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The Economic Impact of the Northern Ireland Conflict

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Section 1

Introduction

The ongoing conflict in Northern Ireland has left many marks on the economy of the region and to a lesser extent on those of the Republic of Ireland and Britain.

While it is difficult to disentangle the impact of the conflict from other economic and regional developments, some indicators are very telling. In this report we analyse areas of economic activity where the data show that the ongoing violence has had an effect on the normal working of the economy. We attempt, where possible, to quantify these costs, even though the figures are no more than rough estimates in some cases.

The body of the report is divided into five sections:

Section 2: Security and Security Related Costs

Statistics on terrorist activity in Northern Ireland are presented and put into context. Security related issues such as size of army and police force, number of court proceedings, public order and safety expenditure are examined for Northern Ireland, the Republic and the UK. An estimate of the security cost of the conflict is presented.

Section 3: Public Finances in Northern Ireland

Public sector employment in Northern Ireland has acted as a shield against unemployment and the effects of recession. The subvention from the British Exchequer to Northern Ireland's equivalent has freed public finances there from the constraint of local revenue raising capability. If this transfer of funds were absent, the present level of public spending could not be supported.

Section 4: Impact on Industrial Development

Industrial development in Northern Ireland and in the Republic has relied heavily on the attraction of externally owned companies to create employment. The Republic has been more successful in this task, even though incentives are broadly comparable. We examine the nationalities of foreign investors in both regions and the manufacturing sectors they are active in. The uncertain security situation in the North has inhibited the Industrial Development Board's ability to attract high-tech foreign investors to Northern Ireland.

Section 5: Impact on Tourism Growth

Tourism is an important source of income for many marginal, less developed regions. However, Northern Ireland tourism numbers and revenue have been severely affected by the onset of the troubles. We analyse the composition of tourists, their main purpose of visit and trends in accommodation. In this section we also examine the development of tourism in the Republic of Ireland and estimate the cost of the conflict in both areas.

Section 6: Other Areas of Economic Cost

In this section, the impact of the continuation of the violence on a number of areas is examined. The one most easily quantified is the energy sector, where the absence of an interconnector between the two electricity grids on this island imposes costs on both utilities.

The transport sector has also been affected. Unexploited economic policy opportunities are listed and the impact of the conflict on the quality of economic policy in the Republic is examined.

Note: throughout the report "IR£" denotes Punt, "£" stands for Pound Sterling.

Section 2

Security and Security Related Costs

2.1: Terrorism in Northern Ireland and Great Britain

The escalation of the Northern Ireland conflict gave rise to the deployment of the British Army on the streets in 1969. The table gives the statistics associated with the continuing violence since that date.

From 1969 to end August 1993 34,600 reported shooting incidents and close to 10,000 bomb explosions took place in Northern Ireland. In addition, between 1969 and 1991 4,600 devices were neutralised over the period and 10,500 firearms and 103 tons of explosives were found. Between 1971 and 1991 over 17,000 armed robberies (including attempts) were committed.

Table 2.1: Terrorist Activity in Northern Ireland

Year	Shooting Incidents	Bomb Explosions	Deaths	Injuries
1969	73	9	13	n/a
1970	213	153	25	n/a
1971	1756	1022	174	2592
1972	10628	1382	467	4876
1973	5018	978	250	2651
1974	3206	685	216	2398
1975	1803	399	247	2474
1976	1908	766	297	2729
1977	1081	366	112	1387
1978	755	455	81	985
1979	728	422	113	875
1980	642	280	76	801
1981	1142	398	101	1350
1982	547	219	97	525
1983	424	266	77	510
1984	334	193	64	866
1985	237	148	54	916
1986	392	172	61	1450
1987	674	236	93	1130
1988	537	253	93	1047
1989	566	224	62	959
1990	559	167	76	906
1991	499	230	94	962
1992	439	222	85	1066
1993**	343	190*	75	544
Total 1969-93**	34571	9984	3103	33999

* Includes neutralised devices

** Up to 31st August 1993

Source: Northern Ireland Annual Abstract of Statistics, 1992, RUC direct communication

The table above shows that 1972 was a peak year in terrorist activity, accounting for 31% of reported shooting incidents in the period between 1969 and 1991.

Between 1969 and August 1993, 3,103 people have been killed, and 34,000 people were injured in Northern Ireland.

Britain has also been affected by the conflict in Northern Ireland. The table gives figures from 1974, when the Prevention of Terrorism legislation was enacted. Before 1989, only those incidents which caused death or injury were recorded.

Table 2.2: Terrorist Activity in Great Britain				
Year	Shooting Incidents	Bomb Explosions	Deaths	Injuries
1974	2	7	1	47
1975	7	19	19	232
1976	1	7	2	104
1977	-	1	-	1
1978	-	4	-	10
1979	-	4	1	5
1980	-	1	-	5
1981	-	5	3	47
1982	-	2	11	59
1983	-	3	6	96
1984	-	1	5	30
1988*	-	1	1	8
1989	-	3	12	23
1990	3	11	3	55
1991	-	18	3	40
1992	3	44	6	222
1993**	2	33	3	123
Total	18	164	82	1107

* No incidents recorded for 1985 and 1986, for 1987 "various" bomb explosions are cited.

** Up to end October 1993

Source: Home Office

82 people died in Britain between 1974 and end October 1993 as a result of the conflict, 1,107 persons were injured.

This spill-over of the Northern Ireland conflict into Britain has given rise to extra costs in the security area. The recent attacks on the City of London, for example, have led to an extensive security operation, restricting the movements of thousands of people. The damage caused in these bombings has also shaken the British insurance industry.

These are costs which would not occur, had violence ceased. The costs of court proceedings against persons charged with terrorist offences in Britain and the costs of imprisoning convicted persons are other areas

areas of savings to the Exchequer that would follow the resolution of the conflict.

To put the statistics contained in the two tables above into context, it is useful to compare them to the population of these countries:

Since 1969 an average of 129 people died in Northern Ireland every year as a result of the conflict. If the same level of terrorist activity had prevailed in the UK as a whole, the annual toll would have been 4,700 or a total of almost 103,000 (based on population figures for 1989) over the period.

2.2: Security and Security Costs in Northern Ireland

As a result of the conflict in Northern Ireland, security and public order activities and costs are very high. In this section we will look at a number of issues in relation to security.

Police Force and Army

In 1991, the size of the law enforcing agencies, i.e. police force and Ulster Defence Regiment, including part-time members was 19,059. This means that there is one security officer for every 81 people, including children, in Northern Ireland.

Army personnel stationed in Northern Ireland are not usually accompanied by their families. Given the security situation and the resulting lack of opportunities to spend money in the province, one may assume that most of their remuneration is remitted to mainland UK. The economic effect of their presence in Northern Ireland is therefore negligible.

Court Proceedings Taken

On average 379 proceedings against persons charged with terrorist offences were taken by courts in Northern Ireland annually. The expenses connected with these court cases would constitute an immediate saving if violence ceased.

Prison Population

There has been very rapid growth in the population of prisons between 1970 and 1981 (185%); since then a fall of 25% in the number of persons held in prisons and young offender centres has taken place. The greater part of the initial rise in numbers must have been due to the increase in the number of prisoners jailed for crimes connected with terrorism and violence.

The table gives current and capital expenditure on public order and safety in real terms, i.e. taking out the influence of inflation on the figures.

