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Industry, Money and Markets : A Means to Irish Unification

by

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FOREWORD

The troubles which have beset Northern Ireland for over 20 years have frequently been ascribed to economic deprivation as well as to political discrimination. As Professor Reekie records, the solutions put forward by economists, and which have close parallels in government policies, have in common that they propose the continuation and in some cases the extension of government aid programmes. A much-canvassed view supports the introduction of an industrial strategy similar to that advocated by the Labour Government in the 1970's in which the Government would conduct a mammoth selective aid policy propelled by a grandiose economic plan.

Professor Reekie offers some trenchant criticisms of this approach which are based on a wide-ranging survey of the economic history of Ireland as a whole. In particular, he forcibly demonstrates that government policies designed to prop up ailing industries have been notoriously unsuccessful as means for promoting the long term improvement in economic conditions in both Irish regimes. Apart from the familiar criticism that governments seeking to remain in power cannot be other than optimistic in their assessment of the effect of government measures, he places particular emphasis on the motivation of politicians and civil servants who lack the positive incentives, alongside risk-taking entrepreneurs, to seek out the most profitable opportunities which will promote and sustain economic growth.

Professor Reekie's study is much more than a critique of government policies in both parts of Ireland. He is out to persuade us that financial de-regulation and privatising of the currency in Northern Ireland, coupled with the termination of industrial policy, would create the financial climate which would encourage enterprise, with entrepreneurs directing their efforts to 'market-determined expansion opportunities rather than directing their efforts towards seeking favours from government'. He acknowledges his debt to the ideas of Michael Fry on private currency arrangements which were presented in the very first publication of this Institute.

This Paper is certainly one of the more controversial publications that the Institute has published. It is therefore important to stress that the Institute, which has no political stance, is in no way bound to the author's position. At the same time, it welcomes the opportunity of publishing what it believes to be an important and novel approach to the economic problems of Ireland which deserves the closest attention.

Alan Peacock
Executive Director

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I Introduction

Economics has always been concerned with the "Wealth of Nations". Adam Smith indicates that it is "the division of labour which occasions . . . that universal opulence which extends itself to the lowest ranks of the people" (p11). But "this division must always be limited by . . . the extent of the market, (that is) the power of exchanging" (p17). Smith was writing (1776) at a time when the weaknesses of trade protectionist philosophy were becoming increasingly visible. He had also the benefit of hindsight. The removal of trade barriers between Scotland and England subsequent to Parliamentary Union in 1707 was a major cause of Scottish development. C.B. Cone (1976) writes:

> "Economic growth of Scotland is directly attributable to the Union (which) . . . opened commercial opportunities. The story is properly the history of the merchant class and of energetic individuals . . . Union offered encouragement for the traditional industries. (Later) . . . Scotland shared in the expansion of the new industry in the United Kingdom . . . facts about Glasgow concentrate the story. A town of 12,000 at the time of union, Glasgow was a commercial centre and becoming an industrial city by 1800, when it reached a population of 70,000 (as large as Liverpool) . . . Old dislikes between Scots and Englishmen lingered but political and economic self-interest kept them properly subordinated".

With this background the Acts of Union between Britain and Ireland in 1800 might have seemed headed for similar success. The "power of exchanging" was to have even greater potential. On the supply side, the Industrial Revolution was still in its infancy and removal of laws stultifying international trade and exchange had still to be enacted, repeal of the Corn Laws being the best known example.

On the demand side, population was beginning to grow while legislative barriers to large-scale economic co-operation would soon be removed (i.e. the Acts which extended the law of contract to voluntary agreements between individuals trading with and together in limited liability companies).

The British-Irish Union, unlike its English-Scottish predecessor, was a political (although not an economic) failure. Even today the two countries still attempt to increase their "power of exchanging". The contemporary medium is the European Economic Community rather than the constitutional monarchy, but seventy years of political and economic separation divide the countries. Pre-World War II barriers to trade were overt. Tariffs and quotas shackled voluntary market exchange. Governments tried to "hobble the away team". The provisions of the General Agreement on Tariffs and Trade and those of the Treaty of Rome diluted such measures. British and Irish governments turned instead to "stimulating the home team" by providing a lavish array of subsidies and tax breaks to industries in their respective countries. Ulster meantime has become an impoverished region while Ireland is one of the poorest countries in Europe.

This paper has five parts. First we ask whether economics ignores wider social values (such as cultural identity — an issue of no little importance to the Irish). Second, we discuss why the Acts of Union, despite their economic potential, failed politically. Third, the current Ulster situation is described. Fourth, conventional solutions to Northern Ireland's economic problems are evaluated. Most seem designed to reduce rather than to increase voluntary economic discretion. Finally, and by contrast, we make proposals to expand the power of exchanging by deregulating the banking sector. Our suggestions have a greater likelihood of success than alternative policies to date. They are properly grounded in the theory of industrial economics, whereas existing policies, like tariffs pre-war, have no proper grounding in economic analysis. Further, public choice theory suggests that, possibly uniquely in the British Isles, resistance to the suggested changes could be minimal.

II Is Economic Growth Antipathetic to Cultural Traditions?

Both Karl Marx and Adam Smith answered this question in the affirmative. Smith saw material benefits from free trade, voluntary exchange and division of labour but believed that specialisation of activity would result in a "torpor of mind" and a removal of "generous, noble or fonder sentiments" (p735). Except for a small minority of people who could afford leisure and education, society would become brutalised and cultural traditions would vanish. Marx (1867) agreed, quoting Smith as stating that division of labour renders a man "stupid and ignorant" (p356). Marx also agreed with Smith about its economic and (up to a point) its moral benefits. Marx extolled free trade as:

> "a very Eden of the innate rights of man. There alone rule Freedom, Equality (and) Property . . . Freedom because both buyer and seller . . . are constrained only by their own free will . . . Equality because each enters into relation with the other . . . and they exchange equivalent for equivalent . . . property, because each disposes only of what is his own . . . and each looks only to himself . . . under the auspices of an all-shrewd providence (they) work together to their mutual advantage, . . . and in the interest of all" (p155).

