

The Projected Public Finances of the Early Years of a United Ireland, and the Northern Ireland Subvention

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Executive Summary

Introduction

In the public debate on the practicality and shape of a future United Ireland, the probable cost of unity to the Irish state has been a major point of contention. On one side of this debate there are those who argue that the extent of the current subsidy (or subvention) from the UK government to Northern Ireland, frequently quoted as £10 to £14 billion, makes a united Ireland not economically feasible. An alternative view argues that this frequently quoted figure grossly exaggerates the probable real cost of unity. This report contributes to this debate by deconstructing this subvention and analysing to what extent this expenditure would become the responsibility of a new Irish State. Based on this analysis, it presents three scenarios for the fiscal position of the new state post reunification analysing the increase in tax revenues from economic growth, set against new budgetary responsibilities and the cost of transition.

Deconstructing the Subvention

The financial subvention from the UK state to Northern Ireland is a public finance accounting convention that measures the difference between taxation raised in Northern Ireland and Northern Ireland's allocated share of the UK government's total budget. It is not a record of money actually spent in Northern Ireland or of monies spent to provide services for Northern Ireland. This report deconstructs the subvention, as reported in UK financial statistics. It clarifies how each element is calculated, and it analyses the individual elements to ascertain the extent to which they would transfer as a cost to a united Ireland. The main elements of expenditure discussed are **pensions; national debt; defence spending; expenditure related to foreign policy; and central UK 'non-identified expenditure'**. It then analyses the details of taxation that is offset against this expenditure.

The conclusion of the analysis suggests that the starting fiscal deficit for 'Northern Ireland' within a united Ireland would be £1.5b pa., based on the following breakdown of the published £14b 'UK Subvention' for 2023 (the latest available).

State and public-sector employment-based pensions in the UK are based on individuals' pension, tax, and social insurance contributions to the UK Treasury, and for women especially, their caring responsibilities. In the current subvention calculation pension liabilities

total £5.7b. Based on existing agreements and practice, there is no reason to believe that the UK will not pay the state and public-sector employment pensions that had been built up during Northern Ireland's membership of the United Kingdom, leaving the new Irish state to take over the liability built up from the date of the creation of the new state. This position would be consistent with the UK-Ireland Bilateral Convention on Social Security, signed after Brexit which came into effect on 31 December 2020, and would also be consistent with the approach to pensions taken during the UK's withdrawal from the EU. This reduces the year one cost of a united Ireland by £5.7b (on current figures) as the full cost of pensions would transfer gradually to a United Ireland over the following 40 years.

The annual interest payment on UK National Debt allocated to Northern Ireland in the current subvention is £3.5b. There is no legal basis for requiring a United Ireland (or Northern Ireland) to pay a percentage of UK national debt. It is legally owed by the UK and there are precedents for expecting the UK government to honour this debt. The UK Government accepted during the 2014 Scottish referendum that 'In the event of Scottish independence from the United Kingdom (UK), the continuing UK Government would in all circumstances honour the contractual terms of the debt issued by the UK Government... a share of the outstanding stock of debt instruments that have been issued by the UK would not be transferred to Scotland'. The Scottish National Party led Government agreed to make a voluntary contribution towards these costs, in order to get agreement from the UK on the holding of an independence referendum. This form of negotiation is not required in the case of Northern Ireland, as the legal basis for a referendum on Irish unity is already set out in UK law and in the Good Friday Agreement.

Defence is the third largest element of the Northern Ireland subvention, and just under £1.6b was allocated to Northern Ireland as its share of UK-wide defence expenditure. This included the costs of the nuclear weapons programme. This allocation is considerably larger than current Irish defence expenditure of €1.3b. Even if current political commitments to increase defence expenditure over the next few years are realised, Ireland's defence budget will never increase to the scale of per capita UK defence spending. This report allows for a post-unity increase of £200m pa, on top of the already planned increases, which are very likely to take place well before a referendum.

UK state expenditure outside the territory of the UK includes the UK's EU contribution as agreed in the Withdrawal Agreement, along with costs of the very large British Foreign Office. £711m of this expenditure is allocated to Northern Ireland as a pro-rata contribution. This expenditure would not be carried over into a new Irish state. Even if the Irish Department of Foreign Affairs increased its international presence, it is extremely unlikely that the increase would be at the scale of the British Foreign Office. One inevitable future increase post unity will be Ireland's contribution to the EU, in line with the increase in population and GDP. It is probable that a transitional agreement delaying the payment of an increased EU contribution would be forthcoming from the European Commission (or perhaps an equivalent off-setting EU spending programme to assist transition). On this basis the report reduces this aspect of the subvention to £311m per annum a reduction of £400m.

'Non-identified expenditure' is a significant item in the subvention at £513m per annum. UK government spending classified as 'non-identified', is expenditure where it is either not possible, or would be too expensive, to break down the costs by region. To analyse this figure the report uses the same methodology as the Sustainable Growth Commission in Scotland making an adjustment for the smaller population in Northern Ireland. On this basis it is estimated that £177m of these costs would not transfer to a United Ireland.

Taxation raised in Northern Ireland to offset against this expenditure, is underestimated in UK government official statistics. The main reason for this underestimation is that Corporation Tax, Capital Gains Tax and VAT are generally paid by companies from their head office exaggerating the tax earned in London where many UK companies head offices are located. The impact of this is to under-report the relevant taxes for Northern Ireland by £500m.

In addition, as Northern Ireland does not host the large UK-wide central services offices, such as those supporting the civil service, or the various UK state agencies, it does not have the benefit of the income tax paid by those staff. Northern Ireland is allocated a per capita amount of the full cost of central government services in the subvention calculation, but does not receive any allowance for the compensating tax revenue, as they are credited to the region in which the agency is based. In a united Ireland, even if the cost of the agency was identical, staff taxes would obviously

be paid to the Irish Government. Therefore, this report includes the estimated income tax figure based on likely future higher levels of employment in state agencies (to compensate for the costs which are already included in projected expenditure). This increases taxation earned by approximately £265m at 2023 prices, compared to what is included in the subvention calculation.

Finally, the impact of Northern Ireland moving to the current Irish income tax system, has been analysed by Mike Tomlinson who demonstrates, that those on lower incomes would be better off and those on the 30% of highest incomes would pay more tax. Together with increased employer contributions to social security this would mean an additional €769m in tax revenue would be raised in Northern Ireland per year.

The recalculated subvention is the result of the reduction on the expenditure side listed above and the addition of the increase in tax revenue. The collective impact of this adjustment is that **the opening deficit of Northern Ireland inside a United Ireland would be £1,487m – roughly 10% of the published current subvention figure.**

Fiscal projection for the government finances of a United Ireland

On the basis of the adjusted subvention figure, the report goes on to explore the potential fiscal position of the first 10 years of a united Ireland. It uses estimates of transition costs including salary, benefits, and pension equalisation, along with additional investment needed for economic growth and improved public services. It discusses the impact of the probable benefits of an all-island economy, particularly enhanced economic growth, that will compensate for the increased costs. It uses the recent experience of new EU member states as a model of development.

To the deficit figure of £1.5b pa (€1.75b euros) outlined above, the model used in **the report provides for a one billion euro annual boost to public expenditure in Northern Ireland to provide much needed additional investment in Northern Ireland in health, welfare, education and infrastructure.** The projections also assume **a gradual implementation of a 48% increase in public sector wages, over 15 years, which is what is required to bring wages into line with the Republic, at a year one cost of €152m pa,** increasing by that amount annually over 15 years. While a shorter or a longer period of transition might ultimately be

agreed, there is no realistic possibility that salaries would be increased by 48% in year one. The cost of living in Northern Ireland, including housing would not increase instantly, and an immediate 48% pay rise would be highly inflationary in the regional economy. This model also assumes that **pensions would transfer gradually to Ireland in proportion to the number of years where tax and pension contributions are made to the Irish State, at an annually rising cost of €115m.**

Three scenarios for public finances are set out in this report, following the pattern of economic growth in central Europe after those states joined the EU. The three scenarios range from a slow growth path where convergence would happen over a very long period, a medium path where economic convergence with the South takes just over 40 years, and a faster path where convergence takes approximately 25 years. These figures can be put into perspective by considering the trajectory of economic growth in both parts of the island in recent decades.

After allowing for inflation, Northern Ireland's economy grew by just over 30%, between 2000 and 2024, or an average of 1.3% pa. Using modified Gross National Income GNI* to exclude the distortions from multinational operations, the Republic's economy grew by 71% in real terms over the same period, an average of just over 3.2% pa. In this framework, the report examines the consequences for taxation, public spending, and the deficit in public finances for each of these scenarios, and estimates the increase in revenue from economic growth and population growth, along with the cost of salary and pension equalisation, and an ongoing additional level of public expenditure of one billion euros pa. The projections are also based on an assumption that with the same set of policies on education, infrastructure, tax and Foreign Direct Investment, there is no reason why Northern Ireland would remain so much poorer and so much less economically productive than other parts of the island.

The **three scenarios, Path A, B and C** are as follows –

Path A – would replicate the performance of the most improved economies in Central Europe, where countries such as Latvia, Lithuania, Bulgaria, and Romania have maintained an average growth rate per capita, of approximately 3% above EU averages from 2000 to 2023. The Republic of Ireland by comparison grew at 2.7% above EU averages. This would be the path that most closely reflects the

recent economic performance of the Republic, and would see Northern Ireland's GNI per capita catch up with the South in approximately 25 years.

If Northern Ireland, converged with the economic performance in the Republic in this timeframe and experienced the same growth trajectory as the better Central European economies – at 3% above recent norms, they would no longer have a financial deficit by year five, and would run a fiscal surplus of over €6.7b pa by year ten of a united Ireland, or have those resources available for improved public services and investment.

Path B – is a medium growth path compared to the recent Central European experience, maintaining an average growth rate per capita, of approximately 2% above EU averages. This group included Croatia, Estonia, Poland, and Slovakia, and would see convergence with the Republic in approximately 40 years.

With Northern Ireland achieving a growth rate of 2% above recent historic norms (the mid-level of Central European performance), the fiscal deficit would end by year six, and by year ten Northern Ireland would be contributing an annual surplus of €3.6b pa to a united Ireland budget, or more likely funding further improvements to public services.

Path C – is a low growth path compared to the recent Central European experience, but even these countries with a weaker performance compared to their neighbours, still maintained an average growth rate per capita, of approximately 1% above EU averages - a group including Czechia, Hungary, and Slovenia. In this case convergence would still take place, but over a very long period.

If Northern Ireland achieved a 1% pa growth boost after unity, above its growth rates of the last 25 years, (the lowest end of the Central European experience), Northern Ireland would have a gradually reducing deficit in its public finances, reaching break-even in year nine. This level of growth would allow the region to absorb all of the increased costs of gradually equalising salaries and pensions. This would represent a 'subvention' from the 'South' funded by taxes or borrowing of less than three quarters of one per cent of GNI in year one, (falling gradually as the overall economy of the island grows) - well within what could be afforded, and allowing scope for additional investment, beyond the one billion euros pa of extra public spending built into this model.

Conclusion

The cost of a united Ireland has been exaggerated partly because what is called the UK subvention has been misunderstood and misinterpreted. At the same time the potential for economic growth in an all-island economy, where Northern Ireland is once again inside the European Union, has not received sufficient attention.

The inherited 'subvention' for Northern Ireland is £1.5b (€1.75b), based on 2023 data.

Boosting public expenditure by one billion euros pa, to provide necessary investment in health, education, infrastructure and welfare, while also allowing for the cost of equalising public sector salaries and taking over pensions would see a full year-one cost of €3 billion.

Each of the three scenarios analysed in this report would allow the region to invest in the necessary policy changes to boost education, economic growth and living standards, while also absorbing all the increased costs of gradually equalising salaries, benefits and pensions. The starting 'deficit' of just over €3b would represent a 'subvention' from the 'South' funded by taxes or borrowing of less than three quarters of one per cent of GNI* in year one, (falling gradually as the overall economy of the island grows) and reaching breakeven point within five to nine years. This is well within what could be afforded, and allows scope for additional investment, as the economy grows, beyond the one billion euros pa of extra public spending built into this model.

