The Double Transition

The Economic and Political Transition of Peace

by Dr Conor McCabe

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On 10 September 1994 the *Times* reported on the economic implications of the Provisional Irish Republican Army's ceasefire that took effect in August of that year. 'Peace brings dividends' it said, 'or so we are told by the fund managers who are enthusiastically selling investments in Eastern Europe and South Africa.'[1] The end of the Cold War and the dismantlement of the Apartheid system had brought a downscaling of public expenditure on security and the social infrastructure of the respective countries. The dismantling of the Communist Bloc also opened up whole new areas for privatisation. And in the case of Northern Ireland, the *Times* said that 'investors hoping to lock into a peace dividend will find initial problems in finding a home for their money' as the 'public sector swamps the province.' The newspaper found little joy in terms of industry for investors, despite a highly-educated work force and the lowest labour costs in the UK. The best hopes for job creation, it seemed, lay in tourism. 'Northern Ireland's industrial establishment will sniff at the prospect of the province becoming a theme park for sentimental Americans and curious Europeans' said the *Times*, 'but little else may be on offer in the short term.'

Almost twenty years later, with the Titanic quarter a reality and black taxi tours filled to capacity, it appears that the somewhat sardonic predictions of the *Times* for the future prosperity of Northern Ireland have come to fruition. Industrial employment has continued to decline, while job creation has been for the most part in low-skilled, low-paid sectors such as retail and call-centre services. The constant demands to privatise large swathes of the public sector in Northern Ireland were given a boost with the 2008 banking crisis and the 2010 election which saw a Conservative-led coalition government returned by Westminster. The Northern Ireland Executive has done little to stem the tide of privatisation and subsistence-wage occupation creation.

At all times the 'unique' history of Northern Ireland is put forward as the reason behind its current economic malaise. Yet, as the *Times* article from 1994 shows, modern investors do not see exceptions in the world, only opportunities. Eastern Europe, South Africa and Northern Ireland are all unique in terms of the dynamics of their history and geography. What they have in common is that they found themselves as societies in transition at a time when economic thought had solidified around neoliberal principles. This 'double transition' – towards peace and neoliberalism – has been mediated through the world of finance, law, accountancy and politics. It is the financialisation of the economy that demands low pay and privatised services, not geography, history or conflict. And financialisation is the key aspect of the neoliberal turn.

Neoliberalism has become such a negative term that it has probably lost the power to explain the world that, paradoxically, it now helps to define. In the words of the American scholar Stanley Fish, neoliberalism 'is a pejorative way of referring to a set of economic/political policies based on a strong faith in the beneficent effects of free markets.'[2] The Australian economist John Quiggin takes a similar view, calling it 'a poorly defined pejorative' that 'places much more weight on economic freedom than on personal freedom or civil liberties, reversing the emphasis of classical liberalism.'[3] In part, neoliberalism can be seen as an attack on the welfare

1 *Times*, "Investing in Northern Ireland's Peace Dividend," 10 September 1994.

2 Stanley Fish, "Neoliberalism and Higher Education," *Opinionator: New York Times*, 8 March 2009, http://opinionator.blogs.nytimes.com/2009/03/08/neoliberalism-and-higher-education/ (accessed 15 April 2013).

3 John Quiggan, "Neoliberalism Defined," *www.johnquiggin.com*, 27 September 2008, http://johnquiggin.com/2008/09/27/neoliberalism-defined/ (accessed 15 April 2013).

state and the Keynesian economics which were to the fore from the mid-1940s through to the early 1970s. With this post-war Keynesian revolution, the rise of neoliberalism in the 1970s is a kind of counter-revolution, a response to the rise of mass labour movements and the concessions wrung from business interests via trade union-influenced government policy.

However, the re-emergence of the interests of business at the expense of the workforce - towards the free market and away from the household – can obscure somewhat the fact that the nature of profit-seeking within the business world has itself undergone a revolution. 'While neoliberalism may have been about the restoration of class power' writes the Marxist geographer David Harvey, 'it has not necessarily meant the restoration of economic power to the same people.'[4] In the past forty years 'there was unquestionably a power shift away from production to the world of finance.'[5] That shift is evident in Northern Ireland today, and leads us to the financialisation of the economy.

In board terms, financialisation means 'the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies.'[6] More specifically, it is 'a pattern of accumulation in which profits accrue primarily through financial channels rather than through trade and commodity production;' with 'financial' defined as 'activities relating to the provision (or transfer) of liquid capital in expectation of future interest, dividends, or capital gains.'[7] Put simply, it is the pursuit of profit from paper assets, rather than actual production, which is at the heart of financialization. This can include, for example, the transformation via a mortgage of an actual physical product such as a house into a paper asset – or, as we will see later, the transformation of schools, roads and hospitals via the Public Finance Initiative (PFI) into tradable financial products. It is also seen in the increase of the so-called FIRE (Finance, Insurance and Real Estate) services in relation to the measurement of national output, despite their relatively low employment rates. And it is voices within these sectors – the lawyers, accountants, stockbrokers and estate agents, the administrators of paper claims – that have been the most vocal in extoling the benefits of this merry dance with paper.

What we are witnessing in Northern Ireland today is class power in transition. Some aspects of that dynamic were held back by the Troubles, while other aspects were unaffected. The class interests associated with this reconfiguration in the North towards paper not production appear to be looking to the Republic for inspiration. All the while, 'peace dividend' is touted as justification, along with the frankly idiotic 'Northern Ireland Inc.'[8]

The financialisation profit-model has been put forward as a solution – in fact it is often hailed as the only solution – to the deep social and cultural conflicts at the heart of Northern Irish society. In fact, financialization is antagonistic to the type of social and communal relationships necessary to develop and sustain Northern Ireland today. The study which follows will give a brief outline of the history of the Northern Irish economy. It will contextualize that history within the development of western economies and the consolidation of financialization in the wake of the breakdown of the Bretton Woods agreement in the early 1970s and the so-called neoliberal turn. It will then look at two methods of financialization - Public-Private Partnerships and the establishment of tax avoidance regimes - and their position within the economic consensus of Northern Ireland's political parties.

It is hoped that this research will throw some light

4 David Harvey, *A Brief History of Neoliberalism* (Oxford: Oxford University Press, 2007), 31.

5 Harvey, *Brief History*, 33.

6 Gerald A. Epstein, "Introduction: Financialization and the World Economy," *in Financialization and the World Economy*, ed. Gerald A. Epstein (Cheltenham: Elgar, 2006), 3.

7 Greta R. Kripper, "The Financialization of the American Economy," *Socio-Economic Review* 3, no.2 (2005), 174.

8 Most start-up companies fail. The rate varies from 70 to 95 percent, depending on whether failure is defined as failing to make a projected return on investment or failing to make a predicted return on investment. Between 30 to 40 percent of start-ups lose most or all of the money put into them. Despite these levels of failure, the business model as a model for nation-states is used all the time. For example, see *Belfast Telegraph,* "Selling N. Ireland Inc; We ask three leading public relations consultants how they would attract more visitors to the province," 23 July 2011. For figures on start-up failure rates see Working Knowledge, http://hbswk.hbs.edu/item/6591.html (accessed 19 April 2013).

on the double transition that Northern Ireland finds itself in, and the social fissures that such a transition brings to bear on the province. It starts with a look at the development of Northern Ireland since partition. This is because the changing nature of class dynamics - one of the central forces at play today - can only be observed over time. And history allows us to observe its dynamics in motion.

"…Northern Ireland **is open for business."**

Nigel Dodds,

Minister of Finance, NI Executive, March 2008.[9]

The parliament of Northern Ireland was established under the 1920 Government of Ireland Act, and held its first sitting on 7 June 1921. It was given wide powers in relation to the direction and prioritisation of local expenditure, but little by way of imposing taxation or raising revenue of any kind. 'A small range of taxes, including death duties, stamp duties, motor vehicle duties and entertainments duty' wrote the academic Hugh Shearman, was 'left within the direct control of the government of Northern Ireland.'[10] Economic activity within the province was dominated by agriculture, linen and shipbuilding – three sectors which collectively accounted for up to fifty per cent of the workforce. Overall, unemployment was high, running at an average of nineteen per cent of insured labour from partition to 1931, and twenty seven per cent to 1939.[11] Northern Ireland was slow to develop new industry or adapt to new technologies, in part a consequence of the entrenched business interests within the province. The largest single industry in the lead-up to the Second World War was farming. It accounted for 'a third of the value of exports from the province, the remaining two-thirds being accounted for by other industrial exports.'[12]

The province was expected to be a net source of revenue for the UK exchequer, which was collected through the so-called Imperial Contribution. In 1928 this figure amounted to fourteen per cent of revenue. The payment was suspended in 1938 due to the worsening financial situation within the province. The Great Depression had a sizable effect on the linen industry, while the shipyards of Belfast increasingly found themselves lacking in investment in new technologies and methods. Gerard McCann, in his history of the economy of the island of Ireland, notes that 'the situation was complicated by the conservatism of the representatives of the old industries sitting in Stormont.'[13] The level of representation that the linen and shipbuilding industries held at Stormont saw a policy of protection rather than reorganisation hold sway over policy. It held to a 'steadfast refusal to implement reform of the education system or to ensure unemployment benefits.'[14] It did provide financial assistance to Harland and Wolff, negotiating in 1934 a 'financial co-operative deal with the Midland Bank to make it possible for Harland and Wolff to accept an order for four Union-Castle liners.'[15] But overall, Stormont came to rely more and more on long hours and low wages to keep an ageing industry alive. There was no real attempt to restructure the province's fracturing economic dynamics. Not surprisingly such policies brought protest and social conflict – most notably the outdoor relief riots and unemployment marches of the 1930s.