Smith's fears were not realised. The increase in wealth resulting from division of labour has permitted educational levels throughout society to far exceed his expressed desire for all to have basic literacy and numeracy skills. Similarly, neither Smith nor Marx envisaged the leisure time now available to all in capitalist societies. Brutalisation of the spirit is a problem, but not for the reasons put forward by Smith. Indeed Marx's description of free markets with voluntary exchange as an Eden where Freedom, Equality and Property all rule could hardly be bettered. Marx wrote after the Industrial Revolution had begun, but before the philosophical revolution of "marginalism". He argued that voluntary exchange implies the trading of "equivalent for equivalent", whereas the marginalists showed us that people do not trade objective equivalents. (Why incur the costs of transacting if one is no better off?). Rather do people trade something they subjectively value less for something they subjectively value more. Since the exchange is voluntary and reciprocal, both parties end up in their own subjective judgements better off.

Trade and exchange, of course, imply choice. And the need for choice reveals Marx's second error. In Eden there was no scarcity and no need to select one course of action and forego another. In reality men must live with scarcity. Given scarcity, choice (or discrimination) between people and what they have to buy or sell is unavoidable. Voluntary exchange is one means of allocating scarce resources. The alternative is by authoritative **Diktat** where "voluntarism" as an ethical norm is removed. Under voluntarism, incorporating the ideals of liberty, equality and property, exchangers compete to provide the other parties to trades with the most desired alternatives in their subjective judgements. "Competing" and "winning" are, of course, measured subjectively by the "prize givers", or, in economic parlance, the sovereign consumers, who choose or select the winners. The choosers may select the front runner in a race, the prettiest girl in a beauty competition, a black as against a white, a Jew as against a Gentile, a Roman Catholic as against a Protestant, or whatever. "Winners" are allocated society's resources. This implies the survival of the fittest by whatever yardstick of discrimination is employed. In a free market, the "winner" is he who provides a given good or service to the consumer at the best price. If a consumer or employer chooses voluntarily to buy the same product or labour service at a higher price or cost from a preferred racial or sectarian group he can do so, but he bears the costs of these preferences. Conversely, if a seller prefers to accept a lower price because the buyer is from one section of society rather than another he is free to do so, but again the cost of his subjective preference is borne by him alone. In market competition, cultural values and preferences will survive. But personal prejudice and whim will be minimised. The cost of prejudice is borne by him who exercises it, and he will do so only to the extent that he deems it to be in his interest. Conversely in a **dirigiste** society, the costs of prejudice are borne by those who are discriminated against. Discriminators have no incentive to control their personal whims. Competition by exchange of private property does not exclude encouragement of particular cultures and hence, even if only by default, relative discouragement of others, i.e. discrimination. In other words, cultures and traditions are themselves scarce. People are free to choose between how they allocate their total (scarce and limited) incomes between services linked to particular traditions and those which are not. If people, say Scots and Irish, wish to incur the cost of learning Gaelic, in a market oriented society they can do so. They may have to incur extra costs to communicate with the rest of the world but they are not prevented. In a **dirigiste**, non-market society, however, a central authority will lay down the "official language". Alternative cultures will not wither from neglect — their worst fate in a market economy. They will be stifled by **Diktat**. The traumatic fate of Yiddish in Stalinist Russia and Hitler's Germany, Muslim languages in India and Hindu ones in Pakistan, contrast with the gradual swing from Scottish Gaelic to English as individuals, rather than autocrats, made their own choice about the costs and benefits of maintaining a live language little used elsewhere in an increasingly shrinking world. Market economics does not imply that man is interested only in his own material, non-cultural welfare. He is selfish; yes; but that simply means that the individual himself demands the right to make the trade-off between long-run cultural and short-run material options. Voluntary exchange economies not only permit a multiplicity of cultures to survive : because they generate additional wealth, more resources may also be devoted to the development and preservation of such traditions in the longer term. The Anglo-Scottish Union illustrates this. The traditions and uniqueness of Scottish philosophical thought and the arts have survived, indeed flourished. The 1707 political Union had freedom of economic choice as a principal objective. The increased wealth of the Scots enabled them to choose those elements in their traditions and heritage for which they were prepared to make material sacrifices. Why did the British-Irish Union not experience similar political and economic success?

III The Failures of the Irish Acts of Union

Three major differences in the Anglo-Scottish and British -Irish attempts at union are apparent. First, the proximate cause of the Irish Acts was military, not economic. The Anglo-Scottish Union did not succeed because "poor" Edinburgh government was replaced by "better" London government. That Union succeeded because a **lesser degree replaced a greater degree of government**. Laws banning, or tariffs discouraging, trade were repealed or removed. Voluntary exchange expanded and the benefits spread throughout society. The British-Irish Union, by contrast, was not a carefully considered approach to reducing the level of government involvement in people's lives. Indeed the reverse was intended. Beckett (1986, p121) says "it was little short of a military necessity" in Britain's fight with France. To conciliate the warring factions on the island (epitomised by the 1798 insurrection) and hence close the "back door to France", Pitt offered legislative union with executive independence (thus maintaining the "Protestant ascendancy") while letting it be known that Roman Catholics would be "emancipated" immediately after Union, thus obtaining

(Beckett, p121) the "almost unanimous" support of the Roman Catholic bishops and landlords. In the event, Parliament failed to carry out Pitt's promise and "he resigned in protest" (Beckett p129).