Some of the necessary policy changes to boost productivity and wages could be delivered in a stronger model of devolution to Northern Ireland inside the UK, such as higher public spending on education, infrastructure and on R&D, a more competitive corporation tax policy, a more equitable tax policy, and a more appropriate migration policy to deal with skills shortages. However, it is unlikely that the necessary policy change could be secured within the UK in the short-to-medium term political context. In the modern era the poorer regions of the UK, including Northern Ireland, Wales and the North of England have not seen any process of convergence with the wealthier areas of the South of England. To achieve economic growth within the UK system Northern Ireland would require either a larger subvention, or higher taxes on high-income earners throughout the UK, to fund significant investment in education, and to distribute wealth more evenly. Therefore, gaining control over the necessary economic powers, and Northern Ireland's international image as a site for investment, are intimately connected to choices about constitutional politics.

For the South the costs associated with Unity have tended to be exaggerated and the benefits of an all-Ireland economy largely ignored. Without underestimating the difficulties of a process of unification, the aim of this report is to contribute to the discussion by demonstrating the range of possible costs and benefits of this project.

Introduction^{1, 2}

The public debate on the economics of a united Ireland has been dominated by constant references to the UK financial ‘subvention’ to Northern Ireland. UK government statistics report the gap between taxation raised in Northern Ireland and public expenditure there at approximately £14 billion, which has raised questions about the sustainability of the cost of a united Ireland.³ The ‘Subvention’ is therefore a good place to start a discussion on the public finances of a united Ireland. If the public finances of Northern Ireland are really so heavily subsidised, then how can public services be maintained much less improved in a united Ireland? However, the frequently quoted figure of £10b to £14b has not been analysed from the perspective of its relevance for the debate around a future united Ireland.

The Northern Ireland ‘subvention’ is in essence the public sector deficit for Northern Ireland as calculated by the UK Office for National Statistics, and it is an accounting exercise for the UK state. Its three essential components are, taxation raised by the UK in Northern Ireland, public expenditure in Northern Ireland and an allocation to Northern Ireland of central UK expenditure including defence, national debt repayments, central government and British embassies abroad. Therefore, an analysis of the possible impact

of the subvention on public finances in the early years of a united Ireland requires a detailed consideration of the different elements within it, and also a political judgement as to which would carry over to a united Ireland, what would be irrelevant to a new Irish state, and what might be funded transitionally by the UK as an ongoing legacy commitment.

To understand how the subvention has been constructed, this paper will firstly explore the emergence historically of a deficit in Northern Ireland’s public finances and the background to its relatively weak economy. Following this, it will deconstruct the subvention, as reported in UK financial statistics, to clarify how it is calculated. It will then analyse the largest of those individual elements and discuss the extent to which they would be likely to transfer to a united Ireland. Finally, the paper explores the fiscal position of the first 10 years of a united Ireland, taking into consideration the remaining subvention, transition costs including salary, benefits and pension equalisation, along with additional needed investment for growth and improved public services. This is contextualised by a discussion of likely off-setting economic benefits and growth and increased tax revenues, compared in particular to the recent experience of new EU member states.

- 1 I would like to acknowledge the comments of peer-reviewers, and of colleagues in both Dublin City University and Ulster University, in the all-island economy project, who engaged in discussion on earlier drafts, which has made this paper better. The analysis and any remaining faults are the responsibility of the author alone.
- 2 The first half of this paper is an updated and revised version of John Doyle “Why the ‘Subvention’ does not Matter: Northern Ireland and the All-Ireland Economy.” *Irish Studies in International Affairs* 32(2): 314-334, which used 2019 data. The author is grateful to those who took the time to engage in the following debate on that article. The deficit / subvention increased during covid – as public deficits did all over the world. The British government is now trying to reduce public spending, but even if the deficit changes somewhat – the basic argument and proportions remain the same. Interestingly the 2023 data used for this paper produces an almost identical figure to transfer to a possible united Ireland, as that based on 2019 figures.
- 3 See for example David Green, ‘Northern Ireland is a burden on the rest of the UK’, *Daily Telegraph*, 10 October 2019; Newton Emerson, ‘Sinn Féin is still trying to wish away economic realities of a united Ireland’, *The Irish Times*, 19 November 2020.

The Background to the Subvention

Northern Ireland did not always receive a subvention, and at the time of partition the Belfast region was the most industrialised part of the island of Ireland. When Northern Ireland was created it ran a government surplus and paid an annual ‘Imperial Contribution’ to the British government. However, as the economy declined, from the late 1920s onwards, the level of this payment fell and by 1938 the UK government was subsidising the cost of public services in Northern Ireland.⁴ Although the subsidy was modest, even at this stage the Northern Ireland economy was demonstrating the weaknesses which would see it remain consistently among the poorest regions in the UK. In the late 1930s Northern Ireland had an unemployment rate of 20%, a per capita income just over half of the UK average, and very undeveloped social services by British standards.⁵ The war economy and the post-war boom of the late 1940s, led to some economic development, but by the 1950s the economy was significantly dependent on a subvention from London. On the eve of the Troubles in 1968, Northern Ireland had an estimated deficit of approximately £75m – which was approximately 7% of the region’s GDP at that time. As the conflict deepened so too did the scale of the subvention. By the early 1970s it represented 18% of GDP and it averaged 17% of regional GDP for the rest of the decade. Relative reductions in public expenditure, saw the subvention drop to below 12% by the time of the 1998 Good Friday Agreement.⁶ Expanding public spending under the Labour Governments saw the subvention peak at 25% of regional GDP in 2009, but following the return of the British Conservatives to power in 2010, reductions in public spending as part of ‘austerity’ measures, led to the gradual reduction in the scale of the subvention, to a level of approximately 20% of GDP just before the covid-19 pandemic.⁷ The economic cost of the Covid-19

pandemic saw a significant one-off increase in the subvention, but it is the scale and composition of the underlying deficit that is relevant to the debate on the political future of the island.

There is a broad consensus that Northern Ireland’s economy is very weak, that this weakness predated the modern conflict, and also that economic growth following the 1998 Good Friday Agreement has been very modest.⁸ Agriculture and Fisheries, strongly supported by EU policies until Brexit, play a comparatively important role in the economy, given the weak state of the industrial and service sectors. EU funding, including subsidies from the Common Agricultural Policy and the designated Peace Funds, from 2007 to 2013, was equivalent to approximately 8.4% of Northern Ireland’s GDP.⁹ Productivity remains low in Northern Ireland, and while published unemployment levels are low, Northern Ireland has a very high level of economic inactivity, that is people neither working nor seeking work. It was generally the weakest UK region in this regard in recent years, only overtaken by Wales and the North East of England, as their levels rose. The proportion of people relying on benefits to compensate for low wages, or due to disability, is also very high.¹⁰ In total, 26.7% of all of those aged 16 to 64 were ‘economically inactive’ in 2024, that is, they were neither working nor seeking work.¹¹ Looking at the main reasons why people are economically inactive, 43.5% report that it is due to a disability or illness, 16.5% say it is due to caring responsibilities and 23.4% are students. While the reasons for the high level of economic inactivity are complex and vary, a combination of low income and expensive childcare is often at the core of an inability to enter the paid workforce, for those who are otherwise

4 Bob Rowthorn, ‘Northern Ireland: an economy in crisis’, *Cambridge Journal of Economics* 5 (1) (1981), 1–31: 3.

5 Rowthorn, ‘Northern Ireland: an economy in crisis’, 2.

6 Office for National Statistics (UK), Regional public finance statistics: <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/articles/countryandregionalpublicsectorfinances/previousReleases> and <https://cain.ulster.ac.uk/ni/economy.htm#02>.

7 Esmond Birnie, ‘The Subvention Matters: A Response to ‘Why The “Subvention” Does Not Matter: Northern Ireland and The All-Ireland Economy’ by John Doyle.’ *Irish Studies in International Affairs* 34(2) (2023): 359–394; John Doyle, ‘The UK Subvention and the Debate on a United Ireland: A Reply to Esmond Birnie’s Response to ‘Why the “Subvention” Does Not Matter: Northern Ireland and the All-Ireland Economy’ by John Doyle.’ *Irish Studies in International Affairs*, 34(2) (2023), 433–438.

8 John Bradley, ‘The Agreement’s impact on economic and business cooperation’, *Irish Political Studies* 33 (3) (2018), 311–30. Colin Coulter, ‘Northern Ireland’s elusive peace dividend: neoliberalism, austerity and the politics of class’, *Capital & Class* 43 (1) (2019) 123–38.

9 Leslie Budd, ‘The Consequences for the Northern Ireland economy from a United Kingdom exit from the European Union’, *Briefing note: Committee for Enterprise, Trade and Investment* (Open University, 2015).

10 Richard Johnson, Gillian McCausland and Karen Bonner (2020) The Competitiveness Scorecard for Northern Ireland, 99; Ciara Fitzpatrick and Charles O’Sullivan, ‘Comparing social security provision in the north and south of Ireland: past developments and future Challenges’, *Irish Studies in International Affairs: ARINS* (2021) 32 (2), 284–314.

11 Pivotal Public Policy Forum (2024), Economic Inactivity in Northern Ireland. <https://www.pivotalppf.org/cmsfiles/Publications/20240430-Economic-inactivity-FINAL-REPORT.pdf> and Anne Devlin, Thomas Hastings and Ian Shuttleworth (2023). ‘Economic inactivity in Northern Ireland’, Northern Ireland Department for Economy Research Bulletin, 23(10). Adele Bergin, Seamus McGuinness and Conor Banahan (2025). *Economic overview of Ireland and Northern Ireland*, ESRI Research Series 203, Dublin: ESRI.

in a position to do so. The process of transition from older benefit schemes to Universal Credit throughout the UK, has made comparison over time challenging, but of those on Universal Credit in 2024, 24% were actually in work (but low income) and a further 24% were seeking work.¹²

It is normal internationally for states to have differences in living standards between different regions and in the UK the economy is dominated by London. Like Northern Ireland, Scotland and Wales also run deficits as do most regions in England.¹³ For Northern Ireland the difference is that the published deficit is large, by comparison, and the debate surrounding it is politically charged. Focusing on the subvention is seen by some unionists as a critique of Northern Ireland, redolent of Charles Haughey's famous phrase a 'failed political entity'.¹⁴ To overcome this, the 2016 Ulster Unionist Party manifesto highlighted that Northern Ireland did not always require a subvention, choosing to emphasise Northern Ireland's ability to improve

economically, rather than acknowledging the level of support from Britain.¹⁵ In contrast, supporters of a united Ireland see the calculation of the subvention as exaggerated and part of a 'project fear' campaign by British Conservatives—similar in style to the 2014 campaign against Scottish independence.¹⁶

Northern Ireland's economy is certainly weak, and its productivity levels are low by comparison with the Republic. Levels of economic inactivity are high, compared to either Ireland or most other regions of the UK. As the economy in independent Ireland developed over the past quarter century, Northern Ireland's has remained by comparison relatively stagnant. The subvention is a symptom of this weakness, but it is incorrect to assume that it would transfer in its totality to a united Ireland. Understanding how the UK state calculates the subvention is essential to analysing what parts of it would be relevant to a united Ireland, and therefore what the opening deficit in the public finances of 'Northern Ireland' inside a United Ireland would be.

12 Department for Communities NI, Benefits Summary November 2024, <https://www.communities-ni.gov.uk/articles/benefits-statistics-summary> and Department for Communities NI, Universal Credit Statistics August 2024 <https://www.communities-ni.gov.uk/publications/universal-credit-statistics-august-2024>

13 ONS Country and Regional Balance reports various years, available at: <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/articles/countryandregionalpublicsectorfinances/previousReleases>

14 Donnacha Ó Beacháin, *From Partition to Brexit: the Irish government and Northern Ireland*, (Manchester University Press, 2019), 187.

15 Ulster Unionist Party, Election Manifesto: Make it Work (Belfast, 2016). Available at: <http://uup.org/assets/images/assembly%20manifesto.pdf#page=18>.

16 Michael Keating, *Debating Scotland: issues of independence and Union in the 2014 referendum* (Oxford University Press, 2017).

Calculating the Subvention

The figure of £10 to £14 billion for the Northern Ireland subvention, so often quoted in the media, is not an estimate of the deficit that would exist on day one of a united Ireland, even though it is frequently used as though it is.¹⁷ It is not calculated by the UK Office for National Statistics for that purpose. The UK Office for National Statistics publishes a figure annually as part of its Net Public Balances Report (NPBR).¹⁸ Its most recent report before the Covid pandemic stated that the gap between revenue raised in Northern Ireland and public expenditure in Northern Ireland, plus an allocation to Northern Ireland of a share of central UK public expenditure, was just under £9.4 billion for the year ended 2019.¹⁹ UK Government data for 2023 (the most recent available) calculates the deficit at £14.2b – a figure impacted both by inflation since 2019 and the higher level of public expenditure and deficits throughout Europe, since the covid-19 pandemic. Given the commitment by the newly elected UK Labour Government to reduce the UK's underlying deficit, the Northern Ireland deficit is likely to fall too over the next five years. This paper however analyses the deficit at

its 2023 level – as if that was the level when a united Ireland was created. This first section unpicks this calculation of the deficit, discussing the nature and accuracy of the estimates used. This is an essential first step to a discussion on which elements of the subvention are likely to be relevant in the context of a united Ireland.