Table 2.3: Public Order and Safety Expenditure of Northern Ireland Central Government (Constant 1982 £ Million)

Year	Current Expenditure	Capital Expenditure	Total
1979	253.2	32.0	285.2
1980	257.6	35.6	293.0
1981	279.5	28.1	307.6
1982	296.3	22.0	318.3
1983	316.5	22.4	338.9
1984	313.2	25.0	338.2
1985	318.6	24.0	342.6
1986	348.7	22.8	371.5
1987	368.5	27.8	396.3
1988	343.9	31.7	375.6
1989	361.5	45.5	407.0

Source: Northern Ireland Annual Abstract of Statistics, 1990, 1992.

Security costs have risen by 43% in the 10 year period described in the table, equivalent to an annual growth rate of 3.6%.

In 1989, current capital expenditure on public order and security by the Northern Ireland Central Government amounted to £365. In that year, Northern Ireland's security expenditure amounted to 2.4% of the UK expenditure in that category.

Criminal Damage and Personal Injury Claims

Between 1981/82 and 1990/91 (1988/89 figures are not available) 40,500 applications for criminal damage claims were made, 26,500 of which received an award. The table lists the number of awards made, the average payment and the computed total amount paid out each year. It must, however, be borne in mind that for many awards interim payments are made over a number of years.

Table 2.4: Criminal Damage Awards Paid in Northern Ireland			
Year	Number of Awards Made	Average Award £	Total Sums Paid £mill
1981/82	2978	8345	24.9
1982/83	3614	6453	23.3
1983/84	2284	10287	23.5
1984/85	2651	8755	23.2
1985/86	2137	9300	19.9
1986/87	2993	6877	20.6
1987/88	3352	5670	19.0
1989/90*	3234	6270	20.3
1990/91	3288	5537	18.2
Total*	26531	7271	192.9

* 1988/89 figures not available
Source: Northern Ireland Annual Abstract of Statistics

Excluding the figures for 1988/89, £193 million was paid out between 1981 and 1991. Assuming that 1988/89 was in line with the other years, this yields an annual average of £21.4 million. According to the Compensation Agency, 92% of the money paid out in criminal damage awards is related to terrorism. Based on our calculation of the average annual payout, this means that £19.7m per year could be saved with the cessation of violence (when all granted awards have been paid out in full).

For personal injury claims (on average 3746 per year between 1982/83 and 1990/91) no information on amounts paid is available, but 72% of the money spent is terrorist related, thus substantial savings can be expected in this area with the end of terrorist activity.

2.3: Security Costs in the Republic of Ireland

The Republic's current per capita expenditure in 1989 in the security and defence area was £225, which is approximately 60% of the equivalent expenditure in Northern Ireland. This indicates that security costs in the North are highly inflated due to the conflict.

Figures for defence forces, police, prisons and legal costs are given in the following table. They have been deflated to take account of inflation.

Table 2.5: Government Security Expenditure in the Republic of Ireland, 1982IRE				
	1989	1990	1991	1992*
<i>Defence</i>				
Current	216.7	241.3	253.4	253.4
Capital	4.2	4.5	3.6	3.1
Total	220.9	245.8	257.0	256.5
<i>Garda</i>				
Current	196.5	204.3	216.9	232.2
Capital	1.4	1.5	0.9	0.8
Total	197.9	205.8	217.8	233.0
<i>Prison Service</i>				
Current	38.9	43.7	51.5	50.7
Capital	3.5	4.2	4.0	4.5
Total	42.2	47.9	55.5	55.2
<i>Legal</i>				
Current	31.9	37.6	32.6	32.1
Capital	0.4	0.9	0.3	0.8
Total	32.3	38.5	32.9	32.9
Total	493.5	538.0	563.2	577.6
* Provisional				
Source: Budget, various issues				

Police Force and Army

The number of Gardai currently active in the Republic is 10,925.

In August 1993, the Irish army comprised of 12,765 permanent members, including those deployed overseas. The reserve contingent (e.g. FCA, Naval Service), effective and non-effective stood at 16,448. The total size of law enforcing agencies in the Republic is thus 40,138.

Court Proceedings and Prison Population

In the Republic, the Special Criminal Court was established to deal with offences against the state. In recent years an average of 24 cases per annum was disposed of there.

At present approximately 50 provisional IRA prisoners are held within the Republic's prisons plus a small number of prisoners from other groups related to terrorist activity.

2.4: Security Cost Impositions on Citizens

The Northern Ireland conflict has created security cost impositions on citizens, mainly the citizens of Northern Ireland itself. These include the various measures which have been taken to protect city centres, which consist of security checkpoints in the main shopping areas as well as the indirect impact of various policing measures.

Roadblocks, which add to journey times, are more widespread in Northern Ireland than they are elsewhere and cause inconvenience and delay. There are also security checks at air and sea ports which are more intrusive than would be necessary in a more normal environment.

At the level of private business, the conflict has meant the need for security guards. Up to 1985/86, a "Security Staff Grant Scheme" was in operation which, each year, paid out a total of £1m to approximately 450 claimants. However, this scheme was discontinued and the cost of providing security on business premises has to be borne fully by employers.

Outside Northern Ireland, citizens suffer some inconvenience also. The conflict has resulted in legislation being enacted in the United Kingdom, largely in response to terrorist actions on the UK mainland, which involve a greater degree of surveillance of travellers between Ireland and Britain than used to be enforced prior to the onset of the current conflict in Northern Ireland.

More generally, the conflict is one of a number which have contributed to the need for increased security measures internationally, with implications of both cost and inconvenience for the travelling public.

It is clearly impossible to place a monetary value on the inconvenience to ordinary citizens caused by the activities of terrorists and the response of the security forces to these activities. Particularly in Northern Ireland itself, these costs cannot be dismissed as trivial, and have added to the burdens of everyday life. They may indeed constitute one of the largest hidden costs of the Northern Ireland conflict.

2.5: Summary and Conclusions

In the Republic, the Northern Ireland conflict has resulted in:

- * Additional army activities in border areas, extra barracks, air support costs, a special Border Duty Allowance for soldiers;
- * Extra police activities along the border;

- * Additional activity by both the Army and Gardai throughout the country, including intelligence work, cash escorts, etc.;
- * Extra court and prison costs.

A minimum figure for these extra costs is 10% of the total security related budget, allowing for the fact that resources may have been diverted from other uses to which they would be a re-allocation should violence cease. The Republic would save IR£ 91m per annum, based on the 1992 budget figures, which show total security spending at IR£910m in current money.

To arrive at an estimate for the potential savings in Northern Ireland, we have computed security costs per head, measured in current money. Such a comparison of security and defence costs per head shows that they are 60% higher in Northern Ireland than in the Republic.

Table 2.6: Security Costs Per Head of Population, Current £ 1989

	£
Northern Ireland	365
Rep. of Ireland	225

If, with the cessation of violence per capita costs in Northern Ireland could be reduced to Southern levels, the North would save £222m per annum. This figure includes an estimated £20m per annum which could be saved in criminal damage awards alone.

Section 3

Public Sector Finances in Northern Ireland

3.1: Public Sector Employment in Northern Ireland

The beginning of the intensification of the unrest coincided with a massive expansion in public sector employment. While employment in health, education and public administration accounted for 25% in 1971, by 1993 it had risen to 36% of total employment in Northern Ireland.