From the start, then, there was a lack of legitimacy about the British-Irish Union. W. H. Hutt (1936) in his seminal discussion of "consumers' sovereignty" explained that only in societies where voluntary exchange was the norm for economic activity would the two necessary and sufficient criteria for governmental legitimacy hold. The two conditions are **impersonality** and **impartiality**. Impersonality is difficult to object to since the forces affecting one are anonymous. In markets where there are many voluntary transactions, as opposed to a few visible and identifiable regulations emanating from some political pressure group, this condition is met. Impartiality also gives legitimacy since all are treated equally. The British-Irish Union did not meet either of these criteria. The failure was due not to the movement of legislative government from Dublin to London, but rather because a **greater degree of government replaced a lesser degree**. A tier of London government was added to an already existing Dublin one (Beckett, p123-4). Government in Ireland (the Castle in Dublin) became more effectively **partial** and more identifiably **personal** in its granting and withholding of favours than it had been prior to Union. Indeed "the country had to be ruled under a succession of coercion acts . . . while the Union lasted" (Beckett, p123).

This points towards a second difference between the two Unions. The Scottish intellectual tradition of economic liberalism passed Ireland by (with the transient exception of Edmund Burke). For over a century, the economic net benefits obtainable from increasing the role of voluntary exchange were under close scrutiny in Scottish intellectual circles. The relative moral attractiveness of minimalist government intervention in terms of impartiality and impersonality was understood and individualism, personal freedom, liberalism and voluntarism were all principles known to be, and by and large agreed to be, interdependent. David Hume, James Steuart, Adam Smith and William Robertson all espoused the principles of free trade. Its societal consequences, argued Adam Ferguson in 1767, were the benign products of voluntary "human action" rather than the malign consequence of partial and personal "human design" **(An Essay on the History of Civil Society).**

The view spread southwards into England and influenced Ricardo and the two Mills, and secured its political apogee with the rise of the Manchester School of free traders. Ireland did not share in this experience. The 1800 Acts of Union were used to strengthen rather than weaken central authority and at Independence (and later at Partition) neither the South nor the North had the will or the understanding to move towards more liberalised traditions. The questioning of clericalism which took place throughout the European Enlightenment passed the South by. The North, where the economic benefits of Union were most obviously visible, adopted a **post**

hoc ergo propter hoc position of conservatism towards the Union. Because of the population mix it was able successfully to lobby for partition, replacing Westminster legislative rule and Dublin executive rule, by the even more **dirigiste** Stormont government.

Third, the Union failed to capitalise on the moral and economic principles of voluntarism (whereby those who choose or discriminate on non-economic grounds themselves bear the costs of their choices) by maintaining a separate Irish executive. Beckett (p123-4) writes that the "basic failure . . . appears in the continued existence of . . . (Dublin) Castle (as) the real centre of Irish government . . . and while the union lasted (the political Ascendancy of the Protestant minority) was never wholly eradicated". Indeed "ascendancy" reduces voluntarism. Economically, Union might have succeeded. Barriers to trade were reduced or removed (1). Ireland began to prosper. Dublin became the commercial centre, the location of the "Ascendancy". As in Scotland, the century after Union saw a shift from Dublin (Edinburgh) to Belfast (Glasgow). Unlike Scotland, however, there was no political ascendancy to monitor the shift, as there was in Ireland. In time, that ascendancy would come to have a numerical support in Belfast which would be lost to Dublin. So the seeds of destruction of Union were sown and the current divided state was born (2).

By 1840, Belfast became "the first industrial town in Ireland" (Cullen, p122). The use of Dublin as entrepot declined as direct shipments to markets outside Ireland took place, while even Dublin's financial services began to be bypassed. Ulster's industrial dominance extended from linen to rope making, paper making, locomotive manufacture, brewing, distilling and glass making. By 1841, 60% of all "machine makers" in Ireland were domiciled in Ulster (Cullen, p124). Inter-regional shifts in the balance of economic power are commonplace. In the Irish context, given the role of government in damaging the interests of Catholics, and that the swing was towards the Protestant North, an abnormal level of resentment was then to be expected. Ulster Presbyterians, of course, like the Catholics, were not members of the Established Church. Indeed they were independent and nationalist in outlook at the time of Union (Beckett, p128). However, as the benefits became clear they modified their stance over the years. Progressive liberalisation of the national laws affecting Catholics also contributed to this shift. There was a fear that Dublin "home rule", where the Protestant ascendancy was becoming numerically weaker as emancipation progressed, would become "Rome rule".

> Those "influences (widened) the already existing gap between Ulster and the rest of Ireland. The population there depended less completely on the potato and so suffered less severely from its failure . . . "black forty-seven" plays little part in Ulster traditions (Beckett, p137) . . . on (clerical) grounds almost all Irish Protestants were Unionists, but those of the North had another, and perhaps more cogent argument, based on the economic position" (Beckett, p147).

The Union was to be an economic success. Indeed Friedrich List's **National System of Political Economy**, a book surprisingly cited by Sinn Fein nationalists before partition, identified the British-Irish Union as "a great and irrefragable example of the efficiency of free trade between united nations" (McAleese, 1978, p131) (3). Ireland, the smaller partner, would suffer from what Beckett (p147) called any "weakening of the link". But the more autarchical agriculture of the South could adjust more readily than the much more market interdependent "industries of the North (which) would be ruined by separation" (Beckett, p147). In short, where the Famine did not strike with severity, post-Union industrial growth had occurred, and where, by a coincidental (governmentally engendered) quirk of history (the Plantation) the bulk of the population was not Catholic. The benefits of the Union were therefore perceived to be gleaned by a section of society which had not been selected (as it had in the Glasgow case) impartially and impersonally.