The Office for National Statistics (ONS) regards these figures as ‘experimental statistics’, that is, statistics that are still in their ‘development phase and are published to involve potential users at an early stage in building a high-quality set of statistics’.²⁰ Determining what revenue is raised in Northern Ireland and what public expenditure should be allocated to Northern Ireland is not a simple task and the ONS acknowledge that different methodologies will give different results. However, taking the ONS figures as the best available, it is possible to examine what would be relevant to a united Ireland. *Table 1* gives details of the different categories within the subvention calculation, which are then discussed below.

Table 1—Summary of Northern Ireland deficit, for 2023, as reported by ONS

	£m	£m
Total revenue Northern Ireland		21,773
• Taxes raised in Northern Ireland and estimates of other taxes related to Northern Ireland activity	20,372	
• GOS Accounting Adjustments (including depreciation)	1,401	
• Total published revenue	21,773	
Current expenditure		32,859
Capital expenditure		3,134
Break-down of expenditure		
• ‘Identifiable’ expenditure	27,612	
• Outside UK expenditure (allocated to Northern Ireland on population basis)	711	
• ‘Non-identifiable’ expenditure (central UK spending allocated to Northern Ireland on population basis)	5,613	
• Accounting Adjustments (including depreciation)	2,057	
• Total published (managed) expenditure	35,993	
Deficit		-14,220

17 For example, Newton Emerson, ‘Sinn Féin is still trying to wish away economic realities of a united Ireland’, *The Irish Times*, 19 Nov. 2020.

18 ONS, *Country and regional public sector finances net fiscal balance tables*. <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/datasets/countryandregionalpublicsectorfinancesnetfiscalbalancetables>

19 ONS, *Country and regional public sector finances net fiscal balance tables*.

20 ONS methodology note on NPBRs. Available at: <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/articles/countryandregionalpublicsectorfinances/financialyearending2019#public-sector-net-fiscal-balance>.

Taxation raised in Northern Ireland

Taking the issue of taxation first, some elements of the estimation of revenue raised in Northern Ireland are relatively straightforward. For example, income tax and domestic rates paid by individuals who are resident there, and VAT and business taxes for firms based exclusively in Northern Ireland. However, many other taxes can only be estimated. VAT, Capital Gains Tax and Corporation Taxes paid by companies with activities throughout the UK are almost always paid through their head office address, and it is not possible to tell from business's returns how much tax has been paid based on activity in a given region. Corporation tax is allocated using employment data rather than profit estimates and this produces a significant bias towards London as the HQ of many companies (with associated staff numbers).²¹ The Northern Ireland Council for Voluntary Action (NICVA), the largest representative umbrella body for the voluntary and community sector in Northern Ireland, published a report in 2014 on the weakness of Northern Ireland's economic data, including estimates of business taxes, Capital Gains Tax and VAT, and the negative consequences of this for evidence-based policy making in the region. The estimate for VAT raised in Northern Ireland was, according to NICVA, based on a survey of only 147 businesses, collected for a different purpose.²² In *Table 1* the amount of taxation raised in Northern Ireland is the amount that is reported by the UK Office for National Statistics, with these limitations.

Identifiable expenditure in Northern Ireland

The first element of expenditure used in calculating the subvention is public expenditure in Northern Ireland; that is, spending on health, education, policing etc. This is called 'identifiable expenditure' by the ONS. In many cases this can be accurately calculated, for example, the costs of the Police Service of Northern Ireland, or local government in Northern Ireland. However, even though the term 'identifiable expenditure' used by ONS, suggests a high degree of accuracy, where expenditure is mixed between Northern Ireland-based institutions and central UK institutions such as the National Health Service, NICVA conclude that 'much of the spending allocated to Northern Ireland is simply a convention of UK Treasury accounting rather than the actual level of spending'.²³ NICVA focused on a few key areas where the degree of reliability of data is so poor as to make analysis risky. For example, they argue that the detail required to identify health spending in and for Northern Ireland is not available.²⁴ While accurate for the UK as a whole, the figures do include estimates when they are broken down by region, whose accuracy for Northern Ireland it is not possible to test at this time. The figures used in the analysis below are the ONS figures, which are the best available, but subject to this qualification.

21 John FitzGerald and Edgar Morgenroth, *The Northern Ireland Economy: Problems and Prospects*, p. 53. <https://www.tcd.ie/Economics/TEP/2019/tep0619.pdf>

22 NICVA, *A Commentary on Economic Data in Northern Ireland* (Belfast, 2014), 15. Available at: https://www.nicva.org/sites/default/files/d7content/attachments-resources/economic_data_march2014.pdf

23 NICVA, *A Commentary on Economic Data in Northern Ireland*, 4.

24 NICVA, *A Commentary on Economic Data in Northern Ireland*, 14.

Non-identifiable expenditure and expenditure outside the UK allocated to Northern Ireland

A key element of expenditure within the subvention calculation is the allocation of over £5.6b of central UK expenditure to Northern Ireland, primarily on a per capita basis, without any significant analysis of where the benefits of that expenditure might appropriately lie. This ‘non-identifiable’ expenditure includes areas of expenditure that might not transfer at all, or at the same level to a united Ireland. For example, the ‘non-identifiable’ expenditure allocated to Northern Ireland includes £1.56 billion as Northern Ireland’s contribution to UK defence expenditure. Only a tiny amount of this expenditure takes place in Northern Ireland, and it includes expenditure that a united Ireland would not incur at all, such as the cost of the nuclear weapons programme and international deployments of the British armed forces. Central UK expenditure that is incurred outside of the UK is itemised separately in ONS figures and in 2023, £711m was allocated to Northern Ireland on a per capita basis. This would include costs such as the large UK diplomatic service.

Accounting adjustments

Like all published public financial data, the figures produced for Northern Ireland include a number of accounting adjustments. Primarily these relate to how depreciation is treated and some technical issues related to VAT.

There are three key difficulties in using the published subvention figure as a proxy for the cost of a united Ireland. First, the data as published has very large components that will be the subject of the negotiations that would take place between the British and Irish governments following referendums to create a united Ireland. Therefore, a political judgement is required as to the likely outcome of such negotiations. Second, adjustments need to be made to reflect public policy decisions on issues such as defence, or the relative size of a united Ireland’s diplomatic service, where there is no likelihood that a united Ireland would increase its budgets by the amounts included in the subvention. Third, as discussed, the data has limitations, and it is possible to estimate some of the adjustments that need to be made to better reflect the relevant costs. The following section deconstructs the largest elements within the subvention, on the basis of these three issues, and discusses the extent to which they would be relevant to a united Ireland.



The Potential Deficit Figure Inherited by A New United Ireland

The public finance deficit that would be likely to transfer to a united Ireland is significantly less than £14.2b per annum. The following section explores some of the biggest elements of the published accounts, discussing their continuing relevance in the context of a united Ireland. It looks in turn at pensions, a possible contribution to UK national debt repayments, defence expenditure, other non-identified expenditure included in the current subvention figure, accounting adjustments, outside of UK expenditure, and under-estimates of Northern Ireland's share of UK tax revenues. *Table 2* then recalculates the subvention based on the costs that would be likely to be assumed by a united Ireland.

Cost of pensions

One of the biggest issues to be negotiated between the Irish and British governments, following referendums that resulted in decisions to create a united Ireland, would be liability for pensions. The latest published figures for Northern Ireland relate to 2023., and give a total cost of £5,722 million.²⁵ This is the comprehensive cost of public pension benefits, paid to people whose address is in Northern Ireland, and it includes both the net cost of public sector occupational pensions that are not covered by a separate pension fund (that is cost of pensions, minus contributions paid by those working, in that year) – which costs £1.7b pa, and also includes the full cost of pensions paid as state benefits, based largely on prior national insurance contributions, which cost just over £4b pa.

The UK-wide net cost of public service employment pensions peaked in 2022. Since then public sector workers are making more significant contributions. The UK Treasury estimate that the Treasury 'top-up' to cover the gap between contributions collected and pensions paid in a given year will fall by over 75% over the next two to three years due to the increased contributions from workers. If this projection is accurate, this would

dramatically reduce pension costs (and indirectly the underlying subvention) by approximately £1.3b within the next two to three years.

This cost of pensions would be unlikely to transfer to a united Ireland. At present, the UK pays pensions to people who have worked some or all of their working lives in the UK, but now live elsewhere. Many Irish citizens, in retirement in Ireland, receive their UK pension seamlessly, and the two tax and social welfare systems have a well-developed model of cooperation. Following Brexit, the UK and Ireland signed a bilateral Convention on Social Security in 2019 which came into effect on 31 December 2020. This, more or less, replicated EU regulations for determining pensions in cases where people have worked in different countries or have retired to a different country than they worked in, essentially confirming that costs will be shared, based on the ratio of years worked in each jurisdiction.

It seems consistent that the UK would pay pension liabilities that had been built up, based on individuals' tax and social insurance contributions to the UK Treasury or caring responsibilities, during Northern Ireland's membership of the United Kingdom, leaving the new Irish state to take over liability building up from the date of the creation of the new state. Therefore, someone who is already retired and has a state pension based on UK national insurance contributions (and caring responsibilities), or a retired public servant who made additional pension contributions during their working life should continue to receive their UK pension, in a united Ireland, paid by the UK. If someone was half-way through their working life at the time of a United Ireland, then the UK would at the time of their future retirement pay them half a UK pension at that time, and a united Ireland would be responsible for paying the balance, based on Irish policy and rates. That is what happens at present. Accepting liability for pensions built up while working in the UK would also be consistent with the approach taken during the UK's withdrawal from the EU.²⁶

²⁵ HM Treasury, *Public Expenditure Statistical Analysis 2023*. Available at: <https://www.gov.uk/government/collections/public-expenditure-statistical-analyses-pesa>. The cost of State pensions in NI is provided directly in this report. The net cost of employment-based pensions is not broken down by region and the figure of £1.7b is based on a per capita breakdown of UK figure. It may in practice be slightly higher as the public sector makes up a much greater proportion of NI's economy, compared to UK averages. If it is larger, then the cost of the 'subvention' would fall by that amount, as new contributions are gradually reflected in ONS figures over the next two to three years.

²⁶ See Federico Fabbrini (ed.), *The Law and Politics of Brexit, Volume II. The Withdrawal Agreement* (Oxford University Press, 2020).

Like Ireland, all social welfare-based ‘state’ pensions in the UK, and most public sector employment-based pensions are paid from general taxation and not from a legally separated fund. However, there is a strong sense of pension ‘entitlement’ in both Ireland and the UK, notwithstanding the absence of legally separate pension funds. While the UK could reject any obligation to pay any pensions, a refusal to acknowledge lifelong contributions through social insurance (or equivalent caring responsibilities) would lead to very inconsistent outcomes. A person who worked in the UK, and retired to Dublin or Spain, would get a UK pension, in the current practice, but if they lived and stayed in Northern Ireland they might not. If people had worked for some of their life in Britain and some in Northern Ireland, how would their contributions be divided up as between the years spent working in Northern Ireland compared to in Britain?

Beyond legal restrictions, an attempt to walk away from pension responsibilities would be very likely to lead to a significant response from UK trade unions, and the wider public, due to the precedent it would set. Trade unions may not engage on the question of Irish unity itself, but if they acquiesced without protest at a decision by a UK government to simply refuse to pay pensions, including public sector employment-based pensions, in the case of a united Ireland, could the British Government also do so to cut public spending, or in the case of privatisation of a service? Accepting the precedent that there is no entitlement to a state or public sector employment-based pension, would almost inevitably be resisted by trade unions on this basis.

