

The Economist

NOVEMBER 6TH-12TH 1993

CLARKE'S BUDGET

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JAW-JAW IN ULSTER

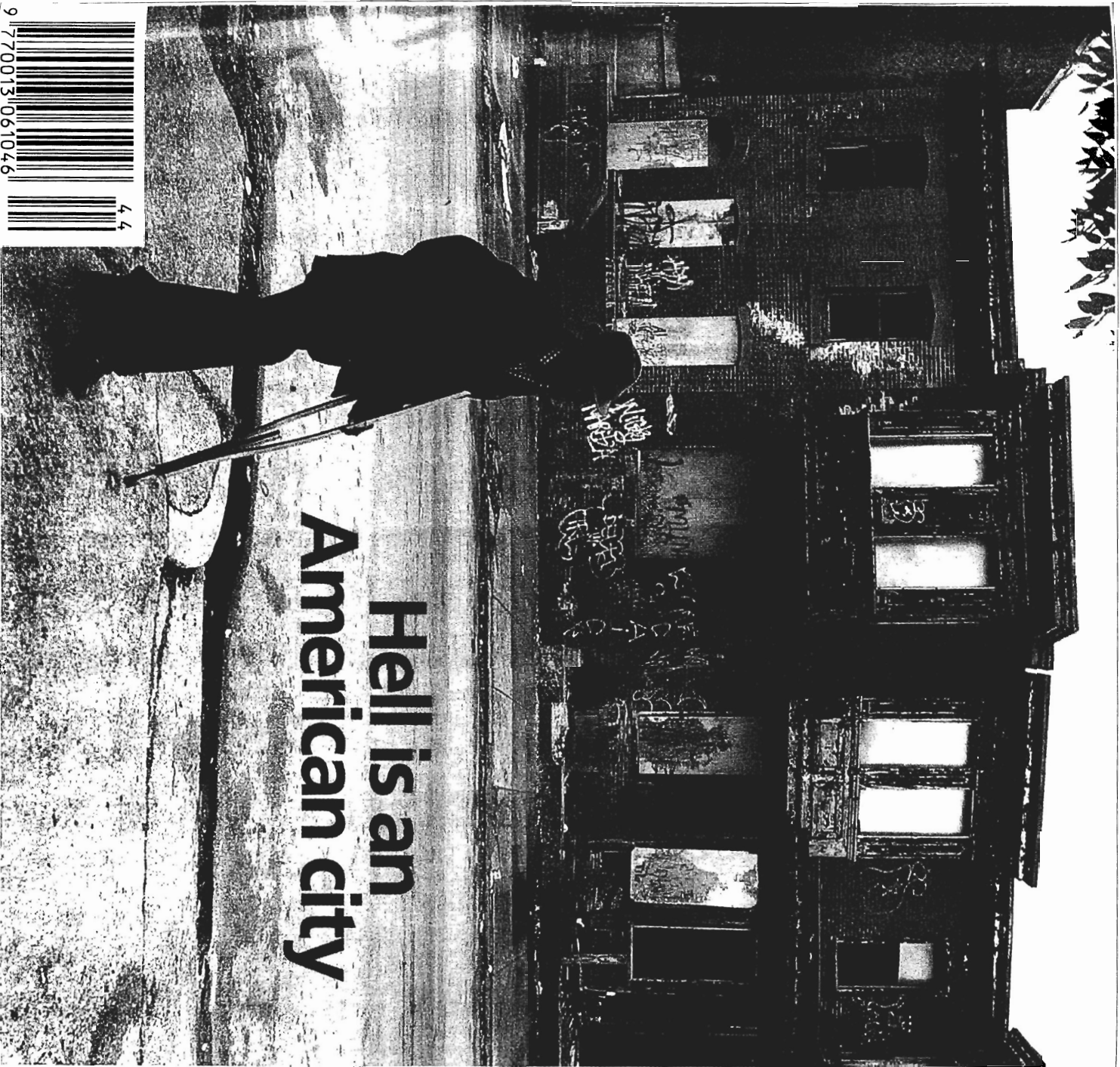
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VOLVO THINKS AGAIN

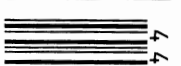
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EUROPE'S NON-UNION

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Hell is an
American city



AS6 20 Germany DM7 00 Ireland IR£2 10 Japan ¥850(¥825) Singapore S\$7 50 UK £1 90
FR24 Hong Kong HK\$30 Italy Lire6,500 Switzerland Sfr7 00 USA \$3 50

JUSTICE a
France

The war dividend

BRITAIN subsidises Northern Ireland to the tune of £4 billion (\$6 billion) a year, or £2,370 for each Ulsterman. Moreover the subsidy—the gap between public expenditure in the province and receipts from taxation and the European Community—is growing fast (see chart). The recent recession has cut tax revenues and increased welfare payments, while security demands more and more of the British taxpayers' pounds.