The lack of economic development was influenced in no small part by the nature of the Northern Ireland state. In an article written in 1955, the economists Keith Sydney Isles and Norman Cuthbert laid out the structural problems which beset Northern Ireland:

9Francess McDonnell, "St Patrick's Day Provides Politicians with an Opportunity to Sell NI Brand," *Irish Times*, 11 March 2008.

10 Hugh Shearman, *Northern Ireland: Its History, Resources and People* (Belfast: Stationary Office, 1946), 22.

11 D.J. Johnson, "The Northern Ireland Economy, 1914-39," in *An Economic History of Ulster, 1820-1940*, eds. Liam Kennedy and Philip Ollenerenshaw (Manchester: Manchester University Press, 1985), 191.

12 Shearman, *Northern Ireland*, 25.

13 Gerard McCann, *Ireland's Economic History: Crisis and Development in the North and South* (London: Pluto Books, 2011), 83.

14 McCann, *History*, 83.

15 Jonathan Bardon, *A History of Ulster* (Belfast: Blackstaff Press, 1992), 548.

> So far as constitutional limitations are concerned, the essence of the matter is that Northern Ireland is unable to make use of any of those techniques by which separate countries follow a policy of economic independence. On the one hand, it is precluded from establishing a separate tariff and from otherwise interfering with external trade, interregional or international: in its trade with other countries it is treated as an integral part of the United Kingdom, and between Northern Ireland and Great Britain the only restriction is the cost of transport. On the other hand, although a small degree of flexibility might conceivably be obtained through the banking system, Northern Ireland has no power to follow an independent monetary policy, involving separate rates of exchange, or to adapt general fiscal policy to local needs. This means that it may not use any of the ordinary devices for stabilising employment through control of the economic climate.[16]

Northern Ireland was a state that lacked its own currency, operated limited tax powers, and had no say over trade agreements. With Westminster setting policy it is of little surprise, therefore, that Northern Ireland found itself with economic policies designed with Great Britain in mind.

The outbreak of the Second World War saw Whitehall increase its influence over the province. In 1940 the Barlow Commission published its report into the distribution of industry in Great Britain. It argued for a programme of planned decentralisation and the movement of both population and industry from major British cities. The report heavily influenced the Distribution of Industry Act (1945) which covered England, Scotland and Wales. A variation on the scheme was incorporated into the Industries Development Act (Northern Ireland) which was passed the same year.

The immediate post-war period saw the establishment of 'parity of services and taxation' for Northern Ireland. This meant that the province was able to receive the same level of services in health and education as the rest of the UK on the basis that it paid the same rate of tax as Great Britain. The Public Health (Administrative Provisions) Act (NI) 1946 led to the creation of health authorities for each of the province's county and county borough councils. The 1948 Health Services Act, writes the historian David Harkness, 'greatly extended the responsibilities of health authorities in the fields of child and midwifery, childcare and home help schemes.'[17] The Victorian Poor Law era was coming to an end. The 1947 Education Act brought reform to the primary, secondary and third level structure, and laid obligations upon education authorities to provide extensive free services to all schools, relating to medical treatment, transport, milk, meals, books and stationary.'[18]

It was not only in the realm of social society that Northern Ireland faced change – its industrial policy also made a fundamental shift in emphasis and objective. The 1946 Industries Act saw a greater emphasis on 'the creation of new jobs and new industries to reduce the province's chronic unemployment and broaden the industrial base from the old and, in the post-war world, increasingly outdated shipping and linen sectors.'[19] This was done though the establishment of plant branches of UK companies as a means by central government of rebalancing the national economy at a geographical level. The companies were given a range of inducements to locate to Northern Ireland, including grants, reliefs, loans, land acquisition and development, the provision of factory buildings and the roads and local services which go with them.

However, while announcements of new factories made headlines, the secondary industries which fed those plants remained, for the most part, outside the province. The old industries and their outdated technologies were slowly becoming obsolete, but what was brought in to replace them hardly broke the surface in terms of establishing roots. Furthermore,

16 K.S. Isles and N. Cuthbert, "Economic Policy," in *Ulster Under Home Rule*, ed. Thomas Wilson (London: Billing & Sons, 1955), 137.

17 David Harkness, *Northern Ireland Since 1920* (Dublin: Criterion Press, 1983), 110.

18 Harkness, *Northern Ireland*, 110.

19 Harkness, *Northern Ireland*, 112.

Westminster policy of encouraging factories to underdeveloped areas was not exactly structured with Northern Ireland in mind. It was, after all, a national industrial policy, and as such Northern Ireland found itself in competition with other regions of the UK for investment. Isles and Cuthbert found that while Northern Ireland had certain powers to offer inducements to UK companies to set up branches in Northern Ireland, 'it cannot use them, as the [UK] Board of Trade can, to dissuade firms from establishing factories somewhere else in the United Kingdom instead.'[20] By the mid-1950s, unemployment in Northern Ireland was four times the UK average rate.

In terms of ideas and strategies, the next big push to restructure Northern Ireland's economy began with the publication of *Belfast Regional Survey and Plan*, written in 1963 by Professor Sir Robert Matthew. It called for the creation of a new regional centre 'with an ultimate population in the region of 100,000 people, for administration, industry, marketing, technical education and sporting activities' and located between the existing communities of Portadown and Lurgan.[21] 'Our task will be to transform the face of Ulster' said Northern Ireland Prime Minister Terence O'Neill in 1963. 'The Matthew Plan suggests a way in which Northern Ireland could capture the imagination of the world.'[22] The plan was supported by O'Neill's economic consultant, Professor Tom Wilson, who incorporated it into his own study, *Economic Development in Northern Ireland*, which was published and accepted in principle by Stormont in 1965. The modernisation that O'Neill spoke of, however, 'combined an overriding concern with symbols of a new direction with a series of piecemeal attempts to placate and divide the Unionist opposition at the local level.'[23]

In 1970 the Northern Ireland government published a report which looked to the development of the province over the next five years. Its opening section asked the question 'is Northern Ireland viable?' 'Is the area so handicapped by its geographical position, by some defect in its labour force or by a lack of enterprise on the part of its businessmen' wrote the authors, 'as to be incapable of providing both the number of jobs and the rising standard of living claimed for its growing population?'[24] The idea that the problems facing the Northern Ireland economy may be cultural or geographic rather than structural – as outlined by Isles and Cuthbert fifteen years previously – was not entertained. In fact, Westminster's control of industrial and monetary policy, trade agreements and taxation was barely mentioned in the report.

Instead, central government was portrayed as the caring but put-upon parent of a sullen, disappointing child. The assumption which underpinned the report's analysis of Northern Ireland and its economic dynamic was that any aid to profit-seeking growth is automatically an aid to societal growth. And if reality showed otherwise, it must be the people or the mountains or the rivers that are wrong, not profit and its margins. Over the next forty years, as the balance of power within profit-seeking changed in the UK – from production to the so-called FIRE (Finance, Insurance, Real Estate) services – the consultants did their part and found new and creative ways for the people of Northern Ireland to be wrong.

The number of new factories in industry was slowing down – not just in Northern Ireland and the UK but across advanced capitalist countries. In the 1970s central government policy moved towards job preservation in industry rather than net job growth. The Industrial Development (NI) Act 1971 allowed companies to apply for grants and loans to maintain existing job levels rather than purely for expansion. As Richard I.D. Harris writes, 'thus, firms could now receive plant, machinery and building grants, as well as per-capita employment grants, if they could convince the Department of Commerce that, by

20 Isles and Cuthbert, 'Economic Policy,' 162.

21 *Belfast Regional Survey and Plan: Recommendations and Conclusions* (Belfast: Stationary Office, 1963), 24.

22 Paul Bew, Peter Gibbon and Henry Patterson, *Northern Ireland 1921/2002: Political Forces and Social Classes* (London: Serif, 2002), 127.