Mike Tomlinson argues that the UK is in fact duty bound to pay the full cost of public sector pensions, not just the net cost (i.e. net of pension contributions received from public service workers) included in ONS figures. Tomlinson’s argument is based on the fact that public servants living in Northern Ireland have paid pension contributions and/or national insurance contributions, during their working lives in the expectation that they are building up a pension ‘entitlement’.²⁷ If the UK chose to treat this as current income and not invest it against

future liabilities, that was their choice, made at central UK level, since public pensions began. However just because the UK made that choice, does not mean that Ireland should accept that all those contributions have simply disappeared and that a future Irish Government has to pay pensions without having received the contributions. The contributions being collected by a United Ireland in year one, are matched against future pension liability and not that year’s costs – based on liabilities built up inside the UK. If the UK paid the full cost of state and employment based public sector pensions this would increase the cost to the UK and correspondingly reduce the annual fiscal deficit. Of course, the pension liabilities of a united Ireland would then start to build up, increasing every year from that date, as the liability of the UK reduced every year, but a united Ireland in its early years would be the net beneficiary of pensions contributions, being paid by current public servants, with very little expenditure in the short term. It seems politically likely however that if the UK agreed to the full cost of employment-based pensions, they would seek a contribution from Ireland towards the cost of state pensions based on national insurance contributions. In fact the impact on the deficit would not be very different for the two options, if the UK paid the full-cost of employment-based public sector pensions, and a smaller contribution towards state pensions, or paid just the net cost of employment-based pensions and paid state pensions based on number of years where national insurance / PRSI was paid to the UK Treasury versus the Irish exchequer. The UK may prefer in fact to take the option of paying employment-based pensions. In either case this would have the impact of reducing the fiscal deficit, by approximately £5.7b pa.

While pensions will be a matter for bi-lateral negotiation between the two governments, it is consistent with other practice that the UK would accept such obligations, which had been built up through tax and social insurance contributions, and caring responsibilities up to the date of Northern Ireland leaving the UK, while a united Ireland would take over such future liabilities building up from day one of the new state.

27 Mike Tomlinson, ‘Social security in a unified Ireland’, *Irish Studies in International Affairs* 33 (2) (2022), 228–46.

A mutually acceptable agreement is consistent with UK diplomatic practice. Even with all the challenges of Brexit, leaving the EU with no agreement was never a popular option among the political elites or the public. Post unity, a united Ireland would be an EU member state, from the first day of Irish unity – with an enhanced voting position, reflecting its increased population. Ireland, notwithstanding recent tensions caused by Brexit, had traditionally been one of the UK's most reliable allies inside the EU. As a non-EU member, Britain would be likely to give considerable priority to negotiating a good deal with Ireland, which restores good relations and gives the UK a friendly neighbour inside the EU. This is something of value to a future British Government, that they will need to negotiate for, and pensions in particular are likely to be the area in which they concede. Pension liability is also an area which would be more certain for the UK Treasury, than some other commitment to contribute financially to Northern Ireland's public services for legacy reasons. Pension costs based on UK contributions will inevitably decline every year, as pensioners die and as the proportion of a worker's contributions paid to the UK before Irish unity declines with each passing year. A UK pension commitment will eventually end. A commitment to pay a certain amount of money on an annual basis, might in practice be difficult to end in an uncertain future. This is therefore the most likely manner in which the UK would cover a transitional (and by definition annually declining) financial contribution to Northern Ireland, post-unity. It would cost the UK £5.7b in year one, declining to zero after 40 years, or whatever earlier date was agreed between the two governments.

UK public debt

The second largest element of the subvention relates to the share of UK public debt, which has been 'allocated' by the UK Office for National Statistics to Northern Ireland on a per capita basis. This debt is the legal responsibility of the UK, and any agreement from the government of Ireland to take over some of the debt could only be agreed voluntarily, as part of a wider transitional package. In reality, because of the scale of the public deficit over many decades, 'Northern Ireland' has not made any contribution to UK debt repayments since the 1950s. In practice, an amount of debt repayment expenditure is allocated to Northern Ireland, whose only effect is to increase the subvention. This cost is actually covered by the UK Treasury. Therefore, there would be no real additional cost to the UK, compared to what they have been paying over many years. In the historic case of the creation of the Irish Free State, the Irish side initially agreed to take on debt, as part of the Anglo-Irish negotiations, negotiations which were conducted under the threat of 'immediate and terrible war', if a deal was not reached. It is to be assumed that no such threat would be issued after a referendum today. In the event, the allocated share of UK debt was written off in 1925 when the Free State accepted the boundary commission report, which the UK regarded as the finalisation of the transition from the point of view of UK law.²⁸ In the event of a vote to create a United Ireland, Northern Ireland would be leaving the UK in accordance with the provisions of UK law, and would not need to agree to pay any debt for which it has no legal liability in order to secure that right.

There are very few comparable international cases of debt division on secession in the modern era, and the political context for these negotiations has been important. In the initial period of the break-up of the USSR a debt and asset share out was proposed by Russia and agreed with 8 of the other 14 Republics. No one, apart from Russia, ever actually paid any of the USSR debt however, and in 1993 the Russian Federation agreed to take on the entire post-Soviet external debt (and assets).²⁹ If in negotiations during transition, the

28 Donnacha Ó Beacháin, *From Partition to Brexit*, 27-28.

29 David Robinson and David Edwin Wynn Owen, *Russia Rebounds*, International Monetary Fund, 2003. <https://www.elibrary.imf.org/display/book/9781589062078/ch07.xml>

UK government pushed to have Ireland take over a share of UK debt, Ireland would then be entitled to a proportionate share of UK assets outside of Northern Ireland—both national institutions based throughout the UK, and embassy and state properties outside the UK territory. While it is possible to value Northern Ireland's share of UK assets outside of Northern Ireland, it is more probable that some form of stand-still agreement would be reached, whereby the new united Ireland would waive its rights to any share of UK 'national' property, outside of Northern Ireland, and of UK assets abroad, and in return the UK would not seek to transfer a proportion of the UK national debt to a united Ireland. Ireland would have a strong hand in these post referendum negotiations. A united Ireland would not owe any UK debt by contract and there is no international law which would compel Ireland to take over any portion of this debt. Bondholders all have binding legal contracts with the UK Treasury, who would be guilty of debt default if they stopped paying a certain percentage.

In some public commentary it has been argued that as the Scottish Government led by the Scottish National Party (SNP) agreed to make a payment to the UK equivalent to a pro-rata share of both pensions and debt then a United Ireland would have to do the same. The Scottish Government did not need to make this offer in law, it was a part of the political negotiations with the UK to gain the right to hold a referendum in 2014.

In law the UK will owe all of its state debt. The 'remaining UK' would clearly be what is called the 'successor' state of the UK in international law. They would absolutely want to maintain this legal position and would not dispute it. The 'remaining UK' would for example, wish to keep the UK seat and the UK veto on the United Nations Security Council, and would obviously wish to do so without having to negotiate such a transition, with the USA, France, China and Russia. Therefore, as the successor state they will have full legal liability for 100% of the UK national debt. In fact, though not commonly discussed, the UK Government accepted during the 2014 Scottish

referendum that 'In the event of Scottish independence from the United Kingdom (UK), the continuing UK Government would in all circumstances honour the contractual terms of the debt issued by the UK Government... a share of the outstanding stock of debt instruments that have been issued by the UK would not be transferred to Scotland'.³⁰ Of course, the UK Government took the view that 'an independent Scottish state would become responsible for a fair and proportionate share of the UK's current liabilities' – but that was on the basis of a bilateral agreement between the UK and a Scottish Government, desperate to reach agreement on holding a referendum – and was not based on any legal liability by an independent Scotland for that debt.

Scotland was seeking to become a sovereign state for the first time in the modern era and they needed the UK Government to agree to the holding of a legal referendum. This issue is not relevant in the case of a united Ireland. Ireland does not need the UK to agree to recognise the principle of a referendum and to agree to be bound by it. The UK has agreed all of that, in a legal treaty with Ireland as part of the Good Friday Agreement, and has enshrined it in UK law.

ONS data gives a figure of £3,533m as Northern Ireland's 2023 contribution to interest on the UK national debt. *Table 2* excludes this figure, as Ireland would have no legal liability to pay any part of it. If negotiations on a transition to a united Ireland conclude with the government of Ireland agreeing to voluntarily take on some element of UK public debt, as part of a wider agreement, the inclusion of Northern Ireland's potential share of assets would significantly reduce the amount at stake compared to the subvention calculation at present. Certainly, if the UK simply reneged on any responsibilities for pension payments it is impossible to imagine the circumstances in which a future government of Ireland would agree to repay any portion of loans for which they had no legal responsibility. Therefore, it is politically impossible that the level of subvention impacting a united Ireland would include both pensions and debt.

30 UK Government, *UK debt and the Scotland independence referendum*, 2014. https://assets.publishing.service.gov.uk/media/5a7c8633e5274a2674eab3f5/uk_debt_and_the_Scotland_independence_referendum.pdf

Defence

The third largest element of the Northern Ireland subvention is an amount of £1,567m per annum which is allocated to Northern Ireland as its share of UK-wide defence expenditure. This is entirely separate from other security-related costs, such as the police, courts, and prisons which are clearly identified separately. Almost none of this expenditure takes place in Northern Ireland, and it includes, for example, a pro-rata contribution to the UK nuclear weapons programme and the UK's international deployments of its armed forces. To put this figure in context, the Irish defence budget was approximately €1b in 2019, which rose to €1.35b in 2024.³¹ The 2022 Commission on Defence set out three 'levels of ambition' for future defence expenditure in the Republic — the previous status quo of €1b pa, a middle level of approximately €1.5b and the most expensive option requiring expenditure of approximately €3bn pa.³² There is now broad political consensus that Irish defence spending will increase relatively quickly to approximately €1.5b p.a. (plus an allowance for inflation since 2022). There are also likely to be increases beyond the level of €1.5b, but unlike the USA and the UK, that increase will not be funded by cutting international aid. It will nonetheless take place and be factored into public expenditure well before referendums on Irish unity, meaning that unity will not be the trigger for this additional expenditure, and therefore it will not impact on the inherited subvention.

It is almost certain that in the context of unity, British military personnel from Northern Ireland would be given the choice to stay in the UK armed forces or move at equivalent rank to the Irish Defence Forces; however, given the different scale and promotion possibilities and also issues of identity, it may well be that few would transfer immediately. A united Ireland might decide not to increase defence expenditure at all, creating no additional costs. Certainly, it would be very unlikely to decide to immediately more than double the defence budget. While the number of personnel who would transfer is impossible to estimate, even allowing for a £200m increase (approximately €240m pa) in the new defence budget would represent

a saving of £1,367m from the current published subvention figure for Northern Ireland, and that reduction is included in *Table 2*.

Non-identified expenditure

In addition to debt repayments and defence, the published deficit figure for Northern Ireland includes an allocation of another £513m per annum of central UK spending classified as 'non-identified expenditure', that is, central UK government expenditure where it is either not possible, or would be too expensive, to break down the costs by region.³³ This is a standard approach in national statistics, and 'Northern Ireland' would contribute towards such costs in a new united Ireland. However, as there is a very limited breakdown of this figure, it is not possible to fully calculate whether public expenditure of a new united Ireland would need to increase pro-rata to cover real additional costs, or if this would simply be an accounting allocation of costs that would change very little—for example Northern Ireland's share of the costs of the President or An Taoiseach. In the case of the latter, while it would be legitimate to 'allocate' those costs across the whole island, there would be no significant additional cost to a united Ireland compared to the existing situation.

There has been some public debate that such 'non-identified expenditure' includes costs such as the British royal family, which would not be relevant to a united Ireland and others have argued that a portion of these costs should be excluded on that basis. In reality, the real cost of the UK royal family is in land ownership and taxes foregone, a potential loss of income which would not be relevant, either way, to a united Ireland. Northern Ireland's pro-rata contribution to the Sovereign Grant of £70m is not fiscally relevant, however symbolic.

The *Sustainable Growth Commission* in Scotland estimated that there would be savings of £400 million pa, compared to ONS data on 'non-identified expenditure', in areas that Scotland contributes to UK costs that will no longer be required, such as costs allocated to Scotland associated with running costs

31 Government of Ireland, *Trends in Public Expenditure 2009–2019*, October 2020. Available at: <https://igees.gov.ie/wp-content/uploads/2020/11/Trends-in-Public-Expenditure-2009-2019.pdf>, 46. Press Release on Budget 2025, (1 October 2024) <https://www.gov.ie/en/press-release/9913d-press-release-record-allocation-of-135-billion-in-defence-funding-in-budget-2025/>

32 Commission on the Defence Forces, Report, 2022, available at: <https://www.military.ie/en/public-information/publications/report-of-the-commission-on-defence-forces/>.