The events in Ulster after Partition in 1921 did much to encourage the view that the Union had not been in the South's (and in particular the Roman Catholic) interest. The intervention by the Province's government in labour, housing and other markets often fell short of the impersonality and impartiality yardsticks. **A small degree of Dublin government was replaced by a large amount of Belfast government.**

IV Government Intervention after Partition

Arthur (1984, p23) has indicated that by 1932, 27 per cent of the ruling Stormont party were in receipt of official salaries, the comparable Westminster figure being 8 per cent. Belfast, more than ever, dominated the hinterland. "Derry ceased trading with Donegal and Sligo" (Arthur, p35) and this East-West divide arising from the imposition of tariffs (a "reduced power of exchanging") was mirrored by the sectarian split. The majority population in the West of the Province was and still is Catholic, while that in the East is Protestant.

The development of Ulster politics from Partition to the present day is well known. The Stormont government was continuously in the hands of the Unionists until its dissolution in 1972 after four years of "Troubles". The Troubles themselves had their proximate cause in the Civil Rights Association's protests at the form and practice of local government. Electoral boundaries in Londonderry in 1967 for example, were so drawn that a Protestant minority retained virtually unchallenged control of a majority of council seats (Arthur, p101).

The reduction in the "power of exchanging" was further accelerated by the universal retreat behind tariffs by all countries in the 1920's and 1930's. As the smaller country, the Republic suffered as firms such as Guinness and

Jacobs moved production to Britain to get under tariff fences. As Neary (1984, p69) has put it, there was a growth in employment in import-substituting industries oriented towards the domestic market, which, self-defeatingly, further increased the Republic's dependence on semi-manufactured and raw material imports. That "policy of economic nationalism, . . . (therefore) must be judged a failure". Ulster went through the depression years, as did most other UK regions dependent on heavy industry, but by the 1950's was again experiencing healthy economic growth. It was also experiencing lower emigration levels than the South. And that, plus the differences in welfare provisions between Ulster and the South, together with an "increasing divergence of living standards . . . threatened to undermine one of the fundamental bases of political nationalism itself" (Neary, 1984, p70).

By the 1960's and 1970's tariffs had been emasculated by GATT and impending EEC membership. Structural changes in demand and supply affected the North. Shipbuilding and heavy engineering declined in the face of price competition while the man-made fibre industry, the successor to Ulster's tradition in textiles, collapsed with the rise in raw material prices caused by the oil price "hikes". The question arises as to why, if the "power of exchanging" had been returned close to what it was during Union — minimal or no tariffs, an open border, free labour mobility and so on — the benefits were not forthcoming?

One answer, of course, is the Troubles. Investors prefer security to uncertainty. But the economic malaise still exists in Ireland, North and South. Indeed it is in many ways more severe in the Republic. The explanation can only lie in the fact that visible barriers to trade having been removed — "hobbling the away team", the ubiquitious practice of artificially stimulating the home team by preferential tax treatments and development grants provided by agencies such as the (Belfast) Industrial Development Board (IDB) and the (Dublin) Industrial Development Agency (IDA) have had not dissimilar results.

The South was one of the first countries in the world to provide incentives to foreign investors. As such it was initially successful. Firms found the country attractive, being close to Europe, and English speaking with a well educated and relatively strike-free labour force. Several factors have tarnished what, in the 1960's, appeared to be a successful example of government intervention in market decisions. Other countries in Europe, regions in the UK, and American states have also joined in the incentive game, resulting in a "beggar-thy-neighbour" situation strikingly similar to the tariff laws of the 1930's. Second, there is a certain perversity in a policy the objective of which is to provide domestic employment, but which subsidises foreign capital. Third, to retain the industries attracted (which have often been highly mobile, frequently moving to other locations such as the Pacific Rim coutries), newcomers have had to be provided with still further financial inducements. Firms, once established, have had to be given continuing tax breaks, and easy profit repatriation has had to be permitted. One consequence of all of this is high debt servicing obligations. Fourth, such industries have often been high value-added industries where the labour component was small but the profit portion high. (For example, a low technology industry, cola concentrates, accounts for 25% of all the South's food and 5% of its total exports. This process is repeated in higher technology industries such as electronics and pharmaceuticals). In turn, the industries in question are rarely "stand alone" facilities but are either assemblers of components from or suppliers of semi-fabricated parts to elsewhere. For "the taxpayers of a country as poor as Ireland to underwrite investment in other parts of the world makes no sense at all". **The Economist** (16.1.88).

The record of government intervention in the North is similar. Economic decline has been compounded by governmental error in industrial policies. Indeed returning to the Scottish-Irish analogy, government failures as opposed to market successes are common to both. For example, Scotland's attempts to woo industry in the 1960's and 1970's are epitomised by the construction of the Invergordon aluminium smelter, the Rootes Linwood car factory, the BMC lorry factory, all of which are now closed and none of which would have been opened without government intervention. The Ulster parallels are the de Lorean car factory and the Lear Fan aircraft firm. Scotland's attempts to prop up ailing shipyards on the upper Clyde are paralleled by the government's efforts to retain Harland and Wolff (5% of the Province's manufacturing work force) with a £60 million per annum subsidy and losses equal to 75% of sales. These government initiatives have all failed. Both Ulster and the South now have unemployment rates close to 20%. Ulster's manufacturing industry is declining while jobs in manufacturing industry received in 1987 subsidies equivalent to £40 per head per week (DED 1987). The public sector employs 45% of those who are economically active. Ulster is a region in substantial deficit with the rest of the UK, as Ireland is with the world. The Republic allocates one-eighth of its GDP and one-fifth of its export earnings to service interest repayments or to make profit repatriations to overseas firms. This amounts, annually, to £500 sterling per head of population (Rowthorn 1987, p129). The UK is channelling immense resources into Northern Ireland (partly because of the Troubles, and partly because of its continued belief in "minimising the power of exchanging" through "stimulating the home team"). The Republic is in no position to assume that role without a major reduction in Ulster (and Ireland's) living standards (Roche, 1987). This all, of course, minimises the desire of the South for a united Ireland.