Table 3.1: Public Sector Employees, Northern Ireland, June 1993

N.I. Central Government	50,184
Bodies under Aegis of the Above	85,584
UK Central Government	6,252
Local Government	9,244
Public Corporations	46,833
Total	198,097
Total Employment	543,780
Public Sector as % of Total Employment	36

Source: Northern Ireland Economic Council (NIEC), 1993

The increase in public sector employment has helped to cushion the North's economy from the effects of the dramatic decline in manufacturing employment which we will turn to later.

Apart from the obvious costs to the Exchequer, heavy reliance on the public sector for employment can also crowd out private sector employment by raising wage levels and by attracting talented people into unproductive employment.

While a similar recruitment drive to the public sector in the 1970s in the Republic has led to prolonged problems with Exchequer finances, the North has been spared such implications due to the large transfers of moneys from the British to the Northern Irish Exchequer.

3.2: The British Subvention to Northern Ireland

Public expenditure in the less prosperous regions of Great Britain is to some extent financed by revenue raised in more prosperous regions. This expenditure is based on the principle of parity with the rest of the United Kingdom which requires the uniform provision of health, welfare and other services. It is, however, impossible to clearly identify these transfers because they take place within a single financial system.

The British subvention to Northern Ireland can be defined as the total amount received by the North's Exchequer from the British Exchequer to augment revenue in order to pay for the public services provided there. The size of the subvention depends thus on the ability of the North to generate tax revenues and other receipts. This in turn depends on the buoyancy of the Northern Ireland regional economy. However, the allocation of the subvention is formula-based and may not always reflect perfectly what is happening on the ground.

These are the main components of the subvention (percentages relate to provisional 1992/93 figures):

- | | | |
|-------|---|-------|
| (i) | Grant-in-Aid under the Northern Ireland Constitution Act 1973 | (66%) |
| (ii) | Expenditure by Northern Ireland Office | (27%) |
| (iii) | Expenditure by Northern Court Service | (1%) |
| (iv) | Contribution from GB National Insurance Fund | (6%) |

This measure of the subvention excludes the extra cost of the army in Northern Ireland.

In 1970/71, the transfer was equivalent to 8.4% of GDP. The most recent estimate of GDP in Northern Ireland is for 1991, when the figure stood at £10,471m. The subvention for 1991/92 amounted to 23% of that measure. The 1992 subvention was equivalent to 12% of the Republic's GDP of that year.

The Grant-in-Aid not only ensures that current expenditure is fully covered, but also covers a substantial amount of capital spending. As a result, the need for borrowing by the NI Government has been reduced sharply.

Table 3.2: Subvention from Great Britain to Northern Ireland 1983/84 to 1992/93

	83/84 £m	84/85 £m	85/86 £m	86/87 £m	87/88 £m	88/89 £m	89/90 £m	90/91 £m	91/92 £m	92/93 £m
Grant in Aid under the NI Constitution Act	775	905	955	845	855	910	885	1,066	1,495	2,185
Expenditure by NI Office	372	401	436	480	544	580	638	699	784	890
Expenditure by NI Court Service	12	11	13	14	16	23	24	28	32	41
Contrib. from Great Britain National Ins. Fund	77	95	60	175	155	185	210	225	125	180
Exp. by MAFF **	69	77	72	79						
Total	1,305	1,489	1,536	1,593	1,570	1,698	1,757	2,018	2,436	3,296

* *Provisional*
 ** *From 1987/88 this became the responsibility of DANI. It is funded by an increase in Grant-In-Aid, which would otherwise be considerably smaller.*
Source: Department of Finance and Personnel

3.3: Summary and Conclusions

Public sector employment in Northern Ireland accounts for 36% of total employment there. While it has shielded the economy from the full impact of the recent prolonged recession, it constitutes a great burden for public finances. At the moment, the economy of Northern Ireland is relying heavily on the subvention from the British Exchequer (23% of GDP in 1992) for the maintenance of public sector employment and public services. In the context of any hypothetical change in the constitutional status of Northern Ireland, it is apposite to note that the UK subvention is roughly equal to the annual revenue from income tax in the Republic.

Section 4

Impact on Industrial Development

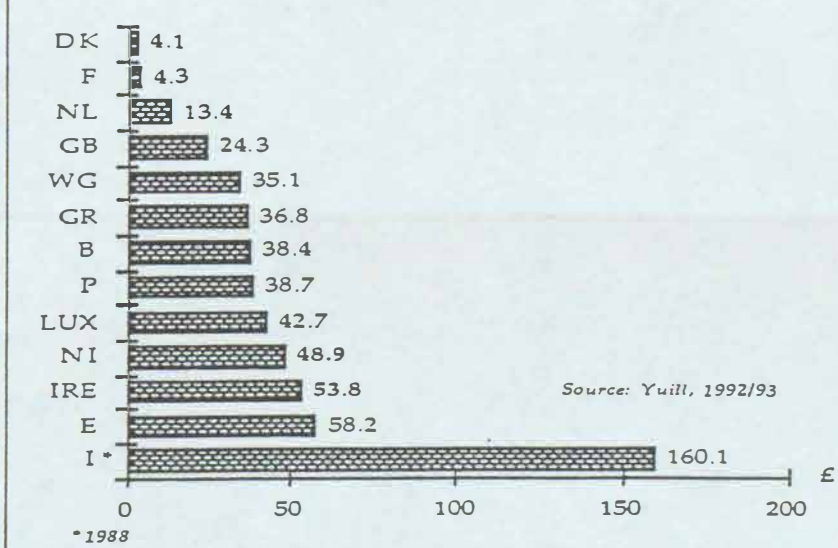
4.1: Industrial Development in Northern Ireland

Northern Ireland is one of the most economically disadvantaged regions in the UK. In August 1993, unemployment stood at around 109,000 or 14.6% of the work force, which is the highest among the UK regions and 4 percentage points above the UK national rate.

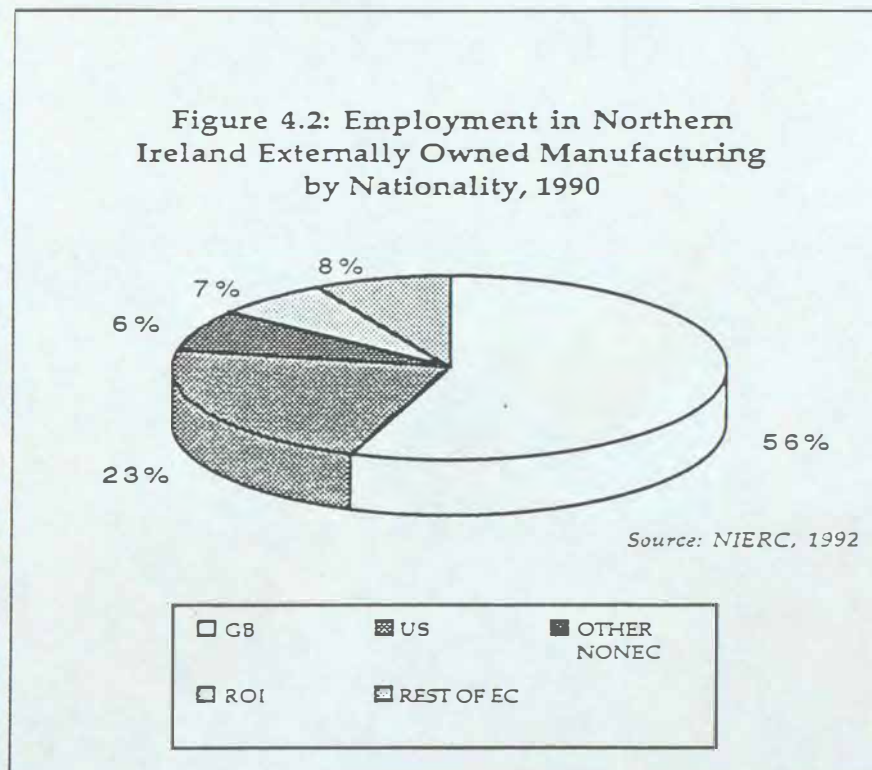
Having started out with a strong industrial base, the manufacturing sector in Northern Ireland went into sharp decline: between 1973 and 1990 total employment in manufacturing declined by 36%. Contributing factors are an outdated industrial structure, the small size of the domestic market, the problems of peripherality and the economic costs of the ongoing conflict.