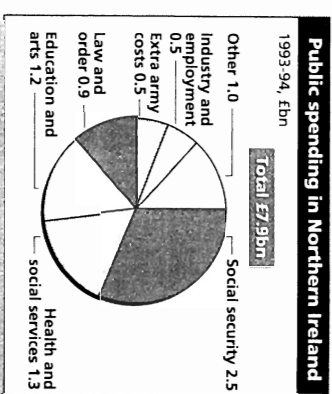
So far, few British politicians appear bothered by the subvention. That is a relief for Northern Ireland, which is utterly dependent on it. The province's private-sector output per head is 64% that of Great Britain but, thanks to the subsidy, consumption is 82% of Britain's.

Last year the Treasury compared public spending in the various British regions. Even excluding the military, the government spent £3,832 for each Ulsterman in 1990-91. For each Scot it spent £3,202; for each Welshman, £2,953; and for each Englishman, £2,604.

The Northern Ireland office says it will fork out £902m on law and order in 1993-94. The police, 17,000 in number, account for £590m of that. The prison service absorbs £136m. The compensation fund, which pays out to those who suffer from terrorism, costs £101m. The Ministry of Defence expects to spend a further £477m on the extra costs of stationing 15,000 troops in the province.

Rising public expenditure has matched falling private-sector investment. Bob Rowthorn, a Cambridge economist and a contributor to a new study on Northern Ireland* by the Institute for Public Policy Research (IPPR), reckons the troubles have cost the province private investment worth some 30,000 jobs. But un-

The cost of the union



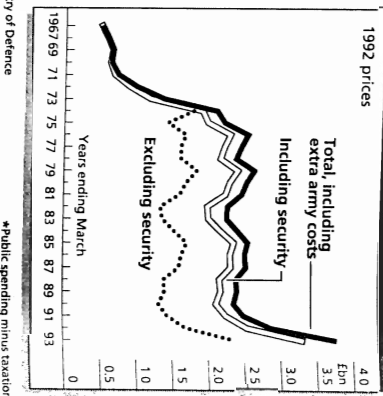
employment (now 14.1%) would be little different without terrorism, because security is such a job-generator.

The IPPR study claims the subsidy has hampered progress towards peace. "Much of the region actually benefits from security expenditure and has no economic incentive to see it reduced", it points out. Moreover, these benefits are concentrated on Protestants since few Catholics want or dare to join the police. This helps explain why Catholic men are more than twice as likely to be unemployed as Protestants.

The Ulster economy has much to offer the middle classes. Many of them work in the public sector, where they usually enjoy British salary scales. Yet property prices are much lower: £60,000 for a house in Belfast that would cost at least £250,000 in London. Few of the middle classes

*"Northern Ireland: Sharing Authority", by Brendan O'Leary, Tom Lynne, Jim Marshall and Bob Rowthorn. The Institute for Public Policy Research

UK subsidies* to Northern Ireland



would gain significantly, in economic terms, from an end to the conflict.

That would change if politicians adopted one of the IPPR study's proposals. This would freeze the annual subsidy for spending on law and order. The people of Northern Ireland would have to pay for any increases through a security tax. If spending on security declined, the Northern Irish would be free to use the savings to cut taxes or improve services.

Despite the apparent costs, peace in Northern Ireland would not save Britain much money, says the IPPR. Suppose that Britain and Ireland divided equally the cost of a £3 billion annual subsidy. To pay for its share, the Republic would have to cut consumption per head by a tough 12%. More likely, then, the subsidy would be divided according to the relative weights of the British and Irish GDPs. Britain would then pay £2.9 billion. So even if Britain found a way of getting its troops out of Northern Ireland, it would probably have to go on pouring money in.

State spending Trapped on welfare

TO JUDGE from the current public-expenditure round, settled by ministers on November 4th, it is business as usual in Westminster. The Treasury demands sacrifices. Spending ministers say "fine, so long as it's not in my department." The usual back-bench prima donnas, addicted to the television cameras and terrified of losing their seats, kick up a fuss about hospital closures. Behind the scenes, however, the more reflective politicians, left-wing as well as right, are beginning to ask searching ques-

tions about the future of the welfare state.

The Treasury has instituted a long-term review of public expenditure, under the chairmanship of the chief secretary, Michael Portillo. He is scrutinising the big-spending departments (health, education, social security) with a view not only to saving money, but also to shrinking the state. Not to be outdone, the Labour Party has set up a Commission on Social Justice, under the chairmanship of Sir Gordon Borrie. Sir Gordon is trying to answer hard questions about welfare, such as the relative claims of targeted versus universal benefits.

The Borrie commission has given Mr Portillo a once-in-a-lifetime opportunity to address rising welfare costs. If the Labour Party complains that the government is scheming against the welfare state, the gov-

ernment can retort that Labour is too. But a thorough overhaul before the next election, due by 1997, is unlikely. The government is hamstrung by manifesto commitments.

Instead, there will be piecemeal reforms, driven by budgetary panic and designed to solve specific problems. The Department of Social Security (DSS), which recently unleased the Child Support Agency (see box on next page), is planning to tighten up invalidity benefits. (One idea is to employ disabled people, who are unlikely to have sympathy with scroungers, to police the system.) Undermining its enthusiasm for targeting, the Treasury is fighting to limit relief for value-added tax on fuel to those on income support.

Even after the next election, politicians will hesitate before going beyond piecemeal