23 Bew, Gibbon, Patterson, Northern *Ireland 1921/2011*, 129.

24 *Development Programme 1970-75* (Belfast: Stationary Office, 1970), 3.

restructuring, they could prevent job losses.'[25] Harris adds that 'this new category was to become almost as important as expenditure on grants in pursuit of job promotions by the end of the 1970s.'

The 1980s saw a shift towards 'greater cost-effectiveness in regional policy,' a phasing-out of 'automatic grants and incentives' and a 'move towards encouraging an enterprise culture based on a high rate of innovation and new firm formations.'[26] It was a truncated process, however, as the nature of the Troubles had stalled somewhat the dismantlement of industry and the privatisation of the social economy. By the time the Belfast Agreement was signed in 1998, all the legal and legislative structures were in place for Northern Ireland to open itself up to the profit-seeking strategies of the neoliberal turn and the financialisation of everyday life.

> **"…**these contracts are **relatively safe bets** for **the banks."**
>
> **Pat Gardiner, Managing Director, Jarvis Projects, November 2001.[27]**

One of the tools of financialization is the Private Finance Initiative (PFI), which is designed to expose the public sector to private finance. It is sometimes known as a Public Private Partnership (PPP) and the terms are used interchangeably here. It was first announced on 12 November 1992 by the then Chancellor of the Exchequer, Norman Lamont. 'Obviously, the interests of the taxpayer have to be protected' he said, 'but I also want to ensure that sensible investment decisions are taken whenever the opportunity arises.'[28] Under a PFI, 'the private sector is typically responsible for designing and building the asset, raising the necessary finance and then also operating a service that uses the asset.'[29] The successful contracts are usually awards to a consortium of businesses, given the different fields of experience within each bid. A typical PFI project relates to roads, prisons, hospitals and schools. In September 2001 there were 450 PFI projects under contract, with a total capital value of £20 billion. The cost to the UK taxpayer of this £20 billion in private capital was estimated to be £100 billion.[30] By March 2012 there were 717 PFI projects in operation in the UK, with total capital costs of £54.7 billion.[31] 'These initiatives' wrote the academic Darinka Asenova, 'have blurred the traditional boundaries between public and private asset ownership and governance.'[32]

The origins of PFI/PPP are ideological. They lie 'in the fundamental belief of Conservative Chancellors and their officials in the Treasury that the macroeconomic circumstances of the UK necessitate tight controls over public spending as a means to restrain inflation.'[33] In 1981 a series of guidelines relating to the role of private finance in nationalized industries were drawn up by National Economic Development Council working party. They became known as the Ryrie Rules, after its chairman Sir William Ryrie, who was the Second Permanent Secretary to the Treasury.[34] By 1989 the Conservative government had come to see the Ryrie Rules as too restrictive and they were formally retired by John Major MP, Chief

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25 Richard I.D. Harris, *Regional Economic Policy in Northern Ireland, 1945-1988* (Avebury: Aldershot, 1991), 80

26 Harris, *Regional Economic Policy*, 79-80.

27 Jamie Delargey, "Keeping the Risks in Sight," *Irish Times*, 28 November 2001.

28 Chancellor of the Exchequer, "Autumn Statement," 12 November 1992, House of Commons Parliamentary Papers, http://www.publications.parliament.uk/pa/cm199293/cmhansrd/1992-11-12/Debate-1.html (accessed 21 Jan 2013).

29 "Private Finance Initiative – its rationale and accounting treatment," (Jun 2008), 1, http://www.parliament.uk/documents/upload/0807pfi.pdf (accessed 21 Jan 2013).

30 *The Private Finance Initiative (PFI),* House of Commons Research Paper 01/117 (18 Dec 2001), 3, http://www.parliament.uk/documents/commons/lib/research/rp2001/rp01-117.pdf (accessed 21 Jan 2013).

31 HM Treasury, "UK Private Finance Initiative Projects: Summary data as at March 2012," http://www.hm-treasury.gov.uk/d/summary_document_pfi_data_march_2012.pdf (accessed 21 Jan 2013).

32 Darinka Asenova, *Risk Management in Private Finance Initiative Projects* (Saarbrücken: Lambert Academic Publishing, 2009), 3.

33 F. Terry, quoted in David Agnew, "*An Examination into the Introduction and Implementation of the Private Finance Initiative Within Secondary Education in Northern Ireland*," (PhD diss., Queens University Belfast, 2005), 3.

34 Agnew, *Examination*, 2. I'm indebted to Agnew for the history of the development of PFI.

Secretary to the Treasury, ‘on the grounds that they had outlived their usefulness.’[35]

In November 1994 the Chancellor of the Exchequer, Mr. Kenneth Clarke, told the Confederation of British Industry’s conference in Birmingham that the Treasury would no longer approve capital projects unless the option of private finance had been first explored. ‘By the end of this year £500 million of private capital would have been brought into Whitehall projects under the PFI’ reported the *Times*.[36] ‘These included construction of a Royal Armouries Museum in Leeds, local authority water and sewerage projects in Scotland and Northern Ireland, and £100 million of projects in the National Health Service.’ Nineteen months later the Environment Minister, Malcolm Moss, announced that three consortia – Coastal Clear Water, Northern Water Services, and Ogden Yorkshire Water – had been chosen to bid for a total of ‘£20m-worth of business, providing sewage treatment services’ at Bangor and Kinnegar on the North Down coast.[37] ‘Essentially this was an ideology-driven policy’ writes Agnew, ‘based on the belief that the private sector can bring the necessary solutions to problems in the public sector.’[38]

The development of PFI as a strategy culminated in a statement by the Private Finance Panel in 1995:

> [The] government would actively encourage the private sector to take the lead in joint ventures with the public sector: the public sector would have greater opportunity to use leasing where it involved significant transfer of risk to the private sector and offered good value for money.[39]

The Public Private Partnership Programme was established by the Local Authorities Associations in England and Wales in 1996 with the express purpose of increasing the role of private finance in public services. The future of PFI as state, rather than government, policy was secured in May 1997 when the newly-elected Labour government adopted PFI as part of its economic platform. A new body, the Private Finance Taskforce, was given effective control of the growth and direction of PFI in the UK. Its members were drawn directly from the UK’s financial heart, the City of London. In 2000 it was replaced by a permanent organisation, Partnerships UK, which ‘works both with public and private bodies on specific PPP transactions to improve the process of planning, negotiating and completing PFIs.’[40] By 2008 over half of all PPP schemes in Europe were based in the UK. The partnership template ‘had reached virtually every area of significant government spending in Britain and was supported by all three main political parties.’[41]

“In effect, **PFI** acts to put **profit** before **people.”**

Gerry Kelly MLA, Northern Ireland Assembly, 16 September 2002.[42]

A 2008 publication by the public sector union, NIPSA, gives an outline of the financing of PPPs:

> When undertaking a PPP, a public authority carries out a competitive procurement process, with a number of private consortia bidding against each other on the basis of price and quality to undertake the project. Each consortium involves a mix of investors, such as construction and facilities management companies and private equity institutions. On signing the contract for the project with the public authority, the members of the winning consortium create a Special Purpose Vehicle (SPV) – a new private sector business that exists solely to deliver the project.

35 Agnew, *Examination*, 2.

36 *Times*, “Clarke Forces Pace on Private Funding,” 9 November 1994.

37 *Belfast Telegraph*, “Three in Battle for 20m Sewage Projects,” 10 May 1996.

38 Agnew, *Examination*, 4.

39 Agnew, *Examination*, 3.

40 Agnew, Examination, 5.

41 Rein Jüriado, *Learning Within and Between Public-Private Partnerships* (Stockholm: Stockholm University, 2008), 16.

42 “Review of Opportunities for Public-Private Partnerships in Northern Ireland,” Northern Ireland Assembly Online Archive, http://archive.niassembly.gov.uk/record/reports/020916e.htm (accessed 16 April 2013).

