

**SYMPOSIUM ON THE ECONOMIC IMPLICATIONS OF PEACE IN
IRELAND**

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Abstract

The cease-fire of August 1994, in Northern Ireland, has held for sufficiently long to raise the prospect of a permanent peace. Peace in Northern Ireland should be valued and cherished in its own right, because it restores to life, a normalcy that most other societies take for granted. But, it would be a mistake to view peace as offering a glorious opportunity for economic development. Instead, it would be more realistic to see the permanent end of political violence as one less constraint inhibiting the process of economic development in Northern Ireland. In the absence of the constraint that the Troubles imposed upon the Northern Ireland economy, the province's economic problems are slightly more tractable, but they continue, nevertheless, to be formidable. The two main economic problems facing Northern Ireland are those of high unemployment and industrial decline. This paper argues that in order to solve these problems, Northern Ireland will have to break free of a "dependency culture" that has vitiated its economic life for the past half-century. There are four facets to this dependency: fiscal; industrial; social; and educational. Any serious attempt to find a lasting solution to Northern Ireland's economic ills must, as a pre-condition, address these issues. Otherwise, a lasting peace will not be mirrored in greater prosperity.

1. INTRODUCTION

It is a sad comment on the state of our world that certain regions are generally perceived as being "theatres of war". For the past nearly quarter of a century, Northern Ireland has been such a region. Reviled by their countrymen, ignored by investors and shunned by tourists, the 1.5 million residents of Northern Ireland have had to bear the opprobrium of a violence which was entirely prosecuted by only a handful of their number and towards which the vast majority of the province's population, in common

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with the rest of the world, felt nothing but revulsion. Today, there is a reasonable prospect that this long nightmare has finally ended and that "The Troubles" (as the political violence in Northern Ireland is, euphemistically, often termed) are over. If so, then what prospect does this hold for economic welfare in Northern Ireland?

This is a legitimate question because, for a long time, Northern Ireland has been one of the most economically deprived regions of the UK: its per-capita GDP is only 80 per cent of the UK average and it has (and has had for several years) the highest unemployment rate in the UK. In the European Community (EC) too, Northern Ireland is one of the poorest regions occupying, by descending order of per-capita GDP, the 136th position out of a total of 179 regions. It is an Objective 1 region for the disbursement of EC Structural Funds, both because of its low income levels and because of its high unemployment rate. Moreover, this low level of economic performance has routinely been blamed on the "Troubles" - had it not been for the violence, so the argument goes, which kept away investors and tourists and led the brightest and the most talented to leave Northern Ireland, the region would have been much more prosperous.

The purpose of this paper is not to deny this argument but rather to moderate its force. It would be a mistake, in my view, to regard peace as automatically paving the way for economic development. Instead, it would be more realistic to see the permanent end of political violence as one less constraint inhibiting the process of economic development in Northern Ireland. In the absence of the constraint that the Troubles imposed upon Northern Ireland's economy, its economic problems are slightly more tractable, but they continue, nevertheless, to be formidable. The two main economic problems facing Northern Ireland are those of high unemployment and industrial decline. This paper argues that in order to solve these problems, Northern Ireland will have to break free of a "dependency culture" that has vitiated its economic life for the past half-century. There are four facets to this dependency: fiscal; industrial; social; and educational. Any serious attempt to find a lasting solution to Northern Ireland's economic ills must, as a pre-condition, address these issues. Otherwise, a lasting peace will not be mirrored in greater prosperity. The remainder of this paper discusses, in turn, each of these dependency issues but before that it provides some historical background.

2. HISTORICAL BACKGROUND

The origins of the "Troubles" in Northern Ireland can be traced to the success, in 1922, of Protestants in the north of Ireland in creating, as part of the United Kingdom, a statelet whose borders maximised the geographic area within which a Protestant majority could exist. Thus, of the nine counties that traditionally comprised the province of Ulster, Donegal, Cavan and Monaghan were excluded from Northern Ireland because their inclusion would have meant that Catholics would, very quickly, have become a majority; at the same time the boundaries of the state were spread wider

than the Protestant heartland of Antrim and North Down because to have done otherwise would have been to forgo the opportunity of acquiring territory without endangering majority status for the Protestant community. In that sense, Northern Ireland was an artificially created state, (though the alternative to its creation was, arguably, civil war) with boundaries that did not reflect any natural cleavage of the island of Ireland, either in terms of geographical features or in terms of political aspirations. Thus, any legitimacy that the state may have acquired since its creation in 1922, is one conferred solely by the passage of time.