Like the Republic, Northern Ireland has relied heavily on the attraction of externally owned industries for the creation of jobs. Two agencies share the responsibility for industrial policy in Northern Ireland: The Industrial Development Board (IDB) and the Local Enterprise Development Unit (LEDU) which deals with firms with less than 50 employees. A competitive package of incentives is on offer, on a par with other peripheral regions in the EC as the figures show.

Figure 4.1: Net Grant Equivalent Expenditure per Head of Population in Recipient Regions, 1989



Incentives offered in Northern Ireland, as measured in the figure above, are twice as high as in Great Britain. Only Italy, Spain and the Irish Republic offer higher grant assistance. Despite these incentives, over the period 1973 to 1990 there was a 41% decline in the number of externally owned plants with employment there falling by 46,000 or 53%. This fall in employment in externally owned plants was largely due to a fall in numbers working in British owned plants who make up the bulk of the sector as the figure shows.



British companies account for 57% of employment in externally owned plants, while US owned plants make up only 23%.

The reason for the poor employment performance of the externally owned industry lies in its structure: the largest portion of this employment has been in textiles and clothing (34%), a traditional industry in long-term structural decline. There is a high concentration of British ownership in this sector. Less than 20% of externally owned employment is in the more modern electrical and engineering industry.

There has been little inward investment in rural areas, it tends to concentrate on Belfast, Ballymena, Craigavon and Derry.

The Northern Ireland Economic Council (NIEC, Nov. 1992) in a recently published report stated that with similarly generous

incentives packages much of this difference with regard to inward investment between Northern Ireland and the Republic of Ireland must be put down to the continuation of the 'troubles'.

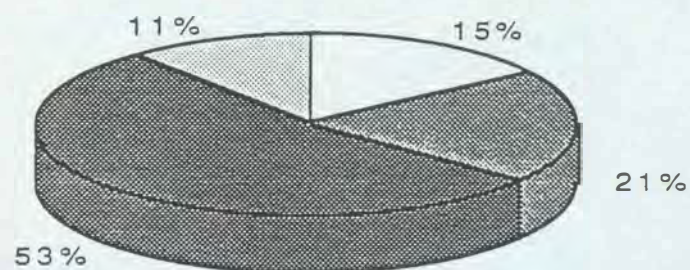
4.2: Industrial Development in the Republic of Ireland

Since the 1960s Ireland has to a large extent concentrated its industrial policy effort on the attraction of foreign investment. The Industrial Development Authority (IDA) shares this responsibility with the Shannon Development Authority and Udaras na Gaeltachta.

Like Northern Ireland, the Republic has experienced a decline in manufacturing employment between 1973 and 1990: it fell by 11% (36% in the North). Most of this employment loss occurred in indigenous firms. Externally owned companies in the Republic actually increased employment by 27%, even allowing for a strong decline in job numbers in British owned companies (16,000 jobs lost between 1977 and 1990).

In 1990, 45.5% of manufacturing employment was obtained in foreign owned companies. In 1990, there were 783 foreign owned companies in the country.

Figure 4.3: Employment in Externally Owned Companies in the Republic of Ireland, 1990



Source: Census of Production, 1990

□ UK ▨ EC ■ US ▤ OTHER NONEC

Industrial policy in the Republic has achieved a broader spread of foreign investors than its counterpart in Northern Ireland: UK firms account for only 15% of employment in foreign owned plants, while the US makes up 53% of jobs in this sector of manufacturing.

46% of foreign direct investment employment is concentrated in the metals and engineering sector, while chemicals and man-made fibres account for only 12%, textiles and clothing make up 13% of employment in externally owned employment in the Republic (compared to 34% in the North).

The Republic's ability to attract high-tech overseas investors has ensured the comparatively successful performance of the foreign owned manufacturing sector.

4.3: Summary and Conclusions

There is strong competition between nations and even regions for foreign direct investment. High levels of grants and incentives are offered in order to compensate for the disadvantages of a region. In their investment decision, firms consider a multitude of factors. Political stability has been named as the foremost consideration of multinational firms by a number of studies and it is given the highest weight in most "operations risk criteria" lists. Clearly this applies also to the investment decisions of domestic firms. Northern Ireland is at a clear disadvantage when competing with regions like Scotland, Portugal, Spain and Italy in the security area. If violence ceased tomorrow, past investment decisions would not be changed, firms would not relocate their plants. However, Northern Ireland should be more successful in attracting overseas investment than hitherto.

In this connection, payroll costs in Northern Ireland are the lowest of any UK region and are lower than in the Republic. The impact of a cessation of violence on inward investment in Northern Ireland could be very substantial in certain sectors of industry, to the detriment of other locations in the British Isles.

Between 1973 and 1990, Northern Ireland lost 46,000 jobs (53%) in externally owned companies, while such employment in the Republic increased by 27%.

We believe that in an environment free of violence and with the same level of grant assistance as prevails in the Republic, Northern Ireland's economy would, at a minimum, have retained the 46,000 jobs referred to above.

Impact on Tourism Growth

5.1: Tourism Growth in Northern Ireland

Traditionally, Britain and the Republic of Ireland have been the major source markets for Northern Ireland's tourism, yet these are the markets most vulnerable to negative images resulting from the ongoing conflict. In 1993, a £1 million advertising campaign sought to address negative image dominance in these markets and establish Northern Ireland as a serious holiday destination.

The graph traces the development of visitor numbers between 1959 and 1992. The impact of the escalation of violence in the Northern Ireland conflict can be clearly seen. Tourist numbers plummeted from a high of 1.1 million in 1967 to 400,000 in 1972, a year of exceptional terrorist activity. 1992 was a record year in the history of tourism in Northern Ireland with over 1.25 million visitors.



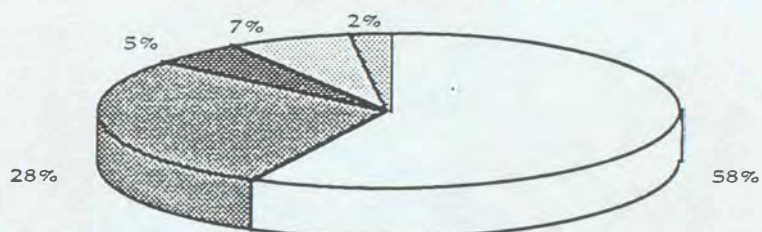
Between 1988 and 1992, total staying visitor numbers in Northern Ireland have increased by 35%.