> The SPV enters into sub-contracts with one or more firms (usually its own shareholders) to deliver the project. Finance is also raised from the shareholders, and senior debt is raised from banks or the capital markets. In the standard SPV financial structure, senior debt will provide 90% of the finance required, with loans and equity capital from the shareholders making up the remaining 10 percent.[43]

A Public Private Partnership project is 'a method of accessing capital, like direct borrowing and it creates a long-term funding requirement for the public sector in much the same way.'[44] The investors in the SPV receive a regular payment on their investment, with the principal repaid at the end. This income stream is funded directly from the UK Treasury, either through higher regional taxation or user charges. The interest rates charged on PFI finance is typically in double figures, and has been described as akin to 'putting a mortgage on a credit card.'[45]

The key element in any PPP/PFI is the issue of risk allocation. "It is not uncommon for a private partner to walk away from a project", writes Rein Jüriado, "if it deems the risk to have been poorly managed. This leaves the 'public partner fully accountable for the public service".'[46]

The fact that the consortiums have direct control over the construction and maintenance of the asset – the school, hospital or road – means that profit, not service, determines the project. 'While there has been evidence cited in favour of the proposition that PFI is superior to public procurement in some areas, such as cleanliness and project construction' wrote Elliot Bidgood in a report for the UK organisation CIVITAS, 'there has also been evidence of lower quality services [in health], lower bed capacities due to private sector designs and gross overcharging for basic support services in some instances, such as £333 charges for lamp replacements.'[47]

As early as 1993 the Northern Ireland Office had put in PFI proposals for water and sewage infrastructure schemes - the same year as the floatation of Northern Ireland Electricity. Other announcements were made regarding PFIs in education, health, and transport. However, in December 1996 a report in the *First Trust Economic Outlook* stated that a downturn in construction due to government cutbacks was being exacerbated by the fact that 'the Private Finance Initiative has not yet taken off in Northern Ireland to fill the gap.'[48]

In March 2001 the Northern Ireland Executive announced the establishment of a working group to explore the use of PFIs in the delivery of public services. The Executive's first Programme for Government stated its belief that 'through a renewed infrastructure and innovative policies, we can secure the basis for a balanced, competitive, innovative and sustainable economy.'[49]

The success, or otherwise, of PFIs were quickly linked to the peace process. The projects were soon touted as evidence of investor confidence and as proof positive of a burgeoning peace dividend. In December 2002 the Parliamentary Under Secretary of State with responsibility for Finance, Ian Pearson, gave a speech at the Odyssey Arena where he addressed the state of the Northern Ireland economy. He said that while the peace process 'gave business, both indigenous and inward, the confidence to invest and grow,' the province was still living with the legacy of 'thirty years of violence.' 'Our transport and water infrastructure are in many ways outdated' he said. 'We have too many outmoded schools and hospitals [and] only if we invest now will we have the basis of a prosperous economy.'[50] He told the audience that investment in

43 Hellowell, Price, Pollock, *Northern Ireland,* 2.

44 Hellowell, Price, Pollock, *Northern Ireland,* 3.

45 Editorial, "PFI: Persistence of a Bad Idea," *Guardian*, 16 Aug 2010.

46 Jüriado, *Learning*, 34.

47 Elliot Bidgood, *PFI: Still the Only Game in town?* (London: CIVITAS, Dec 2012), 2. http://www.civitas.org.uk/nhs/PFIDec2012.pdf. Accessed 21 Jan 2013.

48 *Belfast Telegraph*, "Economy Pick-Up Forecast," 18 December 1996.

49 Northern Ireland Executive, *Financing Our Future: Initial Response to Report of Working Group on Review of Opportunities for Public Private Partnerships in Northern Ireland* (May 2002), 1.

50 Ian Pearson MP, "Building on Progress: Policy Priorities and Budget for 2003-06," 11 December 2002. Copy available, Queens University Belfast Library, ref: QJZN 625 BUIL.

infrastructure was 'integral to tackling social exclusion and underpinning the equality agenda' and that 'these agendas cannot await prosperity. They must be pursued with as much vigour as the drive to invest.' Now that the Troubles had ended, there remained but one bulwark to prosperity, and that was, of all things, the region's public sector.

Mr. Pearson made it clear that in his view, and in that of his government, the administration of public services by public hands was an anachronism, a relic of the past.

> It is open to debate as to whether the scale of the public sector in Northern Ireland is a reflection or a cause of the relatively small private sector. The point that strikes me is that too many resources are tied up in it, frankly often in outmoded structures and systems. That resource has to be used effectively. This means the public sector needs to change and it also means its size will have to change over time to support the creation of a stronger private sector.
>
> The policies put in place at the national level should help provide the opportunity for accelerated private sector growth both from increased new firm foundation and from growth of existing firms. The challenge for us is to ensure that the policies that we have reinforce this drive to enterprise and economic prosperity. In turn the flair and skills of the private sector should be turned, where appropriate, to the delivery of high quality public infrastructure and services. Who delivers them is not the key question – the public wants an assurance on the quality and the fairness of their provision.

And the way to achieve this 'drive to enterprise and economic prosperity'? To deliver 'high quality public infrastructure and services'? The answer was simple. 'We are developing Public Private Partnerships to help us take forward some of this strategic investment programme… bringing new skills and ideas into this important work.' Mr. Pearson also announced a fresh round of asset sales, to help boost the 'supply side' of the region's economy. He finished his speech by telling his audience that 'the foundations are now in place – access to borrowing, financed by fair and reasonable new levels of revenue, and a clear opportunity to use PPPs where that is in the interests of public services.'

The Democratic Unionist Party in its November 2003 manifesto called for the people of Northern Ireland to look to themselves and utilise 'the power of PFI and PPP projects' as a way of solving the problem of under-investment.'[51] Sinn Féin criticised PFI as 'part of an effort by the British Treasury to tighten its control over northern fiscal policy and to privatise public services.' This was despite the expansion of PFI projects in education while Martin McGuinness, deputy leader of Sinn Féin, was Minister for Education. "It is now clear that PFI does offer real potential for value for money solutions to the pressing capital investment needs of our schools generally' said McGuinness in September 2000. 'My Department will, over the coming months, be consulting with schools authorities and other interested bodies, on its plans for the extended future use of PFI in conjunction with conventional capital new starts.'[52]

In January 2001 the Northern Ireland Executive published its programme for government. It acknowledged the need for investment in infrastructure, a result of the legacy of decades of under-funding. 'Addressing the deficiencies in our infrastructure will require us to continue to press for a fair allocation of UK public expenditure to Northern Ireland' stated the programme, 'and to explore new ways of financing and providing public services.'[53]
In March 2001 the then minister for Finance and Personnel said that it was 'important for the Executive and all departments to explore new ways of financing and providing public services, such as PFI/PPP, provided they are affordable and deliver value for money and provide effective solutions to meet the

51 Quoted in Agnew, *Examination*, 16.

52 *Sunday Tribune*, "McGuinness moves to reassure Unionists with new policy on school building," *Sunday Tribune*, 17 Sep 2000.

53 *Review of Opportunities for Public Private Partnerships in Northern Ireland*. (Belfast: Office of the First Minister and Deputy First Minister and the Department of Finance and Personnel, May 2002), 1

needs of public services in Northern Ireland.'[54] A high level working group was set up in September 2001 to review PFIs and their delivery of public services and to advise on 'best policy.' It met four times and presented its findings in May 2002.

The Working Group began its discussions by highlighting the distinction between *financing* and *funding*. The *funding* of public services comes from a combination of local and national taxation and user charges, whereas *financing* can come from either the public or private sector. It is rare for the construction and development costs of public infrastructure to come from savings. More generally, credit is procured, either through public or private lines. Credit *finances* the projects, while taxation and user charges *fund* the credit repayments. 'Thus, it must be emphasized' said the report, 'that the term *funding* relates to the method by which public service investment is paid for, whereas the term *financing* relates to how the capital needed for investment is raised.'[55] It is the procurement of credit finance at private sector rates that defines PFIs. The rationale is that the cost of the more expensive private sector credit - as opposed to credit raised via government bonds for example – will be balanced out by savings due to private sector management and 'efficiency'.

The Working Group found that in 2002 Northern Ireland needed a ten-year capital investment programme of approximately £13.8 billion, not including overruns. The total available in funding from traditional lines was estimated at £7.9 billion. This left the Northern Ireland Executive with a funding shortfall of £5.9 billion over ten years. As with other regions within the UK, Northern Ireland's options were limited. The Assembly had narrow tax-raising powers. It was part of the Sterling area and so subject to the monetary policy of the Bank of England. And while the Executive could issue its own local bonds, central government was not willing to allow this. The words of Keith Sydney Isles and Norman Cuthbert from 1955, that 'Northern Ireland has no power to follow an independent monetary policy, involving separate rates of exchange, or to adapt general fiscal policy to local needs' seem as relevant today as they did almost sixty years ago.

The experience of PFIs in Northern Ireland's education system has been documented and analysed by David Agnew in his 2005 doctoral thesis for the School of Education, Queen's University Belfast. In June 1996 four schools – Basewood High, Washington College, Kensington High and St Joan's High – along with both the North West Institute and Belfast Institute of Further and Higher Education, were selected to take part in a project to test the feasibility of PFI in Northern Ireland. The transfer of responsibilities for design, building, financing and operation of aspects of the new facilities saw the relocation of public sector employees to private sector operators, albeit with public sector terms and conditions. In the case of Basewood High School, a faster rate of construction was offset by the terms of the financing, which will see repayments spread over 25 years. Washington College faced a five-year wait from initial planning to final construction. Overall, Agnew found problems with openness and accountability, with the details of terms and conditions of contracts withheld from public view for reasons of 'commercial confidentiality.' The process took time away from the day-to-day management of the schools, with middle-management 'required to draw up numerous kit lists and attend meetings connected with the process.'[56] Private finance, it appears, is addicted to micro-management practices, which are at odds with the dynamics of education and learning.