In its act of creation, the state of Northern Ireland also contained the seeds of its future problems for, within its boundaries, lay a large Catholic population, comprising initially (approximately) one-third of its population, whose nationalist aspirations (meaning a desire to live in a united Ireland, independent of Great Britain) were frustrated by the creation of Northern Ireland. Consequently, from its inception, Northern Ireland contained a large minority which was alienated from, and unsympathetic to, its existence.

This process of alienation was only aggravated by the subsequent behaviour of the Protestant majority. The Unionist party enjoyed, both on account of the numerical supremacy of Protestants and also by dint of gerrymandering and a restricted franchise, a majority in the local councils and also in Stormont, the Northern Ireland parliament. It then used its control over the machinery of government in Northern Ireland to ensure that economic rewards were largely directed towards their own people - "a Protestant Parliament for a Protestant people". There were two areas in which Catholics were particularly affected: a lack of access to public sector jobs and housing. In large tracts of the public sector, Catholics were either absent or greatly under-represented in employment and most allocations of public sector housing were made to Protestants. A combination of thwarted political aspirations and relative economic disadvantage led to the civil rights protests of the 1960s. The brutal repression of these protests, and the ensuing violence, meant that rule by Stormont could no longer be sustained and in March 1972 Northern Ireland was brought under the direct rule of the British government.

Compared to the Unionist Party which governed Northern Ireland for the 50 years since the inception of the state in 1922, Direct Rule brought enormous benefits to the Catholic minority. These benefits have been most evidenced in two areas. Discrimination against Catholics, in access to public sector housing, is a thing of the past. In terms of employment, the expansion of public sector employment and the ending of discrimination against Catholics in access to public sector jobs, has meant that employment opportunities for Catholics have expanded enormously. The creation of the Fair Employment Agency, with power to monitor employment practices in companies and other private sector bodies, is indicative of the British government's seriousness in trying to ensure fair employment in Northern Ireland in the private sector as well.

3. MANUFACTURING DECLINE AND INDUSTRIAL DEPENDENCE

Two features have characterised economic developments in Northern Ireland since 1971: the collapse of manufacturing industry and the expansion of the public sector. Nothing illustrates the precipitous decline of manufacturing in Northern Ireland better than the fact that employment in this sector fell from 177,000 in 1971 (36 per cent of Northern Ireland employment) to 105,000 in 1993 (18 per cent of Northern Ireland employment). There are three - partly competing, partly complementary - hypotheses which attempt to explain this occurrence.

The first is that Northern Ireland manufacturing - even across identical industries - is less efficient than that in Great Britain. Productivity in Northern Ireland industry (as measured by net output per employee) is around 80 per cent of that in Britain and this is in spite of the fact that during the 1980s capital investment per employee in Northern Ireland exceeded that in Britain by 18 per cent.

The second hypothesis places relatively greater emphasis on Northern Ireland's "wrong" industrial structure (reflected in a disproportionate concentration in declining industries) and, with the onset of the troubles, its "wrong" climate for industrial growth. Canning et. al. (1987) concluded that while industrial structure was the main culprit in contributing to the decline in manufacturing employment over 1950-71, two other factors combined to produce a sharp fall in manufacturing employment over 1971-83. These were the national decline of manufacturing and the intensification of the Troubles. It is likely that a much higher level of inward investment would have taken place but for the political violence. It has been estimated that as many as 46,000 manufacturing jobs were not created during the 1970s and early 1980s as a result of the Troubles. Most of this was due to a loss of multinational confidence in Northern Ireland: over 1966-71, multinationals set up 51 new manufacturing units in the province and created 11,600 new manufacturing jobs; by way of contrast, between 1972 and 1976 they established only 15 new units and created only 900 new jobs. In a more recent study, Harris (1990) found that of the regions of the UK, Northern Ireland had, over 1963-85, the most specialised manufacturing structure, with Scotland having the least specialised structure. Thus the poor economic performance of Northern Ireland could have been the result of it having a disproportionate share of industries that, in general, had declined the most. If one calculated what Northern Ireland growth rates *would have been* if it had had, instead, the UK's industrial structure then the finding was that Northern Ireland's unfavourable structure was an important factor in restricting its growth rate.

