Group Economics

Ulster Bank

Next generation will pay for our 'super-parity' party

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Recovery is in the air. And it's not just confined to the economy. Happiness in Northern Ireland is on the rise too; and that's official. The latest Personal Well-being survey (2013/14), released by the Office for National Statistics (ONS), revealed the third successive year-on-year improvement in well-being across the UK. Once again, Northern Ireland was crowned the happiest place for the third year in a row, outperforming all other parts of the UK across all the indicators of personal well-being.

It's not clear exactly what is behind Northern Ireland's superior levels of happiness and lower levels of personal anxiety. Could the fact that each man, woman and child in Northern Ireland receives £2,347 of additional public expenditure relative to their counterparts in England be a factor? Or that our public sector has not witnessed the double-digit declines in employment and some departmental spending that has occurred in other parts of the UK? Alternatively, could we be a happier region because of devolution? After all, our devolved government has fended off the introduction of water charges, abolished charges for NHS prescriptions, and capped tuition fees at much lower rates than apply in England & Wales. So, perhaps the feel-good factor stems from Northern Ireland citizens enjoying the highest levels of public expenditure and lowest levels of taxation within the UK?

Unfortunately, the ONS survey only began in 2011, so we cannot compare and contrast happiness trends within the UK before, during and after the recession. However, it is fair to say that, throughout the global recession and the widespread austerity that followed, the Northern Ireland economy was sheltered from the austerity and fiscal pain being doled out elsewhere, including just down the road in the Republic of Ireland. Indeed, some might say that we were almost oblivious to the fact that we weren't enduring the same.

As far as fiscal austerity is concerned, it could, perhaps unkindly, be said that there are parallels between the mind-set of Northern Ireland society and that which prevailed within the UK cabinet during the 1974-76 economic crises. Edmund Dell, a former Labour MP and author of *"The Chancellors: A History of the Chancellors of the Exchequer, 1945-1990",* described the mind-set that afflicted Harold Wilson's cabinet during the mid-1970s IMF crisis. *"Some Ministers seemed unconscious of the economic crisis that had struck the country. Their attitude resembled that of the characters in Jane Austen's novels who carried on their lives undisturbed by the Napoleonic Wars".*

So, unlike our European neighbours, we have endured the narrative of austerity over the last four years without the reality of it. (Invariably the multi-year inflation-induced squeeze on household incomes has been misdiagnosed as austerity.) Instead we have inhabited a reality bubble where unpopular policies have been few-and-far-between. Conversely, our nearest neighbour – the Republic of Ireland – has implemented a portfolio of unpopular policies ranging from cuts in public sector pay to tax rises. Meanwhile water charges are in the process of being introduced there. Popular policies, such as the reduction in the VAT rate within the hospitality sector, have been vastly outnumbered by unpopular ones.

In Northern Ireland, we have adopted something of an á la carte approach in coveting the Republic of Ireland's 'nice policies' *(12.5% corporation tax rate, 0% Air Passenger Duty rate, 9% VAT rate for the hospitality sector)* whilst ignoring less popular policies, such as toll roads, GP charges, prescription charges, water charges and public sector pay cuts.

However, Northern Ireland's reality bubble is in the process of being punctured – with probable implications for happiness. There appears to be a growing realisation that a pain free prescription for dealing with our longterm fiscal problems does not exist. A return to the unsustainable, unaffordable rates of inflation-busting public expenditure growth experienced during the noughties will not return.

For the period 2010/11 -2015/16, the average annual increase in public expenditure under the control of the Northern Ireland Executive has averaged just +0.3% in cash terms. Whilst this still means public expenditure in 2015/16 (£11.3bn) is still some 1.5% higher (+£170m) than it was it 2010/11, the spending power of this expenditure has fallen in real terms. Looking ahead, for the next four years, the pressure on public expenditure is set to intensify. We have seen and heard the difficulties in reaching an agreement for a budget for 2015/16. These pressures are set to continue for the rest of the decade. Given the lack of a meaningful recovery in the UK's tax receipts, further additional public expenditure cuts and tax rises, as yet not specified, will be revealed in the coming months.

Last week's draft Budget for 2015/16 focussed largely on the expenditure side, as opposed to revenue. Cold water was poured over the idea of raising revenue by stopping the so-called 'super-parity' measures. These include no water charges, free prescriptions and free bus / rail passes for over 60s. Maintenance of these popular policies may keep the electorate happy, assuming they haven't taken these benefits for granted now anyway. From a public finance perspective, however, these black and white policies conceal grey options which could reduce the red ink in the public finances. Binary options of either free or no public transport for >60s ignores the potential for raising the age to >65, geographically restricting transport entitlement, introducing nominal fees, and / or significant discounts.

Swathes of individuals with an ability to pay for water charges, prescriptions, higher rates bills and public transport are being shielded by a desire to protect those that cannot. These 'super-parity' measures represent significant subsidies to the relatively well-off and wealthy retirees who could pay and would pay if they were in any other part of the UK. This represents a significant opportunity cost and foregone revenue which remains untapped at a time of pressure on the public finances. Many of these subsidies will leak out of the local economy in investments, foreign holidays, online purchases, or sit idle in bank / savings accounts. Whereas abolishing 'super-parity' measures guarantees the money stays in Northern Ireland and is put to good use in public expenditure / investment.

Ultimately, the next generation(s) will carry the burden for decisions made today concerning 'super-parity' measures - policies that they are unlikely to benefit from. They will also have to foot the bill for the lack of investment today (e.g. in our water infrastructure) by the current generation that is better able to pay for them. Future generations are unlikely to sample the 'super-parity' punchbowl. Instead they will be just left with the bill.

Richard Ramsey
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