The procurement of finance through PFIs is more expensive than direct government borrowing. As a result, in order to produce savings, PFIs cut costs in design, construction and maintenance. In other words, in order to pay for access to private lines of credit, PFIs have to deliver an inferior product. This is compounded by the profit-seeking element of PFIs. The projects do not only have to cover the costs of private sector financing, they have to make a profit for the financiers as well. In the context of funding public services, profit for private finance lenders is an

54 *Review*, 1

55 *Review*, 1.

56 *Review*, 209.

additional cost with no infrastructural benefit.

By January 2013 there were thirty-seven PFIs/PPPs in operation in Northern Ireland.[57] They had a combined value of just over £1 billion. The majority of the projects were in education and health. It is thought that the cost to the Northern Ireland exchequer of repayments on PFI/PPP-secured finance will be in the region of £10 billion.[58] Despite the fact that funding the finance for PFIs/PPPs is a direct drain on the tax base of Northern Ireland, the shrinking of that tax base via a cut in corporation tax is put forward by the North's political parties and FIRE industries as the best way to save Northern Ireland from itself.

"A **tagline** should never be **mundane...**"

Belfast brand guidelines, Spring 2011.[59]

On 6 February 1998, two months prior to the signing of the Good Friday Agreement, the leader of the Alliance Party, Lord Alderdice, gave a speech to the Northern Ireland Chamber of Commerce where he outlined his vision for the future of the province. He called for a move towards economic self-sufficiency, 'lambasted the dependency culture and identified the importance and ambiguities caused by [the province's] high levels of public sector employment.'[60] He also 'touched upon the possibilities afforded by a tax-raising assembly and creatively linked that to the need for greater discretion over our corporation tax rates.' As to how a 'dependent culture' is tackled with increased dependency on foreign capital seeking low-tax jurisdictions the leader of the Alliance Party did not explain.

Three days after the referendum vote on the Good Friday Agreement, the *Belfast Telegraph* published an article by Patrick Mahony, a board director of BWD Rensburg Stockbrokers and Investment Managers and director of their Belfast office, where corporation tax was once again pushed as a necessary part of the peace dividend. 'It has, of course, been argued' wrote Mahony, 'not least by [Irish millionaire tax exile] Tony O'Reilly, that the single most important locomotive of Northern Ireland economic growth would be a lower level of corporation tax.'[61] Mahony noted that the corporation tax issue was sometimes portrayed as a 'red herring' but nonetheless, the best 'kickstart to the economy would be a reduction in Northern Ireland's corporation tax rate as an aid to indigenous and inward investment.' Within two years, both Sinn Féin and the SDLP had joined the chorus calling for a cut in corporation tax for Northern Ireland.

The campaign took on new energy in November 2005 when the *Belfast Telegraph*, along with the chairman of Ulster Bank, Sir George Quigley, launched the 'Better Deal For Business' campaign. It sought to put pressure on Westminster 'for harmonisation of corporation tax levels in Northern Ireland with those in the Republic.'[62] Sir Quigley said that if Northern Ireland wanted to compete 'for investment in the global marketplace and get a chance to capitalise on our undoubted attractions as a host location able to deliver world class performance, we must have a corporation tax rate no less favourable than that in the Republic.' Three months later the SDLP reiterated that the issue was a core part of its policy plan for the province. The party leader, Mark Durkin, said that 'investors want to come here and we want to make it irresistible for them to do so.' The party also said that a cut in corporation tax would pay for itself over a ten-year period.

The advocates for a cut in corporation tax often cite the success of the Irish Republic during its Celtic Tiger years, making the claim that the low rate was the main causal factor and one that could be, and

57 Partnership UK: Northern Ireland, http://www.partnershipsuk.org.uk/PUK-Projects-Database-Map.aspx?Region=Northern%20Ireland, accessed 20 Jan 2013.

58 Mark Hellowell, David Prince and Allyson M. Pollock, *The Use of Private Finance Initiative (PFI) Public Private Partnership (PPPs) in Northern Ireland* (Belfast: NIPSA, 2008)

59 Belfast City Council, *Belfast Brand Guidelines Spring 2011*, http://www.belfastcity.gov.uk/brand/docs/brandguidelines.pdf (accessed 16 Apr 2013), 8.

60 *Belfast Telegraph*, "Timely reminder from Alderdice," 10 Feb 1998.

61 Patrick Mahony, "Yes – Now Who Will benefit," *Belfast Telegraph*, 26 May 1998.

62 *Belfast Telegraph*, "Tele backs a better deal for business," 28 Nov 2005.

should be, replicated north of the border. In 2007 the UK government commissioned a review of tax policy in Northern Ireland. It was undertaken by Sir David Varney, permanent secretary at HM Treasury Office and a former director of Shell International Petroleum. 'I have received a lot of evidence from parties in Northern Ireland and had some engaging and useful discussions in which the need for a reduced corporation tax rate was stressed' wrote Varney.[63] 'The rationale put forward is that a corporation tax rate identical to that in the Republic of Ireland would allow Northern Ireland to replicate the Republic of Ireland growth story.' However, Varney found that, in terms of the argument made by the proponents of cutting the rate,

> There has been little evidence put forward on other differences between the economies, for example, infrastructure, currency or VAT rates. Almost all parties cite work done by the Economic Research Institute of Northern Ireland (ERINI) as evidence to the economic benefits of reducing the corporation tax rate. The conclusions the ERINI reach are a direct result of their assumption that foreign direct investment will rapidly flow. All econometric modelling such as this is subject to a huge degree of uncertainty which should inform the debate and guard against simplistic conclusions.
>
> However, the ERINI's assumption of the rate of flow is not supported by the academic literature on this subject. We have tested the ERINI conclusions using a range of different approaches to assess key variables. All these results lead to the same conclusion that, on the basis of costs and benefits for Northern Ireland alone, there is no clear and unambiguous case to cut the corporation tax rate.[64]

Varney also made the point that foreign investors look at more than the tax rate when making a decision to settle on a jurisdiction. 'It is often asserted that business will go to the place where the tax rate is lowest' he wrote. 'The academic evidence is that skills, rule of law, industrial relations, the potential for innovation and the quality of infrastructure are more important in determining the business fit of potential investment.' He made the point that tax actually serves a social and business function, that in order to have solid infrastructure and a stable society, 'taxation needs to be raised to fund the delivery of these public goods.'[65]

Varney concluded by saying that the devolving of corporation tax powers to Northern Ireland had little of benefit to offer Northern Ireland.

> The likely displacement of both capital and profits from the rest of the UK, and the fact that this would be subject to a lower rate of corporation tax, mean that a reduced rate of corporation tax for Northern Ireland would certainly come at a long-term cost in reduced resources to be shared by the UK regions or in the financing of public services. The policy would result in a net cost of about £2.2 billion over ten years, with no prospect of full cost recovery over the long run.[66]

The proposed cut in corporation tax for Northern Ireland would also 'run the risk of encouraging profit shifting from the rest of the UK to Northern Ireland' he said. 'To counter this – and only in part – HM Revenue & Customs would have to impose substantial administrative burdens. There could also be a strong reaction from other economies and regions, which, if realised in their own policy changes, would further accentuate the revenue costs for the UK.'[67] His findings, not surprisingly, drew strong words from the political and business leaders of Northern Ireland.

The general secretary of Sinn Féin, Mitchel McLaughlin, criticised the Varney report for its 'lack of vision.'[68] 'It falls far short of what is required and fails to deliver the kind of economic tools needed,' he told the newspaper. 'The British Exchequer focus is

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63 Sir David Varney, *Review of Tax Policy in Northern Ireland* (London: HM Treasury, 2007), 1.

64 Varney, *Tax Policy*, 1.

65 Varney, *Tax Policy*, 1.

66 Varney, *Tax Policy*, 4.

67 Varney, *Tax Policy*, 1.

68 *Irish Times*, "Disappointment at Varney's findings," 18 Dec 2007.

only on policies that will favour the economy of the island of Britain' he added, stating that 'our needs are treated as an afterthought.' Sir Quigley accused Varney of 'largely ignoring the evidence produced by significant business figures all over the place, not least in the Republic.'[69] 'The person leading [this review] was closely associated with the Treasury and his team was stuffed with Treasury officials,' he said, neatly side-stepping the fact that Varney had spent almost twenty years in senior managerial roles with Shell and BG Plc.