The third explanation for industrial decline in Northern Ireland is that it is not so much inefficiency, or wrong structure, but ownership of Northern Ireland industry that is to blame for the decline in Northern Ireland manufacturing. The traditional policy for employment creation in Northern Ireland has been to attract inward investment. In common with other peripheral regions, a great deal of industrial development in

Northern Ireland since 1945 - and most especially in the 1960s and early 1970s - was the result of its success in attracting firms from outside Northern Ireland to set up manufacturing units in the province: between 1947-67, over 90 per cent of all new industrial jobs in Northern Ireland were created by "externally controlled" firms setting up branch-plants in Northern Ireland. The Northern Ireland Economic Council (1992) has estimated that, in 1990, there were over 200 externally-owned plants in Northern Ireland employing 41,000 persons, representing 39 per cent of total manufacturing employment in Northern Ireland. The exodus of foreign-owned industry between 1973 and 1990, causing employment to fall by about 46,000, meant that, in 1973, the dependence of manufacturing employment on externally-owned firms was, at 50 per cent, even higher.

This emphasis on inward investment, as an instrument for industrial development, has meant that Northern Ireland industry is, and has been, excessively dependent on foreign-owned companies. As a consequence, Northern Ireland industry is disproportionately of a branch-plant nature (with headquarters located elsewhere) and this has had serious implications for its conduct and performance. Most importantly, there was the vulnerability of branch plants (particularly in peripheral regions) to closure whenever adverse economic conditions led the parent company to restructure its operations. The synthetic fibre and the tobacco industry were particularly affected by these closures. Fothergill and Guy (1990) concluded that Northern Ireland plants were selected for closure mainly because of the marginal role they played in the operations of their parent companies and not because Northern Ireland proved to be an unsuitable location.

These findings have serious implications for a policy of job-generation dependent upon inward investment. Although such investment provides the quickest way of generating jobs in Northern Ireland the fragility of such jobs is a major source of concern. The problem is that many of the branch plants are production only plants (that too of the assembly or sub-assembly variety) and do not have R&D functions; nor are they part of divisional headquarters. Given these characteristics they are least likely to survive recessionary conditions. Apart from vulnerability to closure, the nature of Northern Ireland's branch plants has other adverse implications. First the level of worker skills is, because of the nature of the operations, likely to be low. Second, because the branch plants are part of an internal market extending across the parent company's operations, their linkages are likely to be with other plants within the company and not with other firms in Northern Ireland. This, in turn, has adverse implications for purchases from local suppliers. Against this background, the solution to the problem of generating jobs that are more resilient to recessionary conditions would appear to lie in two directions: first, to attract plants which, in addition to their production functions, also had R&D and administrative functions; second, to emphasise the encouragement of local enterprise.

4. PUBLIC SECTOR DEPENDENCE

While the Troubles were but one factor (and not necessarily the most important factor) in causing job losses in manufacturing, they were the main (and, arguably, the only factor) contributing to the vast expansion in public expenditure and public sector jobs that has taken place in Northern Ireland since 1972. Despite the decline of manufacturing, total employment in Northern Ireland has remained remarkably stable: in 1951, civilian employment in Northern Ireland was 556,000; in 1986 it was 549,000 and by 1993 it had reached 618,000.