Mair (p105) summarises surveys carried out thus: "Unity would be nice. But if it's going to cost money, or result in violence . . . then it's not worth it". What is the economic future for Ireland and in particular Ulster? Most serious discussion assumes that London and Dublin will be in political dialogue over the future of Ulster for years to come (4). Can economic proposals be made which will alter this political climate?

V The Current Policy Debate

As has been stressed, economic well-being depends on the power of exchanging and is closely linked to the yardsticks of impartiality and impersonality. The recommendations on well-being frequently paraded usually fail by those yardsticks and/or fail to maximise the power of exchanging. Teague (p176), for example, suggests that industrial and economic policy should be directed towards "nothing less than the integration of the economies" (of North and South). This is an admirable view but in the absence of political unification it is unlikely wholly to be achieved. So the "most immediate attention" should be given to "industrial policy" (p178). Teague arrives at this conclusion by default and on inspection his conclusion amounts to no more than a plea for "greater co-ordination between the IDA and IDB" (p179) to encourage, in particular, Ulster firms of the medium technology type not present in the South, to act as suppliers to Southern based multi-nationals which otherwise have to sub-contract. The sweeping proposal for nothing less than full economic integration is designed merely to increase co-operation between two bodies which already impede exchange on a substantial scale. His example also begs the question, 'Would the co-operation be voluntary and mutually beneficial?' If so, why is it not already taking place? If not, why would encouragement of otherwise involuntary exchanges raise economic welfare? O'Dowd (1987, p207) proposes the "building of interdependence (directly) by a much more spatially oriented employment strategy". This too seems non-controversial in terms of capitalising on people's propensity to truck, barter and exchange. But what does it mean? Three lines later (after a chapter of historical analysis) the specifics of the policy are spelt out once again as "co-ordinating the efforts of industrial promotion agencies" such as the IDA and IDB, and (p208) paying "particular attention to the service sector". The latter proposal is not explored but if "attention" means active encouragement there are the usual dangers of "partiality" and "personality". If, however, it means removal of artificial barriers in order to maximise the power of exchanging, it should be applauded. We examine one such suggestion in more detail in Section 5.

Canning, Moore and Rhodes (1987) make similar recommendations. The IDB should be strengthened and (p232) given responsibility for "overall development strategy, and have the power to decide which sectors should be supported and which should not". The new, stronger agency would "help forge links between local firms and financial institutions . . . the distinguishing feature (from present policies) is the degree of agency discretion . . . (indeed the change proposed will result in) a slow and . . . painful process . . . (with) job losses as funds are withdrawn from supporting declining industries to support new initiatives". In the meantime they make the astonishing suggestion that a still further "expansion of public sector employment is necessary" (p234).

No way of capitalising on the former proposal (forging links between the financial institutions and local firms) is put forward. The latter proposal, expanding the public sector, is difficult to reconcile with either the statement about a "painful process" or the fact that £1000 per head of population is already being injected into the Province (Rowthorn p134) "mainly to support the very large **public sector** . . . which . . . **directly or indirectly is (already) the main source of incomes**" for the population (emphasis added). Moreover, the public sector applies the wage and salary norms of the UK as a whole, which in turn distorts the labour market and makes the Province a high wage economy unattractive to multi-national investors and discouragingly costly for indigenous entrepreneurs. Such a distorted labour market can only weaken the links between local firms and financial institutions charged with the stewardship of their investors' savings. Such institutions will look elsewhere for profit.

Unfortunately, many economic analyses of N. Ireland are riddled with such logical inconsistencies. The rate of growth of the population of working age is ten times that of the rest of Britain (Canning, Moore and Rhodes, p215). At the same time, wage convergence between the two regions caused by national pay bargaining in the public sector and large (state supported) firms in the private sector (where nation-wide trades union agreements exist) has resulted in relative rises of up to 30 per cent since the 1950's (Canning **et al,** p229). These same observers, using a dubious statistical technique state that (p215) "the effect of (these) wage increases on employment growth (is) insignificant". Economic axioms are ditched in favour of statistical manipulations valid only in the eye of the beholder (5). The consensus then seems to be that, in general, more of the same and in particular more "industrial policy" is desirable (6).

VI A Radical Alternative

By what other means can the gains from maximising "the power of exchanging" be restored? The prevailing collectivist orthodoxy maintains that Ulstermen cannot seize economic opportunities without recourse to a humiliating dependence on governmental handouts, an approach which does not even have the merit of working. We do not take this view. Rather we propose that the Northern Irish financial system should be deregulated, that the Bank of England's control of banks in the Province be removed, and that legal barriers to entry into financial intermediation be abolished. Simultaneously, the IDB should be dismantled and other governmental "soft loan" agencies should be wound up.

a) Financial Deregulation

Specifically three legal changes are required. First, barriers to entry into banking erected by the 1979 Banking Act should be abolished.