Five months later, on 30 April 2008, Sir Varney published his second report into Northern Ireland's economy.[70] It argued for greater privatisation of key sectors of the economy, pay cuts for public servants, a review of the benefits system, and greater links between the Irish Development Authority (IDA) in the Republic and UK Trade and Investment (UKTI). Sir Varney was no bleeding heart liberal, nor a defender of the public sector over the private sector. This made his findings on corporation tax all that harder for Northern Ireland's political and business class to engage with, as they came from someone with the same ideological bend as themselves. Quite simply, cutting corporation tax made no sense for Northern Ireland.

The call for the cut, however, did not go away. In the days after Varney's original report, the Institute of Chartered Accountants in Ireland 'called on the Northern Ireland Affairs Committee to review the methods the Varney team used to reach its conclusions.'[71] Yet, despite these calls of intellectual bias, similar conclusions were drawn by other organisations in a range of publications on the issue, most notably by Richard Murphy of Tax Research LLP and an adviser to the Tax Justice Network. In October 2010 the Northern Ireland Committee - Irish Congress of Trade Unions (NIC-ICTU) published a report by Murphy entitled, *Pot of Gold or Fool's Gold?* which concluded that 'Northern Ireland cannot compete with the Republic of Ireland on tax and win.'[72] This was because the corporation tax rate essentially served a totemic role – the real benefits came from the Republic's 'relaxed approach to the taxing of foreign dividends and to transfer pricing regulation, [its] relatively easily achieved corporate secrecy' as well as the fact that it 'has no controlled foreign company laws or thin capitalisation rules.' The loss of up to around £700 million a year to the block grant as a result of a devolution of corporation tax powers to Stormont meant that 'at a time when Northern Ireland is already predicted to face the prospect of above average cuts in government spending, it has to be economically risky, to say the least, to opt for an additional cut in government spending.'[73]

The professional services firm PricewaterhouseCoopers published a report in January 2011 entitled, *Corporation Tax: Game Changer or Game Over?* It said that 'while a competitive level of corporation tax is desirable to ensure UK competitiveness, in our research for this paper we could not find any clear evidence of a simple correlation between low corporation tax per se and high levels of FDI[foreign Direct Investment],' and in fact 'low corporation tax is not a key driver of investment for FDI locating in the UK, ranking 17th in a list that prioritised: language, culture and values; infrastructure; skills; and proximity to markets.'[74] It found that 'in terms of its attractiveness to FDI, Northern Ireland already performs remarkably well' and that 'in 2009, with around three percent of the UK population, Northern Ireland secured 10.3 percent of new FDI employee jobs, as compared to its long-term average of 7.4 percent.'[75] The report concluded that the Northern Ireland Executive 'should consider whether the power of fiscal flexibility itself would be of greater value in rebalancing the economy than a simple cut in corporation tax where the likely benefit is unproven.'[76]

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69 *Irish Times*, "North's bid for lower corporation tax rate is rejected," 18 Dec 2007.

70 Sir David Varney, *Review of the Competitiveness of Northern Ireland* (London: HM Treasury, 2008).

71 *Irish Times*, "Minister Reaffirms NI growth pledge," 19 Dec 2007.

72 Richard Murphy, *Pot of Gold or Fool's Gold?* (Belfast: ICTUNI, 2010), 4.

73 Murphy, *Fool's Gold,* 21.

74 PricewaterhouseCoopers, *Corporation Tax: Game changer or Game Over?* (PWC, January 2011), 6. http://www.pwc.com/gx/en/psrc/united-kingdom/ni-government-futures-corporation-tax.jhtml (accessed 29 Mar 2013).

75 PricewaterhouseCoopers, *Game Changer*, 6.

76 PricewaterhouseCoopers, *Game Changer*, 8.

The Wilberforce Society is an independent, non-partisan think-tank based at the University of Cambridge. In April 2011 it published a special report entitled *Corporation Tax in Northern Ireland.* It was part of a new round of public consultation by the UK government on the issue of reducing Northern Ireland's corporation tax. The report pointed out that 'any costs or benefits from a reduction in Northern Ireland's corporation tax rate, to be legal under EU law, would have to accrue solely to Northern Ireland.'[77] In other words, the province's block funding from central government would be directly affected by any reduction in the tax. The key to the debate on the reduction, therefore, is 'whether it will encourage enough business activity and economic growth to offset the cost to the economy of reduced government spending as a result of reduced corporation tax revenue.'[78] The author of the report, Anna Stansbury, concluded that:

> As Northern Ireland would have to bear the full costs of a rate reduction, it is clear that short-term costs to the Northern Ireland Executive would be significant in terms of lost tax revenue. This would force reduced government spending or tax rises, which could damage economic activity (by reducing local spending and increasing unemployment) and could have inequitable results, depending on where spending cuts or tax rises fell…
>
> The UK Treasury estimates… that, five years after a reduction to 12.5%, Northern Ireland will receive £200-300 million less in tax revenue each year. The point at which tax revenues return to present levels would be many years in the future, if this occurred at all….
>
> The attractiveness of Northern Ireland to foreign business depends not just on the headline rate of corporation tax but also on other business taxes, which are relatively low already; it also depends on infrastructure, skills, labour costs, and location, among other factors. These factors may be more important to business than corporation tax alone; and improving infrastructure and the skills of the workforce have benefits to society above and beyond the benefits to business, while cutting corporation tax does not.[79]

The research and reports, however, did little to stem the demand by the Northern Ireland Executive that corporation tax should be devolved and cut to 12.5%. If anything, the demand simply grew stronger.

On 5 April 2011 The First Minister and leader of the DUP, Peter Robinson, told the Northern Ireland Chamber of Commerce that 'with a reduction in corporation tax now a very real possibility… the stage is therefore set for Northern Ireland to seize the economic opportunities presented by this change.'[80] The speech was part of the chamber's *Five Leaders, Five Days* series, at which the main parties were invited to give an outline of their plans for the future. The Deputy First Minister and Sinn Féin leader, Martin McGuinness, provided the same message as Peter Robinson. 'The real possibility of reduced corporation tax is an exciting opportunity for the regional economy' he said, adding that 'along with the introduction of Enterprise Zones, [we] can ensure our economy can exit from stagnancy and over-reliance on the public sector.'[81]

Outside of the main government parties, the leader of the SDLP, Margaret Ritchie, argued that increased jobs in the private sector could be achieved 'through reduced corporation taxes and the introduction of Enterprise Zones which will ensure that local businesses receive the support they need and that Northern Ireland can attract higher levels of international investment.'[82] The leader of the UUP,

77 Anna Stansbury, *Corporation Tax in Northern Ireland* (Cambridge: Wilberforce Society, 2011), 2, http://thewilberforcesociety.co.uk/wp-content/uploads/2012/09/TWS_Corporation_Tax_NI.pdf (accessed 30 Mar 2013).

78 Stansbury, *Corporation Tax*, 2.

79 Stansbury, *Corporation Tax,* 22-3.

80 'Northern Ireland Chamber of Commerce, "First Minister Outlines DUP Plans for Jobs and the Economy," April 2011, http://www.northernirelandchamber.com/Content.aspx?nSectionId=101&nSubSectionId=101&nContentId=750 (accessed 22 Mar 2013).

81 Northern Ireland Chamber of Commerce, "Deputy First Minister outlines Sinn Fein plans for jobs and the economy," Apr 2011, http://www.northernirelandchamber.com/Content.aspx?nSectionId=101&nSubSectionId=101&nContentId=759 (accessed 22 Mar 2013).

82 Northern Ireland Chamber of Commerce, "SDLP Leader Outlines Plans for Jobs and the Economy," 15 Apr 2011, http://www.northernirelandchamber.com/

Tom Elliot, said that 'the gauntlet has been thrown down in terms of reducing corporation tax and establishing enterprise zones and the political leaders must work with the business community to ensure Northern Ireland plc. seizes the moment.'[83] Finally, the Alliance Leader, David Ford, committed his party to 'a reduction in corporation tax, a more responsive system of skills delivery, funding for the Green New Deal, more finance options for small business and a commitment to identify and address the costs of division.'[84]

The issue of corporation tax in Northern Ireland is a case of 'money talking at cost to the majority and dogma over-ruling all economic logic.'[85] Apart from the overnight tax cut it would give companies currently subject to corporation tax in Northern Ireland, it would also benefit those who work in the fields of accountancy, law, stockbroking and finance. The world of finance administration is a world of fees – every transaction, every paper filed, carries a charge. The tax cut would bring little of benefit to the vast majority of the population of Northern Ireland, who instead would have to cover the loss in corporation tax from their already-stretched household incomes.

