capacity building within disadvantaged communities as groups like the long-term unemployed are not well placed to profit from upsurges in economic activity without the aid of specific strategies and programmes. Community economic development is viewed as an approach well suited to catering for the needs of disadvantaged communities.

Victims of violence and former politically-motivated prisoners are seen as requiring specific attention to enable them to rebuild their lives. The report proposes a special central pain clinic to assist victims. The EU peace fund is seen as having a particular role to play in supporting those most affected by the violence.

The Link between Economic Development and Reconciliation

The report's conclusions assert that reconciliation is likely to stimulate a higher degree of economic activity and a fairer distribution of its benefits. The point is made, however, that economic advancement does not necessarily promote reconciliation unless this outcome is specifically sought and its pursuit becomes a central part of the economic development process.

For further information about this Forum report, please contact Forum Spokesman, Dan Mulhall at Dublin 6707577/6707540. Mobile: 087-413423.