33 ONS, Country and Region expenditure tables, 2023.

of the House of Commons and House of Lords, the Scotland Office and Whitehall Department running costs that will not need to be duplicated in Scotland.³⁴ In Ireland's case the equivalent cost would be the allocated central UK costs of activity based outside of the current territory of Northern Ireland where there would be no requirement for those agencies at all in a United Ireland, or no need for them to increase in size. As these costs are allocated on a per capita basis, and Northern Ireland's population is approximately 34% of Scotland's, the equivalent saving in Northern Ireland's subvention figure would be £136m in 2018 prices, or £177m in 2023 prices.

Accounting adjustments

Accounting adjustments increased the expenditure allocated to Northern Ireland by £2,057m stg in 2023. This figure is primarily an accounting treatment of capital depreciation and of VAT refunds. John FitzGerald and Edgar Morgenroth argue that the depreciation element is also included on the revenue side of the subvention calculation in de facto terms by the ONS, as part of the Gross Operating Surplus and does not therefore increase the deficit. Even though they accept that the detail of the balance is hard to untangle, they do not exclude any of the 'accounting adjustments' from the calculation.³⁵ However, in every recent year, the unidentified element of accounting adjustments has significantly increased the subvention figure. It is not negative in some years and positive in others. Taking the last five years, the average impact (after excluding depreciation), has been to increase the subvention by £821m per annum. It is not possible from published data to further break down whether any part of this £821m in net accounting adjustments would impact on the scale of the subvention that would transfer to a united Ireland. All of this £821m may transfer or none of it.

The report for the Irish Oireachtas compiled by Mark Daly chose to exclude accounting adjustments in their entirety on the basis that they do not represent actual expenditure, which a new state would need to find on

day one.³⁶ There may well be some savings for a future united Ireland, but it would not be the full amount and it would not be prudent to claim possible savings in the absence of further data. Therefore, *Table 2* makes no adjustment on this basis, and follows the conservative approach taken by FitzGerald and Morgenroth, as the final details of 'accounting adjustments' are unclear and any additional saving to a future united Ireland may be well below the figure of €821m which cannot be itemised. However it is quite likely that some of this figure would not mean any real additional deficit in a united Ireland, so it builds a financial cushion into these calculations in *Table 2*.

Outside of UK expenditure

£711m of expenditure is allocated to Northern Ireland as a pro-rata contribution to UK state expenditure outside the territory of the UK.³⁷ There is a very limited breakdown of this expenditure, but it includes Northern Ireland's share of the UK's EU contribution as agreed in the Withdrawal Agreement, along with costs of the Foreign Office and overseas aid. If a new united Ireland chose to increase the size of the Department of Foreign Affairs and Trade and the scale of Ireland's development aid programme on a pro-rata basis, then any saving here would be modest. A united Ireland's contribution to the EU, 'on behalf of' Northern Ireland would actually be larger than what the UK paid historically, as the UK received a very large rebate on its contribution. However, the increased costs of development aid and diplomacy, compared to Ireland's current commitments, are future policy choices, competing with domestic programmes. They are not legacy public spending that would have to be met on day one. As such they should not be considered part of the 'subvention' to be inherited, but rather one of the many policy choices facing a new united Ireland. It is also probable that a transitional agreement delaying the payment of an increased EU contribution would be forthcoming from the European Commission (or perhaps more likely, an equivalent and off-setting EU spending programme to assist transition). This would inevitably be time-limited, but it would assist economic

34 Government of Scotland (2018). *Sustainable Growth Commission*.

35 John FitzGerald and Edgar Morgenroth, *The Northern Ireland Economy: Problems and Prospects*, 54. <https://www.tcd.ie/Economics/TEP/2019/tep0619.pdf>

36 Gunther Thumann, *Northern Ireland's income and expenditure in a Reunification scenario*. Joint Oireachtas Committee on the Implementation of the Good Friday Agreement, 2017. Available at: <https://senatormarkdaly.files.wordpress.com/2019/10/imf-merged-.pdf>

37 ONS Country and Region Expenditure Tables. Available at: <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/datasets/countryandregionalpublicsectorfinancesexpendituretables>.

development and transition in the immediate aftermath of the new state's creation. Therefore, it is reasonable to largely exclude this figure from the calculation of a deficit for day one of a united Ireland, but to retain it as part of the public policy choices that have to be made during the transition and in the early years of a new state, when the income from taxation is also known. *Table 2* therefore reduces this 'outside of UK' expenditure by £400m per annum.

Taxation

As discussed above, taxes such as Corporation Tax, Capital Gains Tax and VAT are generally paid by companies from their head office regardless of where that profit was earned, or activities conducted. This exaggerates the tax earned in London, on ONS accounts, as tax is generally allocated based on employee numbers, not regional share of profits. As London is the head office address of many companies, which have operations throughout the UK, whereas there are far fewer companies headquartered outside London who make most of their profit in London, the impact of this is to under-report the relevant taxes for Northern Ireland and other regions. FitzGerald and Morgenroth recalculate these taxes based on Northern Ireland's ratio of UK Gross Operating Surplus, rather than per capita, to better estimate Northern Ireland tax revenues and they estimated that doing this increases Northern Ireland tax revenues by approximately £500m pa, with the precise figure varying from year to year.³⁸

The *Sustainable Growth Commission* in Scotland, examined the issue of revenues associated with transferred employees and the cost of new employees associated with the establishment of new departments and agencies to deal with issues not currently devolved. At present in UK national statistics, the full cost of such central services are allocated to each region on a per capita basis, whereas the taxes paid by those employees are allocated as income in the region where they live or work. Therefore, the subventions in Scotland (and Northern Ireland) include the full cost of these agencies, but none of the off-setting tax revenues

paid by employees. In a united Ireland, even if the cost of the agency was identical, staff taxes would obviously be paid to the Irish Government.

The Commission estimated that approximately £2.4 billion of central expenditure which is currently allocated to Scotland, but actually spent elsewhere, for example on staff costs in London, would transfer to Scotland after independence and so generate taxation revenues. Almost 70% of this expenditure would be on staff wages and purchases of goods and services and of this, almost 37% would be expected to be taxation revenues, so giving a boost to Scottish tax revenues of £600m pa.³⁹ Northern Ireland also pays a pro-rata contribution (population based) to the costs of UK central departments and state agencies, which are overwhelmingly based outside of Northern Ireland, and the taxes paid by those employees are credited to the region in which they are based or live. Allowing for the difference in size between Scotland and Northern Ireland, a boost to Irish revenues from the transfer of staff to Ireland (or hiring of new staff to replace them) for which Northern Ireland is already paying in the published subvention figures, would see taxation increase by approximately £204m a year (£265m in 2023 prices), and the deficit / subvention fall by that amount.

Research by Mike Tomlinson explored the impact of Northern Ireland joining the existing tax and social security system of the Republic of Ireland.⁴⁰ Tomlinson was not advocating an unchanged system. He was simply looking at the consequences for individuals and for state revenue. Tomlinson estimated that the average employee at every income level up to the 70th decile (i.e. all workers except the 30 per cent highest earners) would have between €12 and €19 per week in additional take home pay—primarily due to lower social security/PRSI payments on low to middle income earners. However, the state would still collect €769m more income p.a. due to higher taxes on higher earners and greater employer contributions to social security. *Table 2* does not adjust this figure for inflation, given that tax rates and PRSI/ NIC's vary annually in any case.

38 John FitzGerald and Edgar Morgenroth (2019), *The Northern Ireland economy: Problems and Prospects*.

39 Report of Scottish Government's *Sustainable Growth Commission* (2018), Para B4, p.58.

40 Mike Tomlinson, 'Social security in a unified Ireland', *Irish Studies in International Affairs* 33 (2) (2022), 228–46.

Table 2—A recalculated subvention to reflect those elements relevant to a United Ireland

	£m	£m
Published UK deficit by UK's Office of National Statistics, 2019		14,220
Saving from this figure as discussed above		
• UK pensions	5,722	
• Allocated UK debt charges	3,533	
• Reduction in UK Defence allocation (allowing for a £200m incr. in Ireland's defence budget)	1,367	
• Tax underestimate due to 'HQ' effect of London-based companies	500	
• Outside of UK expenditure, reduction of scale	400	
• Tax boost from central expenditure moved to Ireland	265	
• Savings from 'unidentified' central expenditure	177	
• Impact of moving to Republic's tax and PRSI system with increased taxes on high earners.	769	
Total adjustments to subvention carrying over to a united Ireland		12,773
Remaining subvention, before policy decisions		1,487

Table 2 includes no allowance for any reduction in the size of the Northern Ireland public service—which was the approach taken by Senator Mark Daly⁴¹ in his report to the Oireachtas. The public sector is proportionately larger in Northern Ireland compared to the Republic. It makes up 29% of all employees in NI, and 25% in the Republic. However Northern Ireland has fewer doctors and nurses, and a very underdeveloped Further Education system, so in the early years of a United Ireland even if some economies of scale emerge in the public sector (which seems likely) there would still be likely to be additional recruitment in health and education at least. Of course, the public sector as a proportion of the labour force will fall as the private sector grows, as more people enter the labour market in response to higher wages, and the population increases. However, this will not impact the absolute cost of the public sector on balance. It is also politically very likely that a future Irish Government would make a commitment to trade unions that there would be no public sector redundancies in the event of a united Ireland.

Neither does *Table 2* include any adjustments to account for possible economic growth, which is discussed further later in this paper. These are matters for future policy decision, and not part of the subvention that would be inherited. What is very clear, however, is that the published subvention figure of £14.2b is almost irrelevant for the purpose of estimating the likely costs of a united Ireland. There will be an inherited deficit of approximately £1.5b, if the UK meets its pension liabilities as is likely, and a maximum £7.2b if they walk away and refuse to pay any pensions whatsoever to those with current entitlements. The economy of a united Ireland could cope with either figure. If the UK does refuse to pay its pension responsibilities and Ireland therefore does not volunteer to take on any UK debt, Ireland's debt-to-GNI* ratio will drop very considerably from 61% of GNI* to 51% at today's figures, as GNI* will rise by around 20 per cent and debt will remain static. That would allow a united Ireland to borrow the costs of transition at very favourable interest rates. There are however important factors that will impact on that figure, both positively and negatively, most crucially, economic performance and public policy decisions.⁴²

41 Gunther Thumann, *Northern Ireland's income and expenditure in a reunification scenario*. Joint Oireachtas Committee on the Implementation of the Good Friday Agreement, 2017.

42 Paul Gosling, *A new Ireland, a new union, a new society: a ten year plan* (Derry, 2020), starts an interesting discussion on the public policy choices; see John Doyle, Cathy Gormley-Heenan and Patrick Griffin, 'Editorial: Introducing ARINS—Analysing and Researching Ireland, North and South', *Irish Studies in International Affairs* 32 (2) (2021), vii–xvii for an outline of the ARINS project.

The Fiscal Position in the Early Years of a United Ireland

The starting subvention for a united Ireland would be £1.5b, if the British Government lives up to its responsibilities on pensions – an outcome which is the most likely one, as argued above. However, given the currently weak economic position in Northern Ireland and the gap in productivity between Northern Ireland and the Republic, it is inevitable that some additional investment will be required, to drive the necessary economic change to improve living standards, and to improve public services, in particular health, education and infrastructure.

It has been suggested in a 2024 IIEA report that the initial costs of transition to a united Ireland would add almost an additional £10b pa, over the full published subvention, and that report therefore suggests that a united Ireland would cost £20b pa, a cost which could substantially continue for 20 years.⁴³ However important errors and omissions and entirely unreasonable assumptions, mean that this report does not even represent a worst-case scenario. It is simply inaccurate, for the following reasons.