The rationale for the cut, such as it is, appears to be as part of a wider strategy to re-position Northern Ireland – in particular, Belfast – as an offshore financial services centre. On 14 April 2008 Taoiseach Brian Cowen and Northern Ireland First Minister Peter Robinson announced an initiative that would allow financial firms in the Republic to set up satellite offices in the North. The Taoiseach said it as a 'win-win' situation, with the *Irish Times* reporting that the North would get 'much-needed financial jobs and more income tax receipts, while the financial companies in the South can access skilled recruits and keep reaping the benefits of low corporation taxes.'[86] The First Minister said that the initiative would create between 3,000 and 5,000 positions over five years – all new positions as 'officials do not anticipate any transfer of jobs from the Republic as a result.'[87]

The announcement was made in the Titanic Quarter in the Belfast docklands. By 2011 the initiative was seen as a damp squib, with the Belfast Telegraph reporting it as a 'headline grabber.'[88] From 2007 to 2012 the number of people employed directly and indirectly in financial services dropped by three percent.[89] The hope that the Titanic Quarter will fulfil its destiny as a financial centre, however, still remains – as does the belief that Northern Ireland will, one day, get to play the corporation tax game. In the short term absence of a viable offshore world in Belfast, a 'Liechtenstein on the Lagan,' the other core aspect of the FIRE services, real estate, has come to the fore.

"We're seeing people buy up **more and more** blocks of **vacant terraces**.**"**[90]

Ian Wilson of Wilson Auctions, April 2000.

Property speculation is not new to Belfast. In 1899 the city had an estimated 10,000 new houses which were lying empty, the result of a construction boom

Content.aspx?nSectionId=130&nSubSectionId=130&nContentId=767 (accessed 22 Mar 2013).

83 Northern Ireland Chamber of Commerce, "UUP Leader Outlines Party's Plans for Jobs and the Economy," Apr 2011, http://www.northernirelandchamber.com/Content.aspx?nSectionId=4&nSubSectionId=101&nContentId=773 (accessed 22 Mar 2013).

84 'Northern Ireland Chamber of Commerce, "Alliance Leader Outlines Party's Plans for Jobs and the Economy," Apr 2011, http://www.northernirelandchamber.com/Content.aspx?nSectionId=4&nSubSectionId=101&nContentId=776 (accessed 22 Mar 2013).

85 Tax Research UK, "Northern Ireland is at an economic crossroads and cutting corporation tax would be the wrong turning," 15 Mar 2013, http://www.taxresearch.org.uk/Blog/2013/03/15/northern-ireland-is-at-an-economic-crossroads-and-cutting-corporation-tax-would-be-the-wrong-turning/ (accessed 23 Mar 2013).

86 Simon Carswell, "Belfast Offers IFSC its Own Back Office," *Irish Times*, 18 Apr 2008.

87 Carswell, "Belfast."

88 *Belfast Telegraph*, "A Headline Grabber That Never Actually Yielded Much," 2 June 2011.

89 Department of Enterprise, Trade and Investment, *Northern Ireland Quarterly Household Survey Supplement September 2007*, 6, http://www.detini.gov.uk/qessep07.pdf (accessed 19 Apr 2013); *Northern Ireland Quarterly Household Survey Statistical Bulletin September 2012*, 6, http://www.detini.gov.uk/qes_statistical_bulletin_-_september_2012.pdf (accessed 19 Apr 2013).

90 *Belfast Telegraph*, "Who's buying up Belfast?" 14 April 2000.

which took no heed of 'the ability of the tenants to pay the economic rents.'[91] The provision of social housing was fractured and piecemeal, and served the financial interests of builders rather than families. In 1924 the UK government passed the Wheatley Act which allowed for subsidies to local authorities to help build housing for low-income workers. Northern Ireland was not covered by the legislation, nor was it covered by the allocation of grants in 1933 for slum-clearance. So, 'while 250,000 slum houses were cleared before the [Second World] War' the problem remained 'practically untouched in Northern Ireland.'[92]

The city's corporation built 2,652 new houses during the inter-war years, 'none of them after 1930, and even that figure included 375 houses at Seaview built not for rental but for sale.'[93] At the same time, 4,300 labourers' cottages were completed, with an uneven distribution across the province. 'Not a single one was built in Co. Fermanagh' writes C.E.B. Brett, 'where the need might have been thought to be greatest.'[94] The majority of new housing units in Northern Ireland during this period were built 'in small groups or as individual houses by private enterprise rather than by local authorities.'[95]

The German bombing raids on Belfast in 1941 destroyed 3,200 houses and damaged a further 53,000, leading to a shift in public policy. In 1943 the Planning Advisory Board appointed a committee on housing which found that 84 percent of the 323,052 houses in Northern Ireland needed repairs of some form. Of that, 42,010 were either totally unfit for human habitation or needed repairs of more than £200.[96] In 1944 the Stormont government introduced a housing bill which established the Northern Ireland Housing Trust. Its dual objective of providing employment and improving housing conditions was contested by elements within parliament, and it was made plain that the Trust 'was to be no more than an auxiliary to the local authorities with no powers to coerce them – a decision which was to have significant consequences in Derry, Enniskillen, and Dungannon.'[97] On top of this, the policy of providing grants to private builders as a solution to the housing crisis led to speculative building on a large scale with taxpayers' money 'serving to increase the profit of the builder, rather than reduce the price to the purchaser.'[98]

By the 1960s the issue of housing had developed into a civil rights campaign, one based on the discrimination felt by Catholic households in the allocation of housing within certain local authorities. In 1969 the Cameron Commission found that 'there were many cases where councils had withheld planning permission, or caused needless delays, where they believed a housing project would be to their electoral disadvantage' and that were allegations of discrimination were made they were, 'without exception [in local government areas] west of the River Bann.'[99] Also, 'given the relative economic position of the Catholic community at that time, that Catholic households would have been in a significantly worse housing position than Protestants in the same area.'[100] The outbreak of the Troubles, coupled with the centrality of housing as a civil rights grievance, saw the establishment of the Northern Ireland Housing Executive (NIHE). Its first meeting took place on 13 May 1971, at which it set itself the task of 'a substantial increase in slum clearance and redevelopment, and the building of more than 19,000 more house than were built in the previous five years.'[101] The transfer of responsibility for social

91 C.E.B. Brett, *Housing a Divided Community* (Dublin: Institute of Public Administration, 1986), 20.

92 Sir Lucius O'Brien, "The Northern Ireland Housing Trust." *Journal of the Statistical and Social Inquiry Society of Ireland*, 106 (1952-3), 60.

93 Brett, *Divided Community*, 21.

94 Brett, *Divided Community*, 23.

95 O'Brien, "The Northern Ireland Housing Trust," 60.

96 Betty Sinclair, "Homes for Ulster: An Explanation of the Communist Party's Policy for Northern Ireland," in Angela Bourke et al., *The Field Day Anthology of Irish Writing, Vol. 5: Irish Women's Writings and Traditions* (Cork: Cork University Press, 2002), 368.

97 Brett, *Divided Community,* 26.

98 Brett, *Divided Community*, 36.

99 Thomas Hennessey, *A History of Northern Ireland 1920-1996* (Dublin. Gill & Macmillan, 1997), 129-30.

100 Martin Melaugh, *Housing and Religion in Northern Ireland* (Colerine: Centre for the Study of Conflict, 1994), 6.

101 *Irish Times*, "N.I. Housing Executive Has First Meeting," 14 May 1971.

housing from local authorities to the NIHE saw it become landlord to 150,000 households.

Currently, the NIHE has almost 3,000 staff and 90,000 housing units under its remit, and continues to provide social housing at affordable rents with security of tenure to families on low incomes. On 9 January 2013 the minister for Social Development, Mr. Nelson McCausland, announced a plan to scrap the NIHE. The minister said that it was 'no longer sustainable or made the best use of public money.'[102] The Department for Social Development would take over responsibility for housing strategy, policy, legislation, funding, regulation and inspection. All landlord functions would move to the private sector. 'It's about time that we started to think about how we make best use of what is a very valuable asset' said the chief executive of the Chartered Institute of Housing (CIH). Grainia Long.[103] The CIH was an early and enthusiastic supporter of PFIs in social housing.[104]

Two weeks later, Mr. McCausland said that the NIHE's homes needed £1 billion worth of work done to them, with no money currently available in the public sector. 'If we move the stock over eventually to effectively the housing association sector' he said, 'it enables them to borrow money so therefore the work can be funded.'[105] However, it appears that while financing will come from the private sector, funding will still remain the responsibility of the Executive. As with PPPs and PFIs, government housing policy is being shaped to facilitate a private credit market for public income streams.

The decision to move against the NIHE was the culmination of a policy that began over 30 years ago with the election of Margaret Thatcher as Prime Minister in 1979. It marked a fundamental shift in government policy, from that of a provider of housing to a facilitator of private market initiatives.