This stability was provided for partly by the rise in public sector employment and partly by the growth of employment in private services generated by growing public sector employment. In 1960, estimated public sector employment in Northern Ireland was 97,000 or 22 per cent of total employees in employment. Over 1970-74, public sector employment rose by 40 per cent (at an average annual rate of almost 9 per cent) and constituted, in 1974, 35 per cent of employees in employment. Thereafter, growth in public sector employment moderated: between 1974 and 1987 it averaged 1.3 per cent per year and between 1987 and 1991 it actually fell by about 1.5 per cent. The latest figures show that, in 1993, approximately 198,000 persons (or 32 per cent of total employment - including self-employment - in Northern Ireland) were employed in the public sector. Thus according to Rowthorn and Wayne (1988), the effect of the troubles was probably to cause, between 1970-85, a net job loss of 5,000 jobs representing only one per cent of total employment in 1970. Of course underlying the smallness of this job loss was a severe structural shift in Northern Ireland's economy from employment in manufacturing to employment in the public sector. This has had important distributional consequences both economically and politically.

The major effect of the post-1971 public sector expansion, mainly of the welfare state, was not to raise the growth rate of the Northern Ireland economy or to make the economy more competitive but rather to alter the distribution of rewards. The chief beneficiary of this expansion was the middle class, and the rise of dual-earner middle families with both husband and wife holding public sector jobs was a particular feature of public sector expansion in Northern Ireland. However, a large proportion of these benefits accrued to, and indeed were responsible for the rise of, the Catholic middle class. This had the major effect of splitting the nationalist community by distancing the Catholic middle class, who had benefited greatly from Direct Rule, both economically and politically from the dispossessed of West Belfast, South Armagh and other poor nationalist areas. The Catholic middle class, under the shelter of British public sector jobs, was prepared to take a more relaxed view of a united Ireland. This was precisely the kind of economic and political development that suited Sinn Fein as it emerged as an articulate proponent of the cause of poor Catholics, who had received only a small share of the increased prosperity that public sector expansion under Direct Rule offered and whose alienation from the state had increased as a result of the growing

and (what they viewed) as the intrusive presence of security forces in their areas of residence.

Thus over the period of Direct Rule, the middle-classes of Northern Ireland felt detached from the Troubles, secure in the knowledge that they were "doing all right". In this detachment they were, of course, helped by the fact that, relative to say Beirut or Bosnia, it was a "low-intensity" conflict confined to working-class areas and targeted on specific individuals in these areas. In particular, the position of middle-class Catholics improved considerably under Direct Rule. The Troubles were also a source of jobs to working-class Protestants. The collapse of manufacturing in Northern Ireland in the 1970s had affected the Protestant working-class (who constituted the bulk of manufacturing employees) particularly badly and the expansion of security-related jobs, as a consequence of the Troubles, provided the community with an economic lifeline. Even working-class Catholics, though they did not benefit from Direct Rule to the extent that other groups did, were nevertheless, economically much better off under rule from Westminster than they were under rule from Stormont. The only real loser was the British tax-payer who had to subsidise the Northern Ireland show.

The scale of the dependence of Northern Ireland's economy on the largesse of the British government is reflected in the size of the British subvention. In 1993-94, this was £3.4 billion including security (£2.54 billion excluding security) amounting to 28 per cent of Northern Ireland's GDP. It is the scale of this subvention, which keeps standards of living in Northern Ireland much higher than those in the Republic of Ireland, that makes a united Ireland an unreal prospect. For, if everyone in a united Ireland were to enjoy the same living standard and if this uniform standard were pitched at the prevailing Northern Ireland level, then the scale of the subsidy that would have to be offered to ensure this would be astronomic; if, however, the uniform standard were lowered to the level that the Republic currently enjoys, then unification would be accompanied by a considerable lowering of living standards for the erstwhile population of Northern Ireland; and, needless to say, the third option of differential living standards, based on different welfare systems for the two parts of the country, would negate the entire idea of a united Ireland.

There have been a number of hints from the British government that the subvention issue would be handled "sensitively". Realistically, what this means is that what Northern Ireland can expect a "soft" rather than a "hard" landing - a gradual trimming of the subvention rather than an abrupt reduction. Providing that peace holds, it should realistically expect over the next 3-5 years, at a minimum, the loss of the £600 million spent annually on security. This could have serious implications for employment in Northern Ireland.