- 1 The IIEA Report adds over €4.2 billion pounds pa to the cost of unity, by immediately increasing public sector wages to Southern levels (a 54% increase in cost, and a 48% pay increase for the average employee), but the IIEA report in error makes no allowance for the taxes (which would be overwhelmingly at the higher rate of 40% on the marginal increase), PRSI (4%) and pension contributions (typically around 10%) to be paid on that increase. This reduces the real cost of this pay increase by over £2.2b pa.
- 2 The IIEA report assumed that public service salaries in Northern Ireland would be immediately increased to Southern levels in year one – before there was any significant change in the lower cost of living in Northern Ireland (driven to a large extent by housing costs, which would not change instantly). Convergence in wages is inevitable, and an Irish Government would be likely to offer a pay increase in year one, sufficient to cover any increases in taxes or pension contributions, and to give a year one
- 3 The IIEA also assume a cost of £3.8b pa (€4.5b) to bring average pension and welfare payments in Northern Ireland up to average rates in the Republic. They do this purely on the basis of a comparison of pension rates. No source material is provided in the report but it seems that the report compared all pensions – including private and employment-based pensions and not the actual state pension rates, and then used this gap as a basis to calculate an increase for all welfare payments. This has the effect of very significantly increasing the cost. For example, at the end of 2024 there were 325,350 people on State Pensions in Northern Ireland and 68,990 on Pension Credit (equivalent to a non-contributory pension in the south). The cost set out in the IIEA report would be the equivalent to an increase of €10,000 per person per annum, for pensioners. Does the scale of their budget assume that the state would cover the entire cost of such an increase to those on private and employment-based pensions, and would do so regardless of the other income received by the person? Such a political decision is highly unlikely.

43 John FitzGerald and Edgar Morgenroth, *Northern Ireland Subvention: Possible Unification Effects*. Dublin: Institute for International and European Affairs, 2024; Mark Hennessy 'United Ireland could cost €20bn a year for 20 years, says new study' *The Irish Times*, 4 April 2024. <https://www.irishtimes.com/ireland/2024/04/04/tax-rises-and-spending-cuts-would-be-prompted-by-20bn-a-year-bill-for-irish-unity/>

44 Adele Bergin, Seamus McGuinness and Conor Banahan (2025). *Economic overview of Ireland and Northern Ireland*, ESRI Research Series 203, Dublin: ESRI.

In addition, like salaries, the IIEA report makes no allowance whatsoever for tax and PRSI to be paid on such pensions by those on higher incomes.

To increase the new UK state pension and pension credit to the equivalent (and higher) contributory and non-contributory pension rates in the Republic, would cost approximately €381m pa – an increase of €20 per week to those on contributory pensions and €12 per week for non-contributory.⁴⁵ While those on non-contributory pensions would not pay tax, many of those on contributory pensions would do so, where they had other sources of income such as private or employment-based pensions, or employment. Even allowing for a tax rate of only 20% on just half of those receiving contributory pensions would reduce the actual annual cost of equalising state pensions to approximately €343m per annum, rather than the IIEA's £3.8b (€4.5b).

For those on disability benefits, the next largest category of recipients of welfare payments, there is actually not much difference in the levels north and south. The basic payment in the South is much higher, but the additional supports which can be claimed in Northern Ireland, as personal independence payments (and various equivalent allowances) close the gap.⁴⁶ Unemployment payments are much higher in the south but the numbers claiming 'job seekers' payments are low. Statistics for the newly integrated Universal Credit benefit system in Northern Ireland, show that almost 25% of claimants are working, but do not earn enough to meet minimum income requirements. Economic growth and wage convergence with the South would see the income of many of these claimants increase sufficiently so they would no longer need benefit payments. Therefore, there is no basis for the €3.8b used in the IIEA report as the cost of welfare convergence.

- 4 The IIEA report uncritically uses the published subvention figure as the starting point for the fiscal balance of a united Ireland. In particular, it includes the full cost of both debt and pensions.

The British Government can legislate to end pension payments to those resident in Northern Ireland, but as discussed above this is an unlikely outcome for reputational and political, rather than legal reasons. What is absolutely impossible in reality, is an outcome where after negotiations between the Irish and British Governments, and where the British side abandon all responsibility for paying pensions to those who have paid national insurance or employer-based public sector pension contributions, that the Irish side would then volunteer to pay a share of UK state debt, for which they have no legal liability. This is not a question of the debt being 'waived'. It is owed by the UK and not by Ireland or Northern Ireland. While a United Ireland could volunteer to pay some debt in return for a deal on something else such as pensions, they would only do so if that was a better deal. It is simply impossible that a united Ireland is left with liability for both debt and pensions. In this regard the IIEA report is inaccurate when it states that the historic USSR debt was shared. The Russian Federation accepted full liability, following some failed attempts to get agreement on sharing the debt with those who had left the USSR.

- 5 Finally, the IIEA report excludes any analysis of economic growth for 20 years after unity. It assumes that with the same political system, EU membership, policy framework, education system and tax regime, that Northern Ireland would not economically converge with the South, at all, during the first 20 years of a united Ireland. This is a very unlikely outcome. While regional convergence is a complex matter, it is a very pessimistic position to assume that Belfast would continue to perform so much worse than Cork and Kerry if it had the same EU access, FDI policy, education and tax system.

For these reasons the figure of €20b over 20 years is not a worse-case scenario. It is an inaccurate and unreasonable starting point. The section below sets out an alternative fiscal projection.

45 UK pension holders on older 'pre-2016' pensions are paid at lower rates, but the great bulk of pensioners would be on these new rates by the earliest likely time in which a united Ireland would be created.

46 At the time of writing the UK Government had just announced that it would significantly cut Disability Benefits but the precise extent of the future cuts is unclear.

Fiscal Projections for a United Ireland

The fiscal projection for a United Ireland which follows below, starts with the deficit figure of £1.5b pa (€1.75b euros) outlined above, which is then adjusted to allow for much needed additional investment in Northern Ireland in health, welfare, education and infrastructure; a gradual implementation of the 48% increase in public sector wages required to bring them into line with the Republic, and the estimated increase in revenue from economic growth and population growth.

While the UK would pay state and public sector employment-based pensions on a pro-rata basis, calculated using the number of years where a person paid pension contribution and /or national insurance to the UK Treasury, Ireland's share of that cost will automatically increase every year after unity, as the number of years where someone paid PRSI, and/or pension contributions in a united Ireland gradually increased. After a maximum of 40 years (probably sooner in practice) the cost of pensions would be entirely covered by a united Ireland. This will allow time for the economy to grow and converge with the Republic, in order to cover that cost. The annual state and public sector pension costs in Northern Ireland of £5.7b, but are projected to fall back to approximately £4.4b pa, over the next two to three years, due to the additional contributions being made by public sector workers. If the starting point is £4.4b, then the cost of "Northern Ireland" pensions in a United Ireland will go up on average by £110m pa, year on year, as the costs transfer over from the UK. The level of tax to be paid on this will vary depending on personal circumstances, from no tax for those on low incomes to a marginal rate of 40% for those on high pensions. Allowing for an average tax take of at least 10% would be reasonably conservative, giving an annually increasing additional pension cost of £99m (or €115m euros). Beyond, existing pension payments, equalisation of state pensions to the higher level in the South, through a top-up payment from the Irish state, would cost approximately €343m pa, and is likely on political grounds to be done relatively quickly.

In practice, the pension cost in year one will be a little less as some people will have already reached

maximum contributions, and the growth will not be linear due to demographic changes, or changes to pension rules, but as the purpose of this model is to look at the first five and ten years, rather than the precise amount in any single year – pension costs have been increased by the same amount in each year.

Investment to boost living standards, and wage levels in the private sector, would be likely to focus on attracting investment to support better paying jobs, and also on policy changes to bring education outcomes in Northern Ireland up to the levels in the Republic. A 15-year equalisation of public sector salaries would cost an extra €152m each year for 15 years (the longest likely period of convergence, and therefore the minimum cost). Again, an Irish Government may offer a slightly higher increase in year one, but this paper averages the cost out equally. This additional disposable income would also have a positive knock-on impact on the regional economy

One of the most important policy issues to be addressed, is the very significant gap in education outcomes between the two jurisdictions on the island, which is one of the key drivers of lower productivity, investment and wages levels in Northern Ireland, compared to the Republic. In 2022 only 71% of the 15 to 19 age cohort were enrolled in education in Northern Ireland, compared to 92% in the Republic.⁴⁷ Looking at those aged 25 to 34, who should reflect recent impacts of the education systems, 7.4% of those in this age bracket in the Republic had very low levels of educational qualifications (primary school or lower secondary only), in 2019, compared to 18% of the age cohort in Northern Ireland.⁴⁸ This difference is almost entirely due to the much higher level of early school leaving in Northern Ireland. Students from poorer backgrounds are much more likely to be early school leavers in Northern Ireland than the Republic, largely due to significant improvements in the South in recent decades, widely attributed to the relative success of the DEIS schools initiative in the Republic, along with the negative impact of the 'transfer test' system in Northern Ireland.

⁴⁷ Adele Bergin, Seamus McGuinness and Conor Banahan (2025). *Economic overview of Ireland and Northern Ireland*, ESRI Research Series 203, Dublin: ESRI.

⁴⁸ Emer Smyth, Anne Devlin, Adele Bergin and Seamus McGuinness (2022). *A North-South comparison of education and training systems: lessons for policy*. ESRI, p.14.

Many of the necessary changes in education will not require significant investment, indeed they may even save money. Ending the 11+ exam (transfer test) is probably the most important step which needs to be taken now, to increase the proportion of young people who complete school to A-levels, who go on to formal Further Education and who go on to university. This is necessary for both economic and social inclusion reasons, and the current high level of early school leaving, is a major barrier to attracting economic investment. The transfer test (11+ exam), which separates children at that age into grammar schools with a strong trajectory towards higher education and non-grammar schools where only a minority will complete A-levels, is the biggest single cause of poor educational outcomes in Northern Ireland, with the resulting impacts on social integration, on wages levels and on economic development.⁴⁹ The gaps between the different school types are closing, but remain high.⁵⁰ In year 12 (GSCE year) 44% of students were in grammar schools, 56% in 'non-grammar schools. By year 14, (A-levels) 63.3% of the cohort were in grammar schools, due to much higher early school leaving, and the fact that some non-grammar schools do not offer A-levels. Separating young people into four separate schooling systems – Catholic and Protestant 'grammar schools', along with Catholic and Protestant 'secondary schools' is not only socially problematic, it is expensive. Changing it would be likely to reduce costs, not increase them.

In 2022, the number completing university degrees was similar North and South at 29%, but there was a large gap in the proportion of the 25 to 29 age cohort who had completed post second level school further education qualifications. 36% of those aged 25 to 29 had completed a post- second level qualification in the

Republic, generally Post Leaving Cert (PLC) Courses in a Further Education college, whereas only 11% of the age group in Northern Ireland had done so. Combining these two levels – almost 66% of those aged 25 to 29 had a post-second level school qualification in the Republic, compared to just over 40% in Northern Ireland.⁵¹ Even among university graduates, the shortage of places in the two universities in Northern Ireland, means that a relatively high proportion go to study in England Scotland and Wales, where 64%, remain after graduation – constituting a serious 'brain drain' and loss of skilled workers.⁵²

A much needed 10,000 additional university and Further Education places in Northern Ireland, would add approximately €80m pa to current public spending. A minimum of 20% of that cost would be received back in taxes paid by new staff in universities and FE colleges, leaving a net cost of €64m pa.

The projections below, assume that there would be a year one additional investment into Northern Ireland of one billion euros, on top of whatever expenditure was inherited from the previous year, and that this higher level of expenditure would be maintained in real terms over the ten years of this projection. This would be a significant boost to the local economy, and to public services, but not so large as to cause inflationary pressures. It would go some way towards closing deficits in health and education and would allow enhanced anti-poverty measures. The following years would continue to see equalisation of wages and benefits (at whatever speed was agreed), which would see further public expenditure increases, and again assisting to boost the local economy at a sustainable rate. *Table 3* summarises the financial impacts of these possible policy decisions, if they were taking place now.

49 Martin Brown, Chris Donnelly, Paddy Shevlin, Craig Skerrett, Gerry McNamara, and Joe O'Hara. "The Rise and Fall and Rise of Academic Selection: The Case of Northern Ireland." *Irish Studies in International Affairs* 32, no. 2 (2021): 477-498

50 NISRA (2024) *Year 12 and Year 14 Examination Performance at Post-Primary Schools in Northern Ireland 2022-23* <https://www.education-ni.gov.uk/publications/year-12-and-year-14-examination-performance-post-primary-schools-northern-ireland-202223-revised>, p. 25.

51 Emer Smyth, Anne Devlin, Adele Bergin and Seamus McGuinness (2022). *A North-South comparison of education and training systems: lessons for policy*. ESRI.