102 BBC News, "NI Housing Executive to be Abolished Under New Plans," 9 Jan 2013, http://www.bbc.co.uk/news/uk-northern-ireland-20957886 (accessed 9 Apr 2013).

103 InsideHousing.co.uk, "Future of NIHE Homes Uncertain," 11 Jan 2013, http://www.insidehousing.co.uk/regulation/future-of-nihe-homes-uncertain/6525273.article (accessed 9 Apr 2013).

104 *Local Government Chronicle*, "Institute Calls for PFI to Extend to Housing," 20 May 1997, http://www.lgcplus.com/lgc-news/institute-calls-for-pfi-to-extend-to-housing/1511347.article (accessed 9 Apr 2013).

105 *Belfast Telegraph*, "Housing Stock Needs £1bn of Work, 22 Jan 2013.

This was part of a profound change in public policy, one which 'advocated the extension of markets, an expanded role for the private sector in the provision of public services and the withdrawal of welfare services.'[106] In June 1979 the NIHE was instructed by Philip Goodhart, junior Northern Ireland minister, to make its 190,000 houses available for sale at up to 50 percent discount on valuations. Between 1979 and 2003 more than 100,000 properties were sold by the NIHE at a time when disinvestment in new housing stock was underway. Between 1987 and 1998 'the overall size of the social [housing] sector declined by 17.3 percent.'[107] The NIHE was forced to find alternative sources of funding, usually from the private sector. In 1992 the Housing (NI) Order was passed, allowing housing associations to borrow from private financial institutions. This gave private finance access to both sides of housing provision – private households via the mortgage market, and public housing via loans to the NIHE and housing associations. Regardless of provision, private finance got paid. The increasing privatisation of housing was a boon for the construction, real estate and legal services sectors of the economy, and it is here that the increased calls for greater privatisation – subsidised with public grants, tax breaks and write-offs – are at their most loudest. As with the corporation tax campaign, it is not the consequences for Northern Ireland which matter, only the increased handling fees for those who administer the paperwork of a dogmatically speculative business.

"It is a case of let the **good times roll** for those who are **on the ladder.**"

Alan Bridle, Bank of Ireland head of research in Northern Ireland. 21 September 2006. [108]

106 Queen's University Belfast Budget Analysis Project, Budgeting *for Social Housing in Northern Ireland: A Human Rights Analysis* (Belfast: QUB School of Law, 2010), 13.

107 Queen's University Belfast Budget Analysis Project, *Budgeting for Social Housing*, 15.

108 *Belfast Telegraph*, "Gazumping is on the rise as house prices soar," 21 Sep 2006.

A key aspect of this paper has been to show that current mainstream economic thinking prioritises FIRE services over actual production, and that this ideological turn is being treated in Northern Ireland today as if it is somehow part of a peace-building process. The assault on public housing, the campaign for devolved powers on corporation tax, the privatisation of public services: in all of this we are witnessing businesses that are parasitic in nature – i.e. finance, insurance and real estate – being given privileged status and political backing by the power-sharing executive, with more than a nod from central government, corporation tax notwithstanding. Meanwhile, the activities which are essential to social stability and its reproduction – health, housing, education, water, infrastructure – are put out to tender in order to return a profit, usually through asset-stripping and loan repayments to the private financial sector. This is Northern Ireland's double transition: towards peace and neoliberalism. It is one that carries its own dangers for social stability.

The double transition is not unique to Northern Ireland. Similar transitions took place in Eastern Europe and South Africa with the collapse of the communist bloc and the ending of apartheid. Also, the structural problems Northern Ireland faces lie much deeper than the period defined by the Troubles, and so cannot be expected to disappear with the arrival of the peace process. As the economists Keith Syndey Isles and Norman Cuthbert pointed out as far back as 1955, 'Northern Ireland has no power to follow an independent monetary policy… or to adapt fiscal policy to local needs [and because of this] it may not use any of the ordinary devices for stabilising employment through control of the economic climate.'[109] A devolved corporation tax regime is no substitute for lack of control over monetary policy. The constitutional questions facing Northern Ireland still need to be addressed. The deep embededness of FIRE services in the direction of southern Irish economic policy, alongside the wholesale corruption and criminality that is hotwired into the very structures of the Republic itself, should serve as evidence that a simple redrawing of borders is not the simplistic solution it appears to be.[110]

The increase in property prices in Northern Ireland in the mid-2000s brought with it an increase in unaffordability. In 2008 the Northern Ireland Housing Rights service reported a '117 percent increase in homelessness cases caused by mortgage default' with the number of repossessions rising by a third.[111] 'We're going to see a new group of people on normal wages who can't afford to keep their homes,' warned Ricky Rowledge of NICH. The *Belfast Telegraph* reported in March 2013 that around 35 percent of all mortgage-holders in Northern Ireland were caught in negative equity.[112] This compared with 15 percent in Yorkshire and Humberside, 11 percent in Scotland, and 5 percent in London.[113] It is hard to see how tax breaks for hedge funds, with zero employees and brass plates on doors in the Titanic Quarter, will offset the social cost of giving private finance the right to charge a rent on the North's health, housing and education systems. Yet, this is the policy of all the main political parties in Northern Ireland, that the tax-avoiding strategies of finance, insurance and real estate - coupled with more golf courses - will somehow save the province, build a better future, and offset the damage caused by selling off social infrastructure in order to rent it back from the new, private, owners.

In March 2009 *Enquire* journal published a paper by Ruth McAlister of the University of Ulster which looked at the experience of local communities during the regeneration of Belfast. She found that 'the attempts to modernize urban Belfast in the 1980s left little room for community concerns and involvement as efforts and resources were concentrated on physically rebuilding the city centre and Laganside

109 K.S. Isles and N. Cuthbert, "Economic Policy," 137.

110 On the truncated development of the southern Irish economy since partition see, Conor McCabe, *Sins of the Father: Tracing the Decisions That Shaped the Irish Economy* (Dublin: History Press Ireland, 2011); on corruption see, Elaine Byrne, Political Corruption in Ireland 1922-2010: A Crooked Harp? (Manchester: Manchester University Press, 2011); on aspects of the nature of the southern Irish state see, The Commission to Inquire into Child Abuse, http://www.childabusec-ommission.ie/.

111 *Irish Times*, "Left out in the cold by the North's new prosperity," 15 May 2008.

112 *Belfast Telegraph*, "Time for MLAs to fix mortgages crisis," 4 Mar 2013.

113 *Guardian*, "Negative equity plagues homeowners," 2 Feb 2013.

riverfront.'[114] In conclusion she wrote that 'if Belfast is to maintain its momentum of economic growth in a more balanced and sustainable way, the involvement of the community in consultation is a dilemma that needs to be more openly acknowledged and considered.' This was necessary because 'otherwise the gloss may soon wear off this shiny new Belfast if there are not serious attempted to address its rougher edges.'[115]

It is a conclusion that could be drawn for Northern Ireland as a whole, where the concerns of the wider population are waved away amid shouts of 'peace dividend' and 'privatise' as if they were one and the same thing. They are not. The rebuilding of Northern Ireland's social space on a stable and secure footing is not possible in a world where people rent their lives, and the lives of their children, from finance and its standing army of lawyers, accountants, stockbrokers and estate agents. The future of Northern Ireland rests with what it holds in common – that is, its health, education, housing and infrastructure networks - as these are the things which all modern societies need in order to reproduce themselves in a sustainable way. Its future lies in social ownership of common needs, not their forced enclosure behind paywalls so that FIRE service gatekeepers can charge an entry fee for the very act of living.

114 Ruth McAlister, "Improved ways of living or continuing exclusion? Experiences of participation in Belfast's urban transformation," *Enquire* 2 (Mar 2009), 24, http://www.nottingham.ac.uk/shared/shared_enquire/PDFs/ENQ_2_-_Ruth_McAlister.pdf (accessed 14 Apr 2013).

115 McAlister, "Improved ways," 25.

LABOUR AFTER CONFLICT

Trade unions in post conflict societies

Trade unions are a leading global actor in the struggle for progressive and democratic social change in post-conflict societies. Despite the worst excesses of neo liberalism Trade Unions maintain a significant position in the body politic nationally and internationally and alongside the role unions play in the collective defense of workers' rights, they have also acted as significant agents in the transition from conflict to more peaceful and democratic systems.

This project seeks to explore, analyse and share learnings from a range of post conflict societies including South Africa, Iraq and Palestine/Israel with a focus on the role of trade unions in the development of shared and just societies. The project will address the role of trade unions in reconciliation, democratisation, social justice and sustainable economic development. The project will collaborate closely with the labour movement, politicians, decision makers, local communities and international partners.

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