Second, the IDB should be dissolved. Third, the special privileges extended to the Bank of England note issue and the exclusive but limited right of private issue held by the existing four Northern Irish banks should be withdrawn. Fry (1985) has given an extended evaluation of the impact of such proposals on the Scottish economy. Here we but briefly transfer the essence of his arguments to Northern Ireland. First, the break-up of the existing banking cartel would require the removal of the Bank of England's regulatory controls which bolster it. (It is axiomatic that cartel behaviour rarely survives, and does not permanently persist in the absence of legal support. "Policing the free rider", that is prohibiting competitive acts by existing firms, and stopping similar acts by entrant firms, is generally only possible with regulatory support.) New firms can only enter the business of accepting deposits with the specific permission of the Bank of England. The intention is that government assures itself that management has the necessary degree of integrity and prudence. The need for such central assessment of prudence and integrity is not apparent. Market participants will not long support a financial intermediary in which they have no confidence. Furthermore it seems probable that market participants would apply more rigorous standards than central authorities. How much prudent and profitable behaviour does or did government expect of the de Lorean car company or of Harland and Wolff? Removal of entry barriers into financial intermediation would have to be accompanied by removal of controls on conduct of business. In particular, the requirements that registered banks hold a certain fraction of their so-called "eligible liabilities" as reserves would have to be repealed. Some institutions might then cease to be fractional reserve bankers altogether, and only lend against a 100% reserve. Others would choose that fraction of deposits for reserve purposes which they and their clients deemed appropriate, as do Swiss banks (Fry, 1985, p31). The range of different types of financial intermediary in Northern Ireland would expand. Existing banks would be stimulated to identify consumer requirements in a way currently impossible. The pool of savings available to invest would be expanded as new intermediaries would seek out ways of mobilising them and subsequently applying them to investment.

b) Terminating Industrial Policy

Of course, not only would governmental barriers to competition in financing have to be removed, but unfair competition by government in financing would have to cease if the above proposals were to be effective. The private sector can compete with the subsidised public sector no more readily in the provision of finance than it can with any other good or service.

Dirigiste financing policies in Northern Ireland would have to cease. Their failures are well known. Encouragement of indigenous enterprise on a small scale by the Local Enterprise Development Unit (LEDU) has been "lacklustre" (Teague, 1987 p117). Grandiose collapses funded by Westminster and Belfast government agencies have already been mentioned, and medium scale local and foreign investment encouraged by the IDB generated a mere 3600 jobs annually between 1986 and 1987 at a cost of £22,250 per job (IDB, 1987). In addition the IDB (1987, p46) conducts rescue operations but "never (in order) to prop up failing firms on a temporary basis". (One wonders why it is required if it is designed to shore up firms on a permanent basis, which, being successful, do not require support!).

The dismal record of government initiatives is not surprising, nor is the continued call for even more of the same. The failure stems from the motivation of government officials and civil servants who do not have the same positive incentives as do private entrepreneurial financiers to seek out the best and most profitable opportunities to exploit such resources. They have no property rights in the gains created from exploiting a profitable trade opportunity. Nor do they suffer directly the negative losses from error in misdirecting the flows of capital or labour. The consequence is a failure (due to risk aversion) to be alert to the best opportunites and an inverse reluctance (due to risk preference) to exercise caution in the face of opportunities less likely to be successful. Not only do the motivational factors militate against successful governmental intervention in the market place but so, too, do those of knowledge and information. The persons who know best about the opportunities and pitfalls of market exchange are market participants themselves. As Hayek (1945) put it, each knows very little, but the price system co-ordinates plans and actions and economises on knowledge in a way that no planning agency can. The **relevant** market data are known only to the market participants, the consumers and producers "on the spot".

Burton (1983, p3-40) notes that governments may be **generally** "better" informed than market participants, but they are not "superior entrepreneurs". They lack the stimulus to be alert to profit and loss opportunites, and they lack specific, intimate information. Burton's example of a brain surgeon having more knowledge than a motor mechanic is amusingly **a propos.** The surgeon has more knowledge than the mechanic, but in a voluntary market system it is assumed that the mechanic is sensible enough "not to seek to perform brain surgery". That assumption cannot be made about the proponents of and participators in government financing of industry.

Indeed the reverse is the case. Bureaucrats and politicians operate within a different framework of rewards, penalties and incentives.

Bureaucratic status and success is measured by hierarchical size and status within the hierarchy. The incentive to the bureaucrat is to invest in ways and means to raise status. By and large this will be in activities contrary to those encouraging voluntary market exchange. Thus the creation, maintenance and expansion of the IDB is a "good thing" in its own right for a civil servant. The politician, motivated by power and the desire to stay in office, will readily concur. The "benefits" ("new jobs") from industrial policy can easily be pointed to. Votes can be gained. The costs, in terms of alternative job opportunites lost which could otherwise have been created, or goods and services lost which could otherwise have been produced with the resources so used are invisible and cannot be pointed to in response. The higher taxes (or use of any finance) required to fund the "benefits" are diffused over the entire population, while the "benefits" of "maintaining or creating" jobs in a particular town or firm are visible, concentrated and readily comprehensible. The harm done to a society by the politico-bureaucratic technocracy can only be countered by a large scale comprehension that "personal and partial" interference with voluntary exchange imposes a high net cost on us all. In short, policy should expand the power of exchanging and neither artificially prevent one party from buying nor artificially encourage the other to sell.