52 Pivotal (2021). *Retaining and regaining talent in Northern Ireland* <https://www.pivotalppf.org/cmsfiles/Retaining-and-Regaining-talent-report-V1.pdf>

Table 3: Fiscal deficit of Northern Ireland in year one of a united Ireland (millions of euros)

Inherited 'Subvention'	1,750
Equalising public sector wages over 15 years – year one	152
Gradual transfer of the cost of public pensions, over 40 years – year 1	115
Boost to public expenditure for other year one policy decisions / expenditure increases – likely to focus on health, education, pension / benefit equalisation (including €64m for expansion of higher and further education, discussed above)	1,000
Total fiscal deficit, year one	3,017

Current tax/PRSI revenues are approximately €138b pa in the Republic of Ireland and €26b pa in Northern Ireland. If the starting point, is a requirement to raise an additional €3b per annum to deal with an underlying deficit and provide some additional resources for public services, this would represent an annual borrowing requirement of just over three quarters of one per cent of the GNI of a united Ireland – or an increase in taxation revenues (based on economic growth or tax changes) of 1.8% above current combined revenue levels, or the creation of a future fund for unity at this scale. None of these are unachievable targets, for a relatively short transition.⁵³

The most important factor shaping public finances will be economic performance after unity. This is not simply a matter of trying to predict the future. We have examples to draw on. Ireland's own experience of growth following EU membership, seeing the state 'catch up' on wealthier economies was not unique. It was also seen in Spain and Portugal, Greece and most recently in Central Europe. Convergence with European economic performance (and therefore converging with the Republic's GNI per capita) does not require a 'miracle' growth path, but it does require change. Some of the key variables could be delivered in a stronger model of devolution to Northern Ireland inside the UK, such as higher public spending on education, infrastructure and R&D. The question is whether that is likely to be secured within the UK in any conceivable short-to-medium term political context, given that the poorer regions of the UK, including Northern Ireland, Wales and the North of England have not seen such

convergence over the modern era. Northern Ireland would require either a larger subvention, or higher taxes on high income earners at a UK level, to fund significant investment in education, and to distribute wealth more evenly. None of these options seem likely in the short term.

Other policy measures are realistically only likely in the event of a united Ireland – such as full access to the EU Single Market (including services), EU membership, a competitive corporation tax policy, a more appropriate migration policy and an income tax policy which delivers the necessary resources and social solidarity. Foreign Direct Investment is strongly linked to external perceptions of the Northern Ireland economy, perceptions which have been very slow to change, and which would be more likely to change more dramatically in the event of a united Ireland. Therefore gaining control over the necessary economic powers is intimately connected to choices about constitutional politics.

While it is beyond the scope of this paper to analyse the growth areas of an all-island economy, there are a few key areas where, if Northern Ireland's economy was to converge with the southern average (or for example with Munster in the Republic), the impact on productivity, growth and wages would be dramatic. Productivity in the Republic's economy, the biggest influence on wage levels, is 40% higher than in Northern Ireland, even after allowing for multinational distortions.⁵⁴ This gap in productivity is seen in almost every sector of the two economies, even those where multinational engagement is low to non-existent.

⁵³ Modified Gross National Income, usually abbreviated as GNI*, is a measure used in Irish economic analysis to remove the distorting impacts of multinational tax activity on Ireland's economic data, including GDP figures.

⁵⁴ Adele Bergin and Seamus McGuinness, *Modelling Productivity Levels in Ireland and Northern Ireland*, (ESRI Dublin, 2022). <https://www.esri.ie/system/files/publications/RS152.pdf>

There are much higher levels of employment in multinationals in the Republic, at much higher wages than in Northern Ireland. This is entirely separate from the issue of multinational profits – these are real jobs, on generally good wages, paying normal PAYE and PRSI to the Irish exchequer. At present the Republic of Ireland's performance in attracting Foreign Direct Investment based jobs is far stronger than Northern Ireland - between 6.5 times and 5 times better after allowing for population size.

Beyond the multinational dominated sectors, looking at international tourism revenues, which are overwhelmingly earned by Irish-owned, small to medium sized enterprises, we see a similar North-South gap. The Republic of Ireland had approximately 4.3 times as many trips by international visitors compared to Northern Ireland in 2019, but 7.6 times as much expenditure, totalling a respective €4,874m in the South and €672m in the North. Allowing for population differences, this means that the Southern international tourist industry is more than three times larger. Looking at Gross Value Added by the entire tourism industry, including on-island tourism, in 2019 the tourism industry in the Republic of Ireland (€13.8bn) was 4.8 times larger than the industry in Northern Ireland (€2.9bn).⁵⁵

With the same policy mix, taxation system and education system, even allowing for different starting points, it is difficult to think of reasons why Northern Ireland would remain so much poorer than Cork and Kerry (for example), after a transition period.

Regional differences of course exist even in growing national economies. Even in the fastest growing European economies there are regions which are struggling, and regional convergence is not automatic.⁵⁶ Regional convergence in the EU is occurring, but it is weaker than convergence between member states.⁵⁷ There are also no exact comparisons to a united Ireland. Comparing the economic performance of different regions, is usually done over time where policy change is fairly modest. In the case of a united

Ireland there would be a dramatic political change, with very significant changes in education policy, tax policy, levels of investment etc. More crucially there would be a dramatic boost to Northern Ireland's international reputation as a place to do business, in a similar manner to the more successful Republic. Even the German experience was very different. Northern Ireland's economy is weak but it is not East Germany. Northern Ireland joining a united Ireland, will have a different dynamic, and will interact with the current regional imbalances in the Republic.

There are however a few reasons to suggest that a comparison with the recent record of new EU member states is a useful one to map out different possible outcomes for a united Ireland. Firstly, it is very likely that if a referendum on unity takes place in the next ten years, then Northern Ireland will at that time still be outside of the European Union, while the Republic will be a member. Northern Ireland will therefore be joining the EU on day one of a united Ireland, making a comparison with the recent experience of new members a valid one. Secondly, the process of creating a United Ireland will provide its own dynamics, with significant policy change and additional investment, which will be different to normal regional imbalances. Thirdly (and like Germany) it will inevitably lead to political commitments to invest in advance of a referendum.

The post-2000 experience of new EU member states, following the earlier positive experiences of Ireland along with Spain, Portugal and Greece, suggests that a different trajectory of economic development is not only possible, but it has been done in a range of different contexts.⁵⁸ The following sections, therefore project the impacts on the public finances of a united Ireland of three different growth paths, each of which is drawn on actual outcomes in relevant comparators. As the focus here is on Northern Ireland, the figures relate to the existing territory of Northern Ireland, although similar change might well be seen in the North West and Border region of the Republic.⁵⁹

55 Ana Desmond, Eoin Magennis and Edward Hawkins (2024). *Tourism on the Island of Ireland*. Report by Ulster University Economic Policy Centre and Dublin City University.

56 Braunerhjelm, Pontus, Riccardo Faini, Victor Norman, Frances Ruane, Paul Seabright, 2000. *Integration and the Regions of Europe: How the Right Policies Can Prevent Polarization*, London, CEPR; Alcidi, Cinzia, Jorge Núñez Ferrer, Roberto Musmeci, Mattia Di Salvo, and Marta Pilati (2018) *Income Convergence in the EU: Within-country regional patterns*, Brussels, CEPS.

57 FitzGerald and Morgenroth (2019), *The Northern Ireland economy ...* p.6.

58 See for example Piotr Żuk, Eva Katalin Polgar, Li Savelin, Juan Luis Diaz del Hoyo and Paul König (2018), *Real convergence in central, eastern and south-eastern Europe*, ECB Economic Bulletin, issue 3; László Andor (2019), "Fifteen Years of Convergence: East-West Imbalance and What the EU Should Do About it", *Intereconomics: Review of European Economic Policy* 54(1).

59 As the Republic of Ireland does not produce detailed regional breakdowns of tax and expenditure, carrying out such regional projections is very challenging.

- **Path A** – would replicate the performance of the most improved economies in Central Europe, where countries such as Latvia, Lithuania, Bulgaria and Romania have managed to maintain an average growth rate per capita, of approximately 3% above EU averages from 2000 to 2023. The Republic of Ireland by comparison grew at 2.7% above EU averages.⁶⁰ This would be the path that most closely reflects the recent economic performance of the Republic.
- **Path B** – is a medium growth path compared to the recent Central European experience, maintaining an average growth rate per capita, of approximately 2% above EU averages. This group would include Croatia, Estonia, Poland and Slovakia.
- **Path C** – is a low growth path compared to recent Central European experience, but even these countries with weaker performance compared to their neighbours, still maintained an average growth rate per capita, of approximately 1% above EU averages - a group including Czechia, Hungary and Slovenia.

Economic performance is also linked to population growth, in particular among the working age population. Northern Ireland has a well-documented ‘brain-drain’ problem, whereby about 5,000 school leavers go to study outside Northern Ireland each year, mostly in Britain and over two thirds do not return. Inward migration is also at a low level due to low wage levels. Current population projections for Northern Ireland assume a growth in the working age population of less than 1% in the decade up to 2028.⁶¹ By contrast in the Republic of Ireland even the ‘moderate’ growth model of the Central Statistics Office assumes a 8.5% population increase in the 16 to 64 age cohort, over the 2021-2031 period.⁶² An economy growing at the higher path seen in the Republic should see population growth in ‘Northern Ireland’ at a significantly higher level than predicted under the status quo, with potential for a significant early return

of recent graduates now working outside of Northern Ireland, as was witnessed in previous growth periods in the Republic. The projections below assume that the working age population would grow by 1% pa over ten years, which will both reflect growth and help to generate growth. It is likely that many of these people would be recent graduates, who are currently working elsewhere, such as those who moved to study in Britain. The calculations below assume that on average the people making up that population growth pay 16% of their income in tax, which is what on average a single person will pay. International evidence on economically-related migration is also clear that they are overwhelmingly net contributors to the economy, adding little to public expenditure compared to their tax revenues. This assumed population growth is still below actual Southern population growth levels in recent years, which was 1.3% pa from 2016 to 2022.⁶³

Putting these figures in perspective, after allowing for inflation, Northern Ireland’s economy grew by just over 30%, between 2000 and 2024, or an average of 1.3% pa.⁶⁴ Using modified GNI to exclude the distortions from multinational operations, the Republic’s economy grew by 71% in real terms over the same period, an average of just over 3.2% pa.⁶⁵ While this included a period of strong growth by historic standards, it was also the period where the negative impacts of the global financial crisis, Covid and the Ukraine war were very significant for Ireland. Starting from a low economic base, Northern Ireland should be capable of a decade of rapid growth, following the Central European experience, once back inside the EU, and with a new policy mix in education, FDI and infrastructure investment, supported financially during the transition.

No allowance is made for financial contributions from either the European Union or the USA. It is politically likely that some fund might be established, but its overall scale is unlikely to be large enough to change the underlying model. Indeed the biggest economic contribution which could be made, would be to support early high-profile investments by leading international

60 OECD. GDP per capita growth rates. <https://www.oecd.org/en/data/indicators/nominal-gross-domestic-product-gdp.html>

61 NISRA 2018-based Population Projections for Northern Ireland <https://www.nisra.gov.uk/sites/nisra.gov.uk/files/publications/SNPP18-Infographics.pdf>

62 The Pensions Commission, Ireland (2021). *Population and Labour Force Projections*, July 2021, p.6, using the Irish Central Statistics Office ‘moderate’, M2F2 model. <https://www.gov.ie/pdf/?file=https://assets.gov.ie/200482/f1479eed-f28b-427a-ad01-e557ac4cc923.pdf#page=null>

63 Central Statistics Office, *Population Changes 2016-22, Republic of Ireland*. <https://www.cso.ie/en/releasesandpublications/ep/p-cpsr/censusofpopulation2022-summaryresults/populationchanges/>

64 Northern Ireland Assembly Research and Information Service (2024). *Executive Budget 2024-25: Northern Ireland Economic Context*. Paper 18/24 24 May 2024 NIAR 103-24.

65 Central Statistics Office (Ireland). Modified GNI <https://www.cso.ie/en/interactivezone/statisticsexplained/nationalaccountsexplained/modifiedgni/>

companies. Northern Ireland's current level of Foreign Direct Investment (FDI) is low by comparison to the Republic, and those involved in attracting FDI argue that getting the first company to make a big investment in a city in a given sector is the hardest. If the US government or Irish America, were to support such a high profile investment, it would be likely to be very impactful in attracting others.

The following model of these assumptions over the first 10 years of a united Ireland, includes the inherited 'subvention' and an additional €1b pa in public expenditure in year one, an increase which would be maintained in real terms over the ten years. It also includes the additional increases in public expenditure,

to cover the full cost of salary equalisation over 15 years, and a gradual takeover of pension liabilities from the UK, based on the ratio of years where a pension holder paid national insurance / prsi to the UK or Irish authorities. *Tables 4 to 6* below summarise the fiscal outcomes, based on constant year prices and before any new policy decisions to either increase expenditure or change taxes. Additional expenditure beyond this level would be a political decision and could be funded, by transfers from the south, by increased taxation, by borrowing, or by growth at a higher level than projected here. The tables, however, give the most likely starting points that would be facing a future government in making such decisions.