Real tourist revenue fell by 63% over the 1967-1972 period. By 1988, real revenue was still only at 83% of its 1967 value. While real tourist revenue was slow to catch up with its pre-conflict achievements, after 1988 growth resumed: Between 1988 and 1989, real revenue increased by 30%. Since then revenue has dropped again and in 1992 it stood at only 13% above 1967 levels. Overall growth between 1988 and 1992 was 29%, equivalent to an annual growth rate of 5.2%.

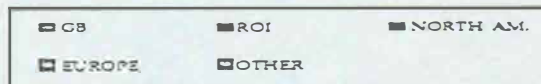
In 1991, total visitor spend in Northern Ireland accounted for 1.5% of GDP. As we will show in the next section, in the Republic the figure is 4.3% for 1992.

Great Britain is the most important country of origin of visitors in Northern Ireland: 58% came from there in 1992, the Irish Republic comes next in importance with 28%, as the figure shows. Only 14% come from other destinations.

Figure 5.2: Country of Origin of Staying Visitors to Northern Ireland, 1992



Source: Northern Ireland Tourist Board



The level of "holiday makers" - as distinct from "visiting friends and relatives" (VFR) and "business" - still falls short of the pre-troubles level. The discretionary tourist market has increased slightly from 13% of total visitor numbers in 1983 to 20% in 1992 as the table shows. However, the Northern Ireland Tourist Board (NITB) states that the lack of steady growth in this sector has meant that tourism in the North is not reaching its full economic potential.

Table 5.1: Main Purpose of Visit, 1992

Main Purpose	%
Visiting Friends & Relatives	41
Holiday	20
Business	30
Other	9

Source: Northern Ireland Tourist Board, 1992

When considering the table, it is important to note that there is an overlap between holiday makers and VFRs. This is illustrated by the fact that on average, between 1990 and 1992, 68% of British holiday makers to Northern Ireland actually stayed with friends or relations as their main accommodation.

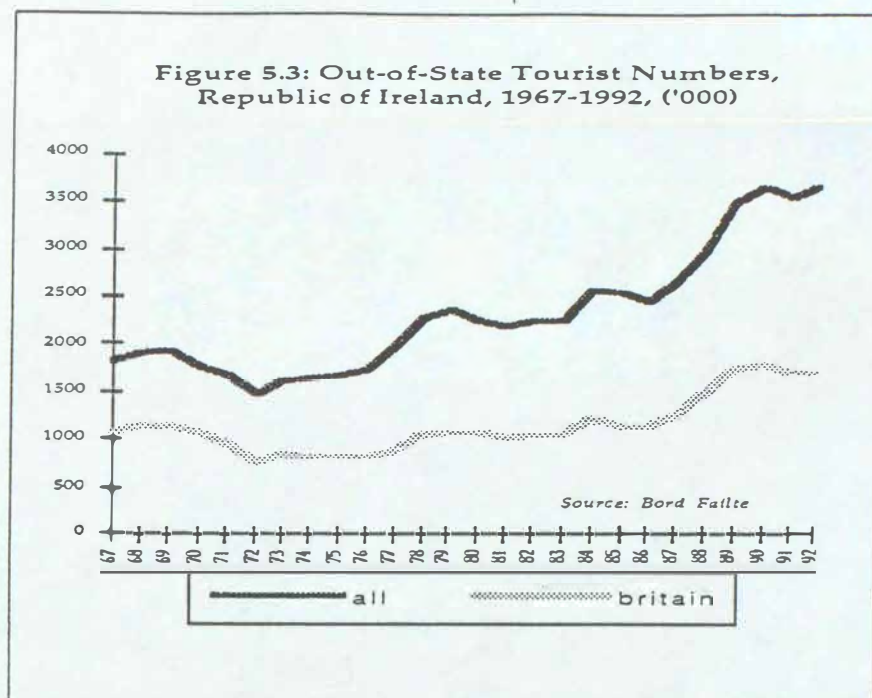
The supply of tourist accommodation in Northern Ireland has declined dramatically between 1968 and 1992: the number of hotel bedrooms fell by 40%, the number of bedrooms in guesthouses is down by 51%. Only the number of bedrooms in self-catering accommodation has increased, but this rise is by no means sufficient to make up for the losses in the other categories.

The original reduction in capacity must have reflected the drop in tourist numbers, but the steady increase in numbers as shown in the graph has not been reflected in accommodation terms. The disturbances may also have had an impact on this development, i.e. the destruction of hotels. Major investment would be needed to cater for increased visitor flows after a cessation of violence.

5.2: Tourism Growth in the Republic of Ireland

In its marketing abroad, Bord Failte, the Irish Tourist Board, tries to give Ireland a green, peaceful and unspoilt image. Tourism has been targeted for major expansion by the Government and has been moderately successful. Expansion has been curtailed by, amongst other things, the long international recession. However, in 1992, total out-of-state tourist revenue accounted for 4.3% of Irish GDP.

The figure gives the development in out-of-state tourist numbers (overseas plus Northern Ireland tourists) since 1967. The trend in tourist numbers from Britain is also depicted, since 47% of tourists to the Republic come from there.



In 1972, the year of escalating violence in Northern Ireland, a noticeable drop in visitor numbers to the Republic occurred, largely accounted for by a 21% drop in British tourists. However, total numbers fell by "only" 23% between the pre-troubles peak of 1969 and 1972 (compared to 60% in Northern Ireland).

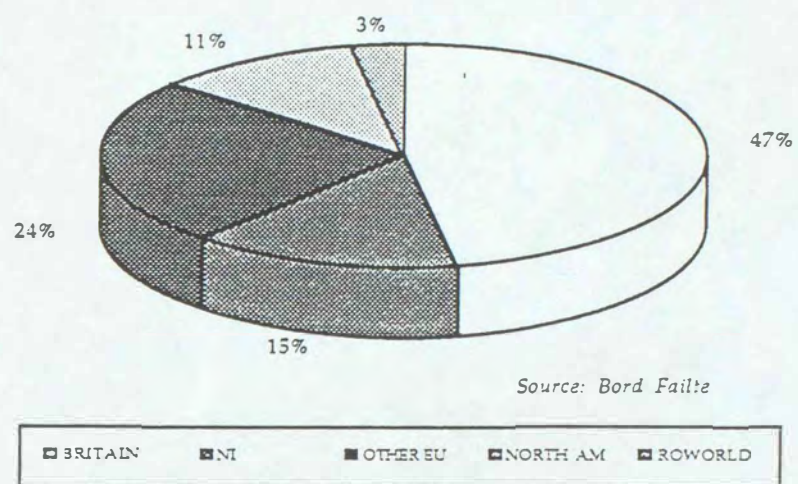
Not until 1984 did British tourist numbers exceed their pre-trouble peak.

The number of overseas tourists reached 3.1 million in 1992, an increase of 28% over 1988.

Real tourist revenue fell by 22% over the period from 1969 to 1972. However, by 1988, real revenue was 32% above its 1969 peak. Between 1988 and 1992, real tourist revenue grew by 30%, equivalent to an annual rate of 5.4%.