c) **Privatising the Currency**

The belief that Westminster is required for the provision and direction of funds is not even supported by Irish history, North or South. The linen industry (Cullen, p97) has already been mentioned (2) and private financing was crucial to its successful development. Furthermore, such financing although partly Irish in origin was also partly non-Irish. Deregulating Northern Ireland's financial system in the ways suggested would thus not only replace governmental malinvestments with market-oriented ones, but would stimulate the financial sector in the province and would thus generate a self-sustaining, new, larger services industry of its own accord. What Fry (1985, p33) termed a financial freeport might appear. The vast deposits which have been attracted to other deregulated areas such as Switzerland, Hong Kong, Panama, Singapore, the Isle of Man, the Channel Islands, the Caymans, Bahrain, and so on, could be similarly attracted to Northern Ireland. There would be one comparative advantage to Northern Ireland which these other countries do not have — an existing abundant, educated labour force giving the province a high labour:capital ratio for the foreseeable future. "Outward lending" to other countries would thus be less necessary, and indeed inward lending, other things being equal, would be more probable. Northern Ireland is where the revived financial institutions would have their most intimate investment knowledge and the labour force is there to enable that knowledge to be exploited. Fry's "freeport" (1985, p34) would require confidentiality of banking transactions, tax exemption for off-shore transactions and free circulation of all foreign and domestically produced currencies. This is where his second main proposal could also be applied to Northern Ireland : namely the withdrawal of the monopoly of note issue from the four existing banks and the removal of the requirement that any such notes be backed, one for one, by Bank of England notes. This proposal would have an immediate effect on the liquidity of Northern Irish banks, and more directly on their profitability. The current situation is one where the Bank of England has a balance sheet with low cost liabilities (notes) and high earning assets. The profit is known as "seignorage" and is passed on to government. With no obligation to cover their issues at the Bank of England, the Northern Irish banks would see a portion of that seignorage transferred to themselves away from Westminster. While this would give them an advantage in Ulster denied English banks in England, this is no reason not to proceed with such liberalisation.

Northern Irish banks, including new entrants, would have to decide how to back their note issues. Some might choose a basket of currencies, some commodities, and some sterling. There is little likelihood, however, that the banks would allow their "exchange rates" to drift out of alignment. Inadequately backed notes would be avoided by consumers and creditors. Indeed the probabilities are high that a one-for-one exchange rate would exist between all banks (including sterling, as Bank of England notes would continue to circulate) since the embarrassment of being known to be an issuer of "bad money" would discipline the institutions. Thus the "man in the street" would probably not even be aware, at least initially, of much change due to deregulation. He is already used to operating with five different pound notes or coins in his day to day transactions.

The existing currency multiplicity, consequently, makes Northern Ireland an ideal starting place for financial deregulation which could then spread towards Britain and/or the Republic. The chances of extreme volatility in rates of exchange such as those which occur in foreign exchange markets are slight. First, such volatility is generally caused by governmental changes of policy in the country or countries concerned when massive cross-flows of funds between nations occur. Financial intermediaries operating in the same city (Belfast) will be disciplined to integrate with each other by competitive forces in a way governments are not. Private bankers, anxious to avoid the embarrassment of their currencies trading at a discount, would have neither the incentive nor power to institute populist policies inimical to the preservation of competition.

What of the Bank of England's monetary role in smoothing out the inflows and outflows of funds from the banking system to government accounts? This role affects interest rates and liquidity and could impinge on the private financial intermediaries in destabilising ways. Fry (p52) neatly pushes this worry to one side. There is no need for Exchequer accounts to be held at the Bank of England. If they were divided among existing banks, then any transfer of funds to or from the private sector to government accounts would be retained within the private sector itself. The Bank of England's money management task would be simpler as the monetary base would no longer be subject to violent fluctuations due to receipts into or by payments out of governmental Bank of England accounts. Private inter-bank networks between Belfast and London would perforce be strengthened. The sophisticated financial expertise required fully to capitalise on our proposals would be generated as trade in financial instruments between the intermediaries themselves grew, and as the linkages between Belfast and the world money market expanded.

Of course, not all intermediaries would issue notes. But before concluding this section we must tackle one final concern. What of Gresham's Law that "bad money drives out good"? This too is easily pushed aside. As Mises (1949, pp432, 447 and 754) showed, this law only works if government is guaranteeing the "value" of the bad money by law or by a fixed exchange rate, in which case people will hoard good money and excessive use will be made of the bad (for example by "pyramiding" unsoundly based notes) until a financial crash occurs. In the absence of government intervention, however, Gresham's law does not hold. Indeed good money drives out bad. As Hayek (1976, p74) put it, "money is the one thing that competition would not make cheap, because its attractiveness rests on it preserving its 'dearness' ". With privately issued currencies, not forcibly linked to a Bank of England exchange rate, were the UK government to indulge in the inflationary printing of money of the 1970's and early 1980's, it would be pushed into the undignified position of having its certificates of indebtedness shunned by the Ulster public.

VII Conclusions

Two consequences would be immediate. The Northern Ireland financial services industry would be revitalised, as it would no longer be sheltered either from new forms of competition or be debilitated by the financial equivalent of "dumping" by unfair competition from the Government through the means of the IDB and similar agencies. It would seek out new wealth-creating opportunites into which it could direct its resources and expertise. Entrepreneurs would search for commercially viable, market-determined expansion opportunites rather than directing their efforts towards seeking favours from government. A broader consequence would be the "demonstration effect" throughout the British Isles. Existing financial institutions (such as the Bank of Ireland, Allied Irish, Ulster Bank and Northern Bank, etc) operate in both Northern and Southern Ireland. Newly released commercial energies and rewards in the North are unlikely to go unheeded in the South. Financial business will either "drift North" or the Republic will be compelled to relax its own financial regulations. Similarly, long overdue doubts will be cast on the plethora of other regional industrial policies which exist throughout the British Isles. In 1983, Burton (p59) listed (non-exhaustively) several dozen agencies implementing such policies for the UK alone. The wasteful regional rivalry these produce (quite apart from their distorting effects) is replicated internationally between the IDA and IDB. A deregulated Ulster would invite imitation. Deregulation, in turn, promotes a single market without traumatic constitutional change. National and cultural identities can be readily preserved.