Even before peace, there was concern that there was little prospect of further expansion in public sector employment such as that witnessed in the early 1970s. The

major impetus for this expansion between 1970-74 came partly from the expansion in police and prison services (engendered in turn by a deteriorating security situation) and partly from an expansion of health and social services and education programmes with the intention of reaching British levels of provision in these areas. This has now been achieved and the level of provision of these services has, probably, now reached a plateau. Indeed the most realistic outcome is a slight decline in the numbers that the public sector employs. The prospect of a reduction in public expenditure in Northern Ireland, consequent upon peace, only exacerbates these anxieties.

This in turn raises questions about the employment prospects of new entrants to the labour market: if employment in the public sector is stagnant and if manufacturing is in decline then the only realistic source of employment is either in the construction industry or in private services. But the fact is that employment in both these sectors is heavily dependent on public sector policies: the former on public expenditure on housing and the latter on the demand generated by public sector incomes. Stagnation in the public sector would, consequently, affect employment in these sectors adversely.

5. WELFARE DEPENDENCE

The primary problem facing Northern Ireland is that of unemployment. The scale of this problem has been exacerbated by the decline of industry and moderated by the expansion of the public sector. Nevertheless, the unemployment rate in Northern Ireland is higher than in any other region of the UK. Northern Ireland has always had a higher unemployment rate (by about five percentage points, though this differential was exceeded in the 1980s when, for example in 1987, the Northern Ireland unemployment rate was 17.2 per cent compared with the UK average of 10.5 per cent) than the UK. In addition to this, there are several other disquieting features about unemployment in Northern Ireland. First, is the geographical distribution of unemployment within Northern Ireland: this varied, in February 1992, from 11 per cent in the Ballymena Travel-to-Work-Area (TTWA) to 30 per cent in the Strabane TTWA. Second, is the problem of the long-term unemployed (ie. those unemployed for over a year) which affects Northern Ireland particularly badly: 56 per cent of the unemployed in Northern Ireland are unemployed for over a year and 23 per cent for over 5 years. By contrast, only 27 per cent of the unemployed in Britain have been jobless for over a year. Lastly, there is the problem of differences in unemployment rates between Catholics and Protestants: the unemployment rate for Catholic men has been, since 1971, on average 2.5 times higher than that of Protestants; in addition, over two-thirds of the long-term unemployed are Catholics.

In a situation of high unemployment, the paradox is that more jobs may not necessarily lead to lower unemployment. This is because the labour force (the number of persons employed or seeking employment) is elastic: it expands in times of prosperity, when people are optimistic about finding jobs and contracts in recession, when pessimism

prevails. Thus new jobs may not lead to existing job-seekers finding jobs but rather to persons who were not previously in the labour force, gaining employment.

The reason for this is that much of job creation in the 1980s has been in part-time, service sector jobs which unemployed men, seeking full-time jobs in industry, are unwilling to take. On the other hand, part-time employment is very attractive to women who are married to men with full-time jobs. For such women, part-time jobs offer flexibility - for example, they allow mothers to return to work as soon as the youngest child is at school - and they are also a useful supplement to family finances. At the same time, part-time employment is not attractive to women whose husbands are unemployed since, at least in the UK, after a very low threshold, the wife's earnings only serve to reduce the husband's social security benefits.

A major consequence of this asymmetric attraction of part-time jobs for married women with employed and unemployed husbands is the growing polarisation between "work-rich" (two-earner) and "work-poor" (no-earner) families. The concentration of joblessness in certain families, and the further concentration of jobless families in certain neighbourhoods and housing estates, has led to the rise of what has come to be termed the underclass. This is a group comprising persons who lack (or at least do not display) the social and cultural values or skills necessary to cope with the world of work. If such a group does indeed exist then the problem of reducing unemployment is, firstly, one of reforming attitudes and competencies and only then one of creating more jobs.