Britain is the most important country of origin of tourists to the Republic. Almost half of all out-of-state tourists come from there. Next in importance is continental Europe with 24% of tourists originating there. Germany and France are the biggest contributors in this group. Northern Ireland tourists account for 15% of out-of-state visitors as the following figure shows.

Figure 5.4: Out-of-State Tourists in the Republic of Ireland by Country of Origin, 1992



Like every other tourist board in the world, Bord Failte has tried to encourage the "pure holiday" visitor, since VFRs are a relatively captive customer group and contribute less to total tourism revenues. Statistics on overseas tourists (excluding visitors from Northern Ireland) give two groups of holiday visitors: those coming for a holiday only and those coming for holidays with secondary reasons such as VFR and study etc.(holiday plus). 32% of overseas visitors in 1992 came with a holiday as the primary purpose of their visit. VFR is still high at 24%.

Table 5.2: Primary Purpose of Visit Among Overseas Tourists to the Republic of Ireland, 1992

Primary Purpose	%
Holiday Only	32
Holiday Plus	12
VFR	24
Business/Conference	18
Other	14
Total	100

Source: Bord Failte, 1992

Hotel accommodation in the Republic, as measured by the number of rooms, has risen by 13% since 1968 (compared with a 40% reduction in the North). Bed and Breakfast type rooms have increased by 80%. However, the number of approved guesthouse rooms in the Republic has fallen by 40% over the same period. Overall room capacity in the Republic has increased by 24%, roughly in line with growth in tourist numbers.

5.3: Summary and Conclusions

While tourism in both parts of the island has been adversely affected by the onset of the troubles, Northern Ireland has undoubtedly suffered more. Visitor numbers to Northern Ireland dropped by 60% between 1967 and 1972, real tourist revenue also fell by 63% over the period. By 1988, real revenue was still only at 83% of its 1967 value. Since then, annual growth rates of 5.2% have been achieved.

It is unreasonable to assume that the buoyant growth of the 1960s (around 8% per annum) would have continued at the same rate in the absence of any disturbance. "Cold water resorts" lost appeal as the more affluent consumer turned to "sunshine destinations". Both Northern Ireland and the Republic would have felt the impact of this development. However, under peaceful conditions the tourist industry in the North would have developed its tourist attractions more vigorously and would have diversified into other activities.

As seen in Section 5.2, the beginning of the violence in the North also had an impact on the Republic's tourism performance. Tourism numbers dropped by 23% between 1969 and 1972, real revenue fell by 22% over the same period. A number of factors other than the violence in the North came into play for the Republic in the recent past: loss of competitiveness versus the British market, high access costs, the impact of the oil crises etc. By 1988, however, real revenue was 32% above the 1969 peak. Since then, the South's performance is only marginally better than the North's: annual average growth in real revenue was 5.4% (compared with 5.2% in the North).

It is thus a minimum measurement of cost if we assume that the Northern Ireland tourist industry would have been able to maintain the same level of growth as the South between 1967 and 1988 under peaceful conditions. This would yield current tourist revenues in 1992 of £242.5m, some £80.8m above the figure actually achieved in that year.

With respect to the South the cessation of violence must surely have a beneficial effect on tourism also. Particularly in the British market, negative publicity about terrorism atrocities in the UK have had an impact. As a guesstimate, we suggest a 5% improvement in revenue arising from UK visitors, equivalent to IRE 17m in current prices. In both cases, these are minimum figures, we believe.

Other Areas of Economic Cost

6.1: The Energy Sector

The absence of an interconnector between the electricity grids of the Republic and Northern Ireland is wholly due to the conflict in the North. Interconnection brings many potential benefits.

- * Spinning reserve can be pooled, thus for the same level of security the margin of spinning reserve can be reduced in each system.
- * At any given time the most economical generators can be operated regardless of ownership. The resulting trade in electricity can benefit both partners.
- * Total capacity in the pooled system needs to be less than the sum of both unconnected systems if peak loads are needed on the different systems at different times of the day and if annual peaks occur on different days.
- * Other economies of scale may be possible by the use of larger individual sets.

The construction of an interconnector started in 1968 and was completed in 1970. A three phase alternating current connector of about 300 MW capacity was chosen and it ran between Tandragee in Northern Ireland and Maynooth in the Republic. However, the interconnector was in operation for only 30% of the time due to bomb damage within Northern Ireland on six occasions. Since the last outage in September 1975 the interconnector has not been reconnected.

Following is a list of energy exchanges while the interconnector was in operation:

Table 6.1: Operational Performance of Northern Ireland Interconnector			
Year Ending March	Balanced Exchanges GWh	Imports from N.Ireland GWh	Exports to N.Ireland GWh
1971	12.8	-	0.4
1972	4.1	-	61.8
1973*	-	-	-
1974	87.1	5.7	-
1975	70.3	-	-
1976	37.5	31.3	1.4

* Interconnector not in service in 1972/73

The Electricity Supply Board (ESB) remains interested in restoring the link with Northern Ireland but considers the restoration of the existing North-South interconnector not to be an option in the present security situation.

The ESB and its Northern counterpart are going ahead with the construction of single-circuit 110kV standby connections from Strabane to Letterkenny and from Swanlinbar to Enniskillen at a cost of IR£1.7m to the ESB and similar costs to Northern Ireland Electricity (NIE). Completion is projected for mid 1994. This development is seen as a purely local network issue which is of benefit to the local communities on both sides of the border. An extension of the project is envisaged.

However, these connections allow only limited transfer between the two grids and the ESB has to maintain higher spinning reserves than would otherwise be necessary. The absence of an interconnector is estimated to cost the ESB at least IR£ 10m per year.

The electricity industry in Northern Ireland is worse hit since it relies mainly on oil for its feedstock supplies and the size of the domestic market is too small in relation to the capacity available. As a result the cost of supplying electricity to consumers in Northern Ireland has generally been higher than in Britain.

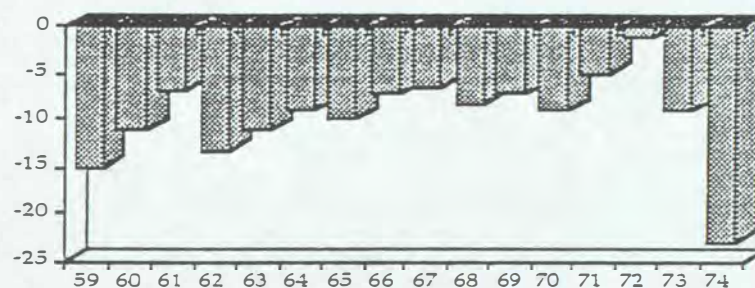
An interconnector between the North of Ireland and the South of Scotland is at the planning stage at the moment. Construction is to commence in late 1995 and Autumn 1997 should see the commissioning of the installation. The connection to the British mainland via a Northern Ireland interconnector would be of great advantage to the ESB.

The NIE was not able to give an estimate of cost of the absence of an interconnector between Northern Ireland and the Republic.

6.2: Impact on Trade

The net trade balance for Northern Ireland was almost in equilibrium in the early 1970s, just before the first oil price shock and before the deterioration of the civil unrest. Subsequently there was a sharp deterioration which has persisted to the present day.