Table 4 – Assuming a three per cent increase in growth above recent averages for Northern Ireland (constant prices)⁶⁶

Three per cent increase in growth over recent performance	Year One of United Ireland (2023 figures) €m	Year 5 €m	Year 10 €m
Tax revenue (for NI)	25,367	30,204	37,568
Additional revenue over year one		4,837	12,201
Inherited subvention plus year one increases	-3,017	-3,017	-3,017
Increased public expenditure on gradual transfer of pensions and wage equalisation	0	-1068	-2,403
Total (deficit)/surplus, before any additional expenditure decisions	(-3,017)	752	6,781

Table 5: Assuming a two per cent increase in growth above recent averages for Northern Ireland (constant prices)

Two per cent increase in growth over recent performance	Year One of United Ireland (2023 figures) €m	Year 5 €m	Year 10 €m
Tax revenue (for NI)	25,367	29,064	34,453
Additional revenue over year one		3,697	9,086
Inherited subvention plus year one increases	-3,017	-3,017	-3,017
Increased public expenditure on gradual transfer of pensions and wage equalisation	0	-1068	-2,403
Total (deficit)/surplus, before any additional expenditure decisions	(-3,017)	(-388)	3,666

⁶⁶ Base years uses 2023 data, and prices are held constant at that level, not adjusting either income or expenditure for inflation. Prior growth experience is the actual historical real GDP growth of Northern Ireland, since 2000, that is 1.3% pa. Tax Revenues increase in proportion to GNI growth, with assumption of average rate of tax of 16% from new migrants / returnees. Expenditure includes additional €1b of public exp in year one, maintained thereafter. Annual expenditure increases assume public sector salary equalisation over 15 years on average, and gradual increase in Ireland's share of state and public sector pensions, based on number of years paying contributions to UK or Irish authorities. All other policy / tax decisions held constant or assumed to be financially neutral taken together.

Table 6: Assuming a **one per cent increase** above recent averages for Northern Ireland (constant prices)

One per cent increase in growth over recent performance	Year One of United Ireland (2023 figures) €m	Year 5 €m	Year 10 €m
Tax revenue (for NI)	25,367	27,957	31,569
Additional revenue over year one		2,590	6,202
Inherited subvention plus year one increases	-3,017	-3,017	-3,017
Increased public expenditure on gradual transfer of pensions and wage equalisation	0	-1068	-2,403
Total (deficit)/surplus, before any additional expenditure decisions	(-3,017)	(-1,495)	782

If Northern Ireland, began to more fully converge with the economic outcomes in the Republic and experienced the same growth trajectory as the better Central European economies – at 3% above recent norms, the region would be running a surplus by year five, and would run a fiscal surplus of over €6.7b pa by year ten of a united Ireland, or have those resources available for improved public services and investment.

With Northern Ireland achieving a growth rate of 2% above recent historic norms (the mid-level of Central European performance), there would be a fiscal surplus by year six, and by year ten Northern Ireland would be contributing an annual surplus of €3.6b pa to a united Ireland budget, or more likely funding further improvements to public services.

With Northern Ireland achieving a 1% pa growth boost after unity, over what it achieved in the last 25 years, (the lowest end of the Central European experience), Northern Ireland would have a gradually reducing deficit, reaching break-even in year nine. This level of growth would also allow the region absorb all of the increased cost of gradually equalising salaries and pensions. This would represent a ‘subvention’ from the ‘South’ funded by taxes or borrowing of just over three quarters of one per cent of GNI in year one, (falling gradually as the overall economy of the island grows) - well within what could be afforded, and allowing scope for additional investment.

Another way to look at potential growth rates would be to think in terms of how long convergence between average economic performance North and South might take. If we assume that the current Republic continues to grow at 2%, and that Northern Ireland reached average economic performance in the Republic (not the best regions, but just the average for the current Republic as a whole) within 42 years – that would represent 2% additional growth pa after unity, compared to the status quo – seeing NI growth of 3.2% pa in total. This would be path B (*Table 5*) in the projections above. If making the same assumptions convergence happened over 24 years – that would be path A (*Table 4*). Of course percentage growth would slow down as the economy of the region became larger, but it is reasonable, based on historic experience of other places, to expect that growth will be more rapid in the first decade or so. Therefore assuming that overall economic convergence would take place in a time scale of 25 to 40 years is not an overly ‘optimistic’ scenario – it is likely to happen more quickly. Therefore projections along the lines of path A and B above are likely – seeing the government deficit in Northern Ireland diminish quickly, reflecting higher real wages and permitting higher public expenditure and better public services.

None of these scenarios are financially threatening to the Republic of Ireland, and given it is inevitable that there would also be some positive economic impact in the Republic, in the North West and Border regions at least, not counted in these projections, then a united Ireland would be economically advantageous to the whole island, with any significant level of economic convergence.

Those figures would also allow a united Ireland to deal with the unlikely “worse possible” scenario, where the UK refuses to honour any pension responsibilities whatsoever, including employment based pensions, with a larger ‘subvention’ being inherited and where

the transition periods would be longer. If the UK refused to pay any pension costs whatsoever, then at the lowest growth scenario above Northern Ireland would reach break-even in public finances by year 14. In the 2% above status-quo growth “worst case” scenario, break-even would be year 10, and at 3% above status quo, fiscal break-even would occur after eight years. While such a “worst case” scenario would delay convergence, it is certainly affordable for the economy of the existing Republic of Ireland. Such a worst case scenario, where the UK refuses to honour public sector employment-based pensions is also, for the reasons outlined in the first half of this paper, extremely unlikely.



The Subvention and a new all-Island Economy

The inherited projected deficit in public finances is a ‘subsidy’ that a future united Ireland, based on the current economy, could readily cope with on a transitional basis. The precise ‘subvention’ will be subject to the negotiations between the Irish and British governments, in particular on the question of pensions, and the level of short-term transitional support from the European Union and perhaps the USA. However, the most important issue for the future public finances of a united Ireland is not the subvention, but rather the performance of the all-Ireland economy.⁶⁷

Public deficits are also a product of other public policies, most notably taxation. The Northern Ireland Executive does not control income or corporation tax, which are set in London. These are key policy areas where different choices could be made. The UK has very low taxes on high income earners by international standards, and in contrast relatively high national insurance contribution on the low paid. As mentioned above the experiment conducted by Tomlinson shows that fiscal deficits are also a product of decisions on taxation, in particular taxation of high earners.⁶⁸ UK decisions to implement a regressive tax system, where high earners are given the disproportionate benefit of tax cuts, have the direct effect of increasing the subvention allocated to Northern Ireland, and other poorer regions, and nations of the UK. Ifan, Sion and Wincott discussing the case of Wales, calculate that approximately 2/3rds of the current Welsh fiscal gap is related to lower tax revenues, due to lower incomes,

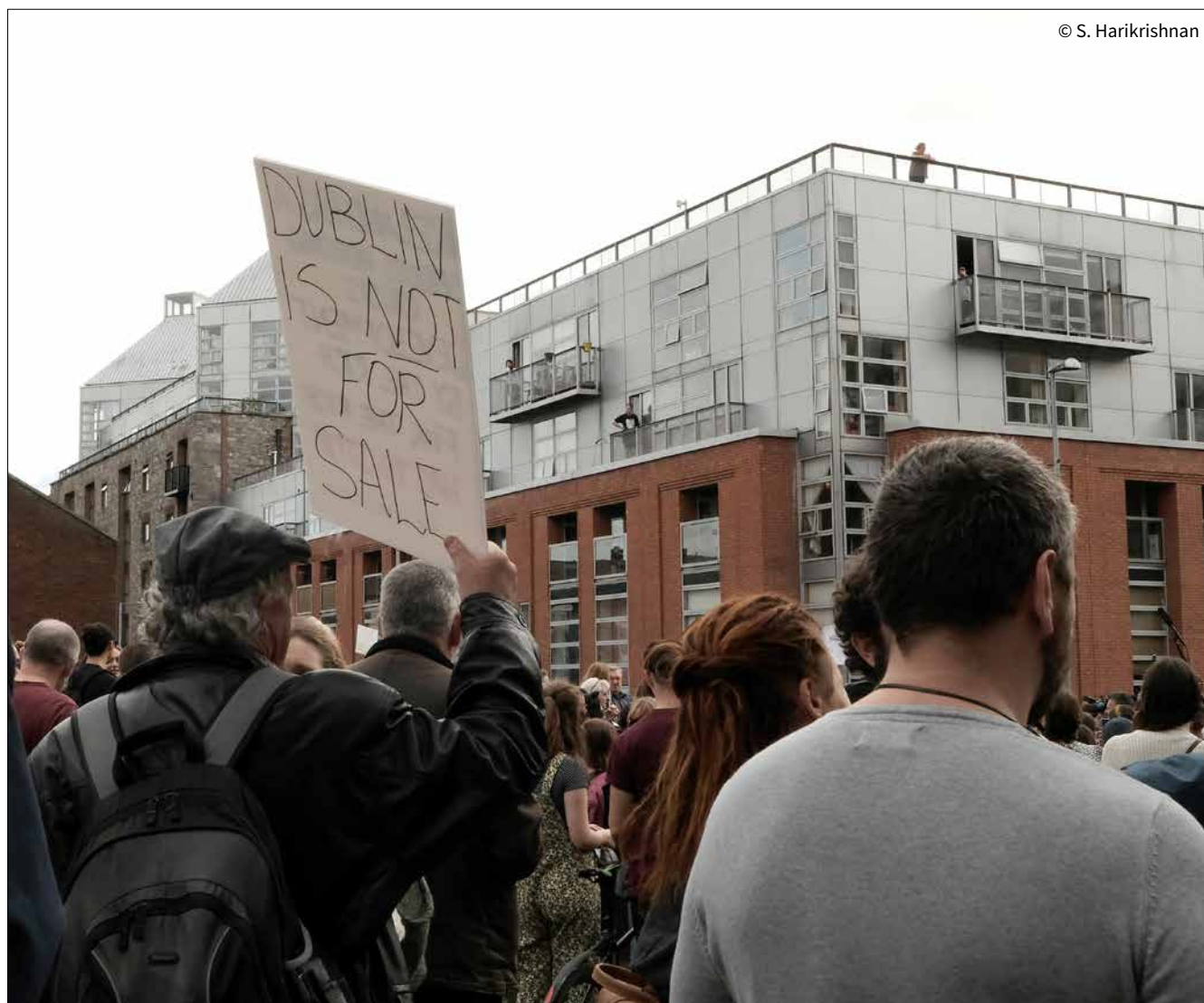
combined with higher levels of poverty in Wales and therefore higher expenditure on social benefits.

An economic policy which reduced low productivity, low wages and poverty in Northern Ireland would also reduce the fiscal subvention. Research and debate on the economics of a united Ireland needs to focus on analysing the likely economic benefits of a fully integrated economy and identifying public policies that would promote sustainable growth. Ultimately, if the local economy reflected either UK or Irish averages in terms of local GDP/GNI, then there would be no ‘subvention’.

The way in which the Northern Ireland deficit is calculated by the UK’s Office for National Statistics is sufficiently clear for a political analysis to determine which aspects of this subvention will be relevant for a united Ireland. This analysis has determined that the figure will be approximately £1.5b, significantly lower than the figures of £10b or £14b, frequently quoted in the media. This scale of deficit, along with a boost to public spending, is well within the scale that a united Ireland could afford. The experience of economic convergence in the EU suggest that we can expect a positive impact on economic growth, during a transition period, at a level sufficient to cover this deficit, although more work needs to be done on the public policy decisions necessary to support sustainable economic growth and to maximise the benefits of a larger and integrated all-island economy.

67 See www.all-islandeconomy.com and for earlier work KLC Consulting, *Modelling Irish Unification* (Vancouver, 2015). Available at: https://cain.ulster.ac.uk/issues/unification/hubner_2015-08.pdf (25 May 2021).

68 Mike Tomlinson, ‘Social security in a unified Ireland’, *Irish Studies in International Affairs* 33 (2) (2022), 228–46.





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The Projected Public Finances of the Early Years of a United Ireland, and the Northern Ireland Subvention

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