Spending cuts in Northern Ireland to be particularly severe

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Recent reports make clear that the post-Good-Friday-Agreement era of relatively high public spending in Northern Ireland is over. Government spending accounts for nearly 70 percent of economic activity in Northern Ireland.

State enticements played a key role in getting agreement between Unionists and Republicans for the power-sharing agreement back in 1998. Now drastic public spending cuts being imposed by the British government will fall proportionally more harshly in Northern Ireland than in any other area of the UK.

According to “Cutting carefully, how repairing UK finances will impact NI [Northern Ireland]”, a report by Oxford Economics, over 31 percent of working people in Northern Ireland, around 220,000 people, depend on the public sector for their livelihood. This compares with figures for the UK as a whole that suggest that the 7.7 million public sector workers represent about 25.9 percent of the total workforce.

But comparisons of Gross Value Added (GVA)—a sum of the total goods and services in a region—with total public spending, show far greater dependence. Total government departmental spending in Northern Ireland combined with the sums spent on social security, pensions and other benefits provides a figure of £18 billion in Northern Ireland against GVA of around £28.7 billion. That is 67 percent of Northern Ireland’s GVA depends on public spending. By contrast the figure for the UK is 43 percent, with regional figures varying hugely between Wales at 65 percent and London at 29.5 percent.

The report, prepared for the Northern Ireland Council for Voluntary Action, suggests a shortfall in tax receipts in Northern Ireland compared with total spending of between £7 billion and £9 billion. This means that without subsidies from the British government “the region could afford to spend only half the amount it currently does on public services and benefits”.

The report goes on to warn that arguments to the effect that Northern Ireland should be exempted from cuts are “likely fall on deaf ears” and insists that the joint Sinn Fein/Democratic Unionist Party executive must either raise more taxes, prepare for cuts or both. Estimates of the likely cuts are in the order of 8.4 percent of the total subvention handed over to the Stormont executive.

This means that by 2015/2016 some £1.2 billion in today’s prices will be lost. Other surveys put the figure at £1.5 billion. The report sets out various scenarios through which this cut results in either across-the-board cuts of 8.4 percent to all departments, or proportionally greater cuts to other departments if health and/or education spending is protected. In addition, capital spending is predicted to fall by as much as 22 percent.

The report warns starkly, “There will be job losses and a need for significant restructuring in the way that many services are delivered, nobody will avoid paying at least something towards getting the UK out of debt”. The authors conclude by calling for a wholesale review of spending comparable to that undertaken in the Irish republic, along with a demand that there should be no “sacred cows”.

A similar message was delivered by the Ulster Bank, a subsidiary of the Royal Bank of Scotland (RBS). In response to the British government’s June budget, the bank’s monthly briefing complained that public sector pay was too high—with an average of £27,800 compared to the average private sector wage of £19,900. That differential should be reduced. The bank also called for low pay to be redefined, stating, “The ‘low pay’ that some of lowest grade workers in the public sector are

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receiving is arguably quite generous relative to the private sector average".

The bank's Richard Ramsay complained that some 25,000 public sector jobs had been created since the 1998 Good Friday Agreement. Administrative positions should "undergo more rigorous efficiency savings". Ramsay particularly welcomed a proposed UK government consultation paper to turn Northern Ireland into an "enterprise zone" instead of its current status as a "welfare benefit zone".

Ramsay went on to arrogantly complain that Northern Ireland's politicians historically had a "fiscal deficit attention disorder" that had "fuelled unrealistic expectations by all NI's stakeholders as to what NI can afford". Future decisions, with the next round of spending cuts only a few months away should be based on "hard economic and financial facts".

The same bank's quarterly survey made clear that, as of June, the Northern Ireland economy was still in recession, and that the private sector was particularly weak.

Economic growth fell in all but the last quarter between 2007 and 2009. Private sector output fell 11.5 percent over the period, while some sectors fell catastrophically. Business and financial services fell 40.5 percent and engineering fell by 28 percent, although the chemicals industry fared better, with output increasing by 24 percent.

Even a weak recovery in late 2009 was solely due to depreciation in the exchange rate of the British pound against the euro, which made Northern Ireland attractive to shoppers from the Irish republic. Results from early 2010 suggest that output has continued to fall.

Unemployment is now expected to continue rising to 62,500 by the end of 2010, and could reach 70,000, or nearly 10 percent of the working population. Another survey by Oxford Economics admitted unemployment could reach 80,000 while Price Waterhouse Cooper noted that the "real" unemployment figure, including the entirely economically inactive was nearer 284,000 or 26.4 percent.

In one way or another, all the reports call for increased private sector involvement in providing services, they call for water charges to be introduced and generally for the complete subordination of social and political life to the demands of rescuing profitability.

But there is concern as to the consequences of cuts that will impact an already enfeebled private sector.

David Blanchflower, Labourite economics professor and former member of the Bank of England's monetary policy committee, told the *Belfast Telegraph* that in his view the government's policies "are going to be disastrous for the UK economy in general and will hit Northern Ireland particularly hard". "My fear is that we are observing the greatest macro-economic policy mistake in a hundred years".

The Social Democratic and Labour Party's Alban Maginness, chair of the Northern Ireland Assembly's Enterprise Committee, grumbled, "We have to expect cuts, but the type of cuts that are being envisaged seems to me to be potentially very damaging to the recovery".

Amidst the concerns, however, a fundamental truth regarding the essential content of the decades-old Northern Ireland "peace process" is being confirmed.

Power-sharing was to set up to integrate nationalist Sinn Fein into the British government in Northern Ireland, creating an apparatus of rule based on the manipulation of sectarian divisions to control the working class. On this basis, successive British governments intended to reduce expenditure and free up the British Army for international operations.

The former Labour government utilised a temporary phase of high public spending based on speculative returns to stabilise the new arrangements, by smoothing the way for Sinn Fein and the loyalist DUP, and the wealthy Catholics and Protestants for whom they both speak, into cooperating with each other.

For their part, Sinn Fein and the DUP have agreed to begin implementing £64 million of cuts this year, while submitting health and education budgets to review by a Performance and Efficiency Delivery Unit. The purpose of the review is, in the words of DUP Finance Minister Sammy Wilson, to find "scope for, and delivery of, significant cost reductions".

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