6. EDUCATION, TRAINING AND SKILLS

The high level of unemployment rates, particularly among males, is largely associated with a collapse in the demand for unskilled male labour that occurred in the 1980s in most countries of the OECD as a consequence of international competition and/or changes in technology. This fall reduced the number of unskilled jobs available and also depressed the real wages associated with such jobs. As a consequence, unskilled workers were either unemployed (ie. jobless and seeking work) or they left the labour market, either because they were discouraged about the prospects of finding employment, or, because they did not find employment to be sufficiently rewarding. Thus underlying the overall unemployment figures is the phenomenon of high, and stubborn, male joblessness. Nor do the unemployment figures fully reflect the scale of this joblessness: in 1993, 13.4 per cent of Northern Ireland working-age males were unemployed (that is, jobless and searching) but another 13 per cent were inactive (that is, jobless and not searching).

Hence, a starting point for reducing Northern Ireland's high unemployment levels lies in a reform of its education and training structure. Such directions for reform may be more easily mapped than traversed. The educational structure in Northern Ireland is elitist in its selection methods, being based on the out-moded British grammar school

system which identified an elite group of school children at the age of 11 and proceeded to lavish upon it educational resources; many of those not fortunate to pass the 11-plus exam were consigned to relatively mediocre secondary modern schools. There is thus, as The House of Commons (1995) recently noted, a sharp divide in Northern Ireland between those who leave education with high academic qualifications heading for professional jobs and the large numbers of school leavers with few or no qualifications. Over one-third of employees in the industrial sector in Northern Ireland have no qualifications compared with 29 per cent for Britain. If there is to be reform in Northern Ireland's educational system, it must become more egalitarian, with less emphasis on preparation for university and with more emphasis on vocational subjects and on Further (instead of Higher) Education.

7. CONCLUSIONS

It is not the purpose of this paper to attempt to detail a set of policies - assuming that was possible - for the economic regeneration of Northern Ireland. However, some general remarks can usefully be made. A major obstacle to achieving this objective has been the relatively greater emphasis placed in Northern Ireland upon issues of distribution rather than upon issues of growth: it has been more important for one community to try and obtain a larger slice of the economic cake than the other community, rather than for both communities to co-operate in increasing the size of the cake.

However, this begs the question of how growth is to be achieved and whether the best way for doing so is for government to adopt a "hands-off" or a "hands-on" policy. The role of state intervention in development is one of the oldest issues in economics and debate on this topic has revolved around the question of when, and to what extent, governments should intervene. More recent studies however (cf. Rodrik (1992), Newberry (1992)) emphasise the **quality** rather than the **quantity** of intervention. It is differences in quality, not quantity, that explain why state intervention has proved disastrous for the economies of Latin America, Eastern Europe, Africa and the Indian sub-continent but has provided the foundation for growth and prosperity in successful economies such as Japan, Korea and Taiwan.

If one accepts this argument, then it is possible to sketch the outline of a policy scenario for Northern Ireland. Most importantly, one needs a pro-active government (and government agencies) that will provide leadership first, by defining clearly, after general consultation, its economic goals, and second by a commitment to predictable rules of behaviour that are consistently, firmly and uniformly applied. The overriding objective of policy must be to generate higher rates of industrial growth, and in adopting this goal, there must be the clear recognition that this may, in the short run, conflict with the creation of jobs. Industrial growth requires greater efficiency, and this, at least in the initial stages of development when output sales do not grow very fast, would mean that the growth in jobs might not keep pace with the growth of

output. It is clear that higher rates of growth can only be generated, and sustained, through a vastly improved export performance and "export-led growth" must be the key policy objective.

Once goals are established resources should be diverted to encourage and nurture export oriented industries. This may require the primacy of engineers as managers supported by skilled workers; it may require wage subsidies to attract qualified managers and workers; it may require training subsidies and the establishment of a training infra-structure; it may require preferential access to subsidised credit. In putting such policies forward it is important to read the lessons correctly. Many countries have been attracted to the idea of modern enterprises which reap economies of scale; in many countries, most notably in those of Eastern Europe, state intervention to ensure this outcome has ended in disaster. The reason that such intervention has succeeded among the "Asian Tigers" is firstly, that their industries were indigenously owned and secondly, that such industries were forged on the anvil of foreign competition. It is on this anvil that Northern Ireland's industry must be reshaped.

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