Our proposal of financial deregulation would accomplish Teague's "integration of the economies"; it would pay particular attention as O'Dowd wished, to "the service sector"; it would, as Canning **et al** recommended, "forge links between local firms and financial institutions" and it would require no constitutional changes. Indeed it should have political appeal to the type of government currently in Westminster which claims it wishes to return power to the people. Financial deregulation would reduce the cost of credit by reducing the transaction costs of search by profit-seeking entrepreneurs. Both sides of the financial market place would aggressively look for business opportunites in which to invest capital or for which to borrow it. Profit alertness would rise. Loss awareness would increase. More good investment decisions would be made and more poor ones would be avoided as those doing the borrowing and lending competed for business while doing it at their own risk, not with the taxpayers' resources, and while doing it for their own immediate monetary gain, not merely in order to move up another notch on the league table of hierarchical success in a governmental funding body. Hutt's test of political acceptability, impartiality and impersonality would be met, while Smith's "power of exchanging" would be maximised. Economic union would be promoted while nationalist and unionist cultural fears or goals would neither be enhanced nor promoted. Artificially stimulating the "home team" would become as defunct in the 1990's as hobbling the "away team" became in the 1960's. **Lesser Government in Ulster would encourage an economically united British Isles** (quite apart from any EEC implications). Economics would then help keep "old dislikes (between the peoples of Britain and Ireland) properly subordinated" and political and cultural rivalries could be directed more at the selection of sports teams and not at the self-defeating mutual discouragement of trade by artificial stimuli and consequential later destruction of domestic industries and self respect.

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Footnotes

(1) English farmers had lobbied parliament for protection from imported Irish cattle as early as 1621 (Cullen, p8). The 1663 Navigation Act required that all goods to be imported into British colonies first pass through a port in England or Wales (Cullen, p12, lists only a few exceptions for Ireland). Irish livestock was totally excluded from the British market by the Cattle Act of 1666, (Cullen pp16-18). By 1699 (Cullen, p34) as Irish woollen manufacturers began to threaten English competitors, direct exports of wool overseas were prohibited and imports into England subjected to heavy duties. By 1779 Irish discontent was immense. A parade was held in Dublin celebrating the birthday of William of Orange, (Beckett, p111) with cannon decorated with the slogan "free trade — or else". Lord North's parliament acceded, and acts were passed "removing most of the restrictions on Irish trade". The woollen industry revived and the "expansion of the linen industry in the 1780's was remarkable" (Cullen, p97). The remaining British tariffs were removed by the Acts of Union themselves.

(2) The changes in the linen industry provide a vignette of the simultaneity of the Union's apparent economic success and politico/economic failure. Linen was widely dispersed in the 18th century with ubiquitous domestic hand spinning of flax into thread. The yarn was transported north and east for weaving and then south to Dublin from Coleraine and Belfast (Cullen, p97) for bleaching and merchandising. Bills of exchange funded most of the trade and discounting of bills by banks and other institutions in Dublin became commonplace. Several factors occurred which in a less **dirigiste** environment with less governmentally imposed discrimination against Catholics might have fostered a successful Union on Anglo-Scottish lines. Power spinning and weaving were introduced. Handloom weavers and spinners could not compete with large scale producers. The ability to live from a combination of textile manufacture plus small-holding agriculture and fishing vanished (Cullen, p120-1). The Great Famine of the 1840's tragically hastened but did not cause, the need for population movement towards the towns. The transition costs of the Industrial Revolution were usually considerable because of vested interests. Provided the costs imposed are identifiable as **impartially and impersonally** due to the forces of supply and demand there is little reason for political concern (albeit humanitarianism may well prompt charitable action). Where, however, the costs are seen as being caused by some identifiable group at the expense of another, and where the burden weighs particularly heavily on the latter, then political concern is inevitable and resentment natural. The Catholic poor, debarred by law from political participation, compelled by law to support (through the

tithe) an alien Church in addition to their own, were further impoverished by the shift from country to town. The re-organisation of the linen (and other) industries was then further accelerated by the development of railways in the 1840's. Cheaper goods could be transported into the country from factories, so undercutting the domestic producer. Simultaneously, these provided low cost transportation of raw materials to central factories where scale economies in manufacture provided lower costs than in the dispersed rural areas.

(3) Sinn Fein is Gaelic for "ourselves alone", and List's trade protectionist views, inconsistent with his conclusions, had appeal for leaders such as Arthur Griffiths. It was not a book they read very carefully. Rather, the early Sinn Fein economic policies were supported by a "strong body of sentiment buttressed by flimsy but suggestive economic reasoning" (McAleese, 1985, p88).

(4) The British position is that it will not enforce a united Ireland against the wishes of the Ulster majority, nor will it endorse continued Union with Britain if the Ulster people wish to join Ireland. This is both a "no-change" and "no-win" policy for the British for the foreseeable future. Law and order are given priority within the overall framework of UK economic management, together with a large amount of additional aid to foster or maintain employment, additional that is even to British regions such as the North East and Scotland.

Ulster concerns are more heterogeneous than those of the British or Irish. The Protestant community fears that in a united Ireland it would be forced into a non-secular and non-tolerant state with a subordination of its identity. Recent referenda in the South confirming the illegality of divorce and abortion have not decreased these fears, quite apart from the 1909 "ne temere" decree from the Vatican which introduced the fear that Rome "would be in a position to deny the validity of their marriages and the legitimacy of their children" (Arthur, p9). The Catholic community meantime has suffered from the sectarianism, prejudice and costly discrimination in incomes, jobs and patronage to which we have already referred.

(5) The statistical tool used by Canning, Moore and Rhodes (1987) was shift-share analysis. Britain's leading regional economist Harry Richardson, said of it, (1978, p206) : "This primitive technique should be abandoned, since ease of operation provides insufficient justification for persevering with its biased and inconclusive method of analysis".

(6) The consensus also deliberately ignores the wishes for political unification by Nationalists and re-unification by Unionists. That much at least is realistic. Political change is unlikely in the short to medium run.

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