Figure 6.1: Northern Irish Net Trade Balance as a Percentage of GDP



Source: Bradley and Wright: 2 Regional Economies in Ireland, 1993

No official data are available after 1974, but it has been estimated that in 1990, Northern Ireland ran a visible trade deficit with the Republic to the extent of about 3% of Northern GDP. The overall volume of trade is also small, amounting to only 6.4% of Northern sales. The North accounts for 5% of the Republic's exports and for just over 3% of imports.

The cessation of violence might help to establish better trade links between the two regions, alleviating suspicions and fear.

6.3: Unexploited Economic Opportunities

A result of the conflict has been the politicisation of decisions which involve North and South which might otherwise have been taken on a purely business basis. Again, it is fatuous to attempt to place a monetary value on missed opportunities, but this does not mean that the opportunities missed could not have been important in a different political climate.

We have already mentioned the interconnection of the electricity systems. The failure to pipe Southern natural gas to Northern Ireland had elements of a pure commercial disagreement about it, but a better political atmosphere could have been conducive to a successful deal being done. Cross-border road links appear to lack planning co-ordination, and terrorist activity has disrupted rail links.

In the tourism sector, it would clearly be easier to market the whole island as a holiday destination than to have two separate entities doing the work, and similar comments apply to industrial promotion. This is not to deny that worthy efforts at co-ordination are being made all the time, but it seems almost self-evident that these initiatives would stand a greater chance of success if the current conflict could be resolved.

The security authorities have chosen to close a large number of local roads in Border areas, a source of extra journeys and general inconvenience to residents of the areas affected. A natural development of retail hierarchies and public utility provision has been hindered, with costs which are not necessarily small because they are hidden.

The frontier between North and South is not a natural frontier, like a river or a mountain range. There are thus additional costs generated in a host of practical areas, particularly the provision of public services, which could be ameliorated in a better climate. Some local authorities along the border are well aware of this and have pursued cooperation solutions. But it seems clear to us that, in the absence of conflict, greater progress would have been feasible.

A recent example concerns the development of regional airports. There is one at Eglinton, in Co. Londonderry, to the east of the city of Derry. But there is a second at Carrickfin, in Co. Donegal in the Republic. This is in the western part of Donegal. Both airports have limited services, and there was surely a case for considering one airport for the Northwest, to serve both Derry and Donegal.

6.4: Impact on the Quality of Economic Policy

It may be a coincidence, but the economic policy problems, some would say the deterioration in the quality of economic policy, in the Republic date from the onset of the current Northern conflict in the early nineteen seventies. Up to that time, the Republic had no significant foreign debt and had rarely found itself with any serious public finance problems.

The first planned budget deficit was announced in 1972, and the seventies ended with a widespread acknowledgement that the

Republic was heavily over-borrowed after a succession of planned deficits and unplanned over-shoots. Dubious capital projects, on a scale new to Ireland, accounted for much of the borrowing.

From 1981 onward, successive Governments have wrestled with the public finance crisis, and a semblance of normality in public finances has only been achieved quite recently. It would be no exaggeration to describe the 1970s and 1980s as the two least praiseworthy decades for Irish economic policy since the State's foundation.

Is it entirely fortuitous that these two decades coincide with the period of turmoil in Northern Ireland? The causes of the deterioration in the quality of economic policy making in the Republic in this period are many and complex, and are ultimately a matter for the historians. But there is at least an a priori case for the view that there was a substantial diversion of political attention away from the routine problems of economic management. Attention has focussed instead on the intractable political difficulties, including security crises and conflicts in Anglo Irish relations, which have proved to be the continuing accompaniment in the South to the Northern Troubles.

The diversion of political and media attention from the economy to the Northern Issue may well have had a contributory role in the poor economic performance of the Republic's economy over the last two decades, independently of the measurable costs imposed, through an adverse impact on the quality of economic policy.

6.5: Conclusions

Energy Sector

The interconnector between the electricity grids of the Republic and Northern Ireland was damaged by bombs on six occasions before it was closed down in 1975. It had brought benefits to both utilities but a restoration under the present security situation is not considered an option. Local standby connections are in operation but allow only limited transfer. It is estimated that the absence of the interconnector costs the ESB at least IR£ 10m per year.

Trade

The trade balance between Northern Ireland and the Republic has deteriorated subsequently to 1972. It has been estimated that in 1990, Northern Ireland ran a 3% visible trade deficit with the Republic. Volume of trade is also small. The cessation of violence might help to establish better trade links between the two regions.

Unexploited Economic Opportunities

The conflict in the North has resulted in the politisation of decisions which involve North and South. Opportunities to market the island for international tourism and investment have been lost. In the border areas, the absence of a combined approach to the provision of infrastructure, public services and retail developments has added to the inconvenience to local residents. Potential savings could be made in this area if violence ceased.

Quality of Economic Policy

In the Republic, the 1970s and 1980s have been decades where successive governments tried more or less successfully to deal with the public sector crisis. The conflict in the North has provided a significant diversion of political attention away from the routine problems of economic management.

Summary and Conclusions

The continuing conflict in Northern Ireland has had an impact on the social and economic aspects of life both in the North and in the Republic. In this report we try to assess the economic impact and, where possible, enumerate the costs involved.

7.1: Security and Security Related Costs

One obvious consequence of civil disturbances is the escalation of security and public order costs. Terrorist activity in Northern Ireland has resulted in 35,000 shooting incidents and almost 10,000 explosions in the province since 1969. 3,100 people were killed and 34,000 injured. An average of 379 persons a year have been charged with terrorist offences. 92% of money paid out annually by the Northern Ireland Compensation Agency is related to terrorism. This means that £20m a year could be saved in that area.

As a result of the conflict, per capita security costs in Northern Ireland are considerably higher than in the Republic.

The spill-over of the conflict into Great Britain has resulted in 82 deaths and 1,100 injured since 1974. Security costs have been incurred in the areas of prevention of terrorism, detection and law.

In the Republic, the conflict has resulted in additional Army and police activities along the border and the need for extra barracks as well as additional activity throughout the country by both Army and Gardai. The conflict has also led to extra court and prison costs in the Republic: in recent years, an average of 24 cases of offences against the state have been heard by the Special Criminal Court; approximately 50 provisional IRA prisoners are held in the Republic's prisons.

If violence ceased, both Northern Ireland and the Republic would benefit. We estimate that the extra costs in the Republic amount to 10% of the total security and defence budget. The saving on this assumption would be IR£91m per annum.

If per capita security costs in Northern Ireland could be reduced to the same level as prevails in the Republic at present, the savings would be £222m for the North.

However, one of the largest hidden costs of the Northern Ireland conflict may well be the inconvenience to ordinary citizens caused by the activities of the terrorists and the response of the security forces to these activities.

7.2: Public Sector Finances in Northern Ireland

Public sector employment accounts for 36% of total employment in Northern Ireland, having risen from 25% in 1971. A similar expansion in the Republic has led to prolonged problems with Exchequer finances. However, the North has been spared such implications due to the transfer of funds from the British Exchequer. The British subvention can be defined as the total amount received by the North's Exchequer from its British counterpart to augment revenue in order to pay for the public services provided there. This expenditure is founded on the principle of parity with the rest of the United Kingdom which requires the uniform provision of health, welfare and other services.

The economy of Northern Ireland is relying heavily on the British subvention for maintenance of the current level of public sector employment and public services. In 1991/92 the subvention amounted to £2.4bn, equivalent to 23% of the North's GDP and approximately equal to the annual revenue from income tax in the Republic.

7.3: Impact on Industrial Development

Having started out with a strong industrial base, the manufacturing sector in Northern Ireland went into sharp decline: between 1973 and 1990, total manufacturing employment fell by 36%. Like the Republic, Northern Ireland has tried to attract externally owned industries in order to create employment. While the level of incentives has been high by European standards and on a par with the Republic, the number of externally owned plants fell by 41% between 1973 and 1990, with employment falling by 46,000. The reason for the poor employment performance of the sector lies in its structure: 34% of employment is in textiles and clothing, an industry in long-term decline, less than 20% of employment is in the more modern electrical and engineering industries.

The breakdown ^{of externally-owned manufacturing} by nationality shows a heavy reliance on British owned firms (57% of employment), many of whom are in declining industries and only 23% of jobs in US owned plants.

The Republic has also experienced a fall in manufacturing employment (11% between 1973 and 1990). However, its foreign owned sector has shown an increase of employment (27%), despite a strong decline in the job numbers employed by British companies.

Industrial policy has achieved a broader spread of nationalities in its foreign investors: the US makes up 53% of jobs, while the UK accounts for only 15%. The Republic's ability to attract high-tech investors has ensured the relatively successful performance of the foreign owned manufacturing sector.

Political stability has been named as the foremost consideration of multinational firms in a number of studies and many companies clearly consider investment in the North as too risky. The cessation of violence would improve the North's position in the international competition for multinational investment and would also encourage investment by resident firms.

If violence ceased, there is no reason why Northern Ireland, with the same level of grant assistance as prevails in the Republic, could not achieve similar levels of foreign investment. In such an environment, the Northern Ireland economy could, at a minimum, have retained the 46,000 foreign owned jobs it lost over the last 20 years.

The Republic's industrial development agency has been able to convince international clients that the political climate here is stable. A cessation of violence in the North would hardly have an impact in the IDA's activities. However, both parts of the island could benefit from a consolidated approach to industrial development and the marketing of Ireland as a location for foreign direct investment.

7.4: Impact on Tourism Growth

The onset of the disturbances is clearly reflected in visitor numbers and tourism revenue in Northern Ireland. Tourist numbers fell by 60% and revenue experienced a similar shock. By 1988, real revenue was still only at 83% of its 1967 level. However, since then annual growth of 5.2% has been recorded.

The vulnerability of the North's tourism industry stems from the fact that its major markets are Britain and the Republic, countries which are most vulnerable to negative images resulting from the ongoing conflict. In 1992, 58% of visitors came from Britain, 28% from the Republic and only 14% from other destinations. The level of "holiday makers" as distinct from "visiting friends and relatives" (VFR) still falls short of the pre-troubles level. As a result of these trends, total visitor spend in Northern Ireland accounted for only 1.5% of GDP in 1991.

The supply of tourism accommodation in the North has fallen sharply since the late 1960, partly in response to the fall in visitor numbers and partly as a direct consequence of the violence. If violence ceased, major investment would be needed to cater for the expected increase in the flow of visitors.

What is decline in
ref to the UK?

This is a bit
difficult we're in
competition & have different
and regimes for starters

Tourist numbers and revenue in the Republic also reflect the onset of the violence in the North: in 1972 a noticeable drop in visitor numbers occurred (23%), largely accounted for by a 21% drop in British tourists. Not until 1984 did British tourist numbers exceed their pre-trouble peak. Like in the North, British tourists are the most important group of visitors to the Republic: 47% of all out-of-state tourists come from there. Continental Europe accounts for 24%, North America for 11%.

Real tourist revenue in the Republic fell by 22% between 1969 and 1972. However, by 1988, real revenue was 32% above its 1969 peak. Between 1988 and 1992, real tourist revenue grew by 5.4% annually. In 1992, total out-of-state tourist revenue accounted for 4.3% of Irish GDP.

Overall room capacity in the Republic has increased by 24% since 1969, roughly in line with growth in tourist numbers.

Since 1988, growth in tourism revenue in both parts of the island has been around 5% per annum. It is thus reasonable to assume that under peaceful conditions, Northern Ireland's tourist industry would have been able to maintain the same level of growth as the South from 1967 to 1988. This would yield current tourist revenues of £242.5m in 1992, some £80.8m above the figure actually achieved in that year.

With respect to the South, the cessation of violence must surely have a beneficial effect on tourism, too - particularly in the British market. A 5% improvement in revenue arising from UK visitors, equivalent to IR£17m is suggested as a minimum figure.

Both regions would also benefit from a combined tourism marketing strategy.

7.5: Other Areas of Economic Cost

Energy Sector: The absence of an interconnector between the electricity grids of the Republic and Northern Ireland is wholly due to the conflict in the North. Both utilities would benefit. It is estimated that the cost to the ESB is at least IR£10 m. a year.

Impact on Trade: The overall volume of trade between the two economies is small, accounting for only 6.4% of Northern sales and 5% of the Republic's export. The North has been running a trade deficit with the Republic since 1973. The cessation of violence would help to establish better trade links between the two regions.

Unexploited Economic Policy Opportunities: The conflict in the North has resulted in the politicisation of decisions which involve North and South. Opportunities are lost in the absence of a combined effort in marketing the island for international tourism and foreign investments. There are also additional savings in the provision of infrastructure and local services in border areas.

Impact on the Quality of Economic Policy: The period since the onset of the current Northern conflict has seen a deterioration in the Republic's economic performance with heavy over-borrowing. Public finances have been stabilised only quite recently. It can be argued that this poor performance was, at least in part, due to the diversion of political attention away from the arena of routine economic management. Political difficulties, including security crises and conflicts in Anglo-Irish relations have continually demanded policy makers' attention. This may well have had an impact on the quality of economic policy pursued and contributed to the poor economic performance in the Republic in recent decades.

7.6: Summary of Computed Costs of Northern Ireland Conflict

Throughout this report, we have attempted to make rough estimates of the cost of the continuation of the conflict to the Exchequers in Northern Ireland and in the Republic. These costs, converted into

Table 7.1: Costs of Continuation of Northern Conflict Per Year		
Current IR£ Million		
Security Costs	Republic of Ireland	91
	Northern Ireland	256 <i>PE cost</i>
	Total	347
Tourism	Republic of Ireland	17
	Northern Ireland	83 <i>Gross revenue ?</i>
	Total	100
Energy	Republic of Ireland	10 <i>Revenue lost ?</i>
	Northern Ireland	n/a
	Total	10
Total		457

current Irish pounds, are summarised in the table.

The table shows that the continuation of violence in the North costs the Exchequers in the two parts of the island an estimated IRE457m per annum. We also believe that in the absence of the difficult security situation, Northern Ireland would have been much more successful in attracting high-tech foreign industries, which could have prevented the loss of 46,000 jobs in that sector.

There are, also, various unquantifiable costs, which are discussed in the report. These costs are a substantial additional burden on citizens, particularly the citizens of Northern Ireland.

The British Exchequer has contributed an average of nearly £2bn a year to the running of Northern Ireland's economy between 1983 and 1993. In addition, the Northern Ireland conflict has resulted in legal and security costs in the UK, which would not occur if violence ceased.