

ISME  
17 Kildare Street,  
Dublin 2  
8<sup>th</sup> June 2018

Mr Maurice Quinlivan TD  
Sinn Féin Spokesperson on Business, Enterprise and Innovation,  
Leinster House,  
Kildare St,  
Dublin 2.

Dear Maurice,

Thank you for your draft enterprise document entitled 'A United Ireland – better for Jobs, Enterprise and Research.' Having considered this paper from an SME perspective, ISME makes the following observations:

Firstly, you will understand ISME's wish to position the small enterprise sector in this debate. The EU Commission's SBA Factsheet 2017<sup>1</sup> for Ireland puts the performance of the indigenous enterprise sector in context with that of its EU neighbouring countries in Table 1 below.

**Table 1: SBA Factsheet 2017 (Ireland)**

Class size	Number of enterprises			Number of persons employed			Value added		
	Ireland		EU-28	Ireland		EU-28	Ireland		EU-28
	Number	Share	Share	Number	Share	Share	Billion €	Share	Share
Micro	232 015	92.6 %	93.0 %	385 386	29.4 %	29.8 %	36.8	20.4 %	20.9 %
Small	15 519	6.2 %	5.8 %	293 404	22.4 %	20.0 %	15.1	8.4 %	17.8 %
Medium-sized	2 609	1.0 %	0.9 %	248 969	19.0 %	16.7 %	14.2	7.8 %	18.2 %
<b>SMEs</b>	<b>250 143</b>	<b>99.8 %</b>	<b>99.8 %</b>	<b>927 759</b>	<b>70.9 %</b>	<b>66.6 %</b>	<b>66.1</b>	<b>36.6 %</b>	<b>56.8 %</b>
Large	500	0.2 %	0.2 %	381 540	29.1 %	33.4 %	114.8	63.4 %	43.2 %
Total	<b>250 643</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>1 309 299</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>180.9</b>	<b>100.0 %</b>	<b>100.0 %</b>

*These are estimates for 2016 produced by DIW Econ, based on 2008-2014 figures from the Structural Business Statistics Database (Eurostat). The data cover the 'non-financial business economy', which includes industry, construction, trade, and services (NACE Rev. 2 sections B to J, L, M and N), but not enterprises in agriculture, forestry and fisheries and the largely non-market service sectors such as education and health. The following size-class definitions are applied: micro firms (0-9 persons employed), small firms (10-49 persons employed), medium-sized firms (50-249 persons employed), and large firms (250+ persons employed). The advantage of using Eurostat data is that the statistics are harmonised and comparable across countries. The disadvantage is that for some countries the data may be different from those published by national authorities.*

- Irish SMEs make up a similar proportion of the total enterprise landscape as their colleagues throughout the EU.

<sup>1</sup> <https://ec.europa.eu/docsroom/documents/26562/attachments/15/translations/en/renditions/native>

- With 71% of total employment in the country, Irish SMEs exceed their EU counterparts by 4%.
- The SME sector thus employs 42% of Ireland’s total workforce<sup>2</sup>.
- However, and most importantly from a payroll perspective, SME value-added in Ireland is at only 37% of national value-added, by comparison with 57% in the EU. This reflects the very high returns being made by MNCs in Ireland, which tend to skew expectations of what can be delivered by the domestic SME sector.

While we can, to some extent, ‘explain away’ the value-added gap by reference to our very large MNC sector in Ireland, ISME has for a long time argued for a new industrial policy to redirect national focus towards indigenous enterprises.

In 2015, the Revenue published an analysis<sup>3</sup> of corporation tax, payroll tax and employment income for Irish enterprises. While the contribution of the MNC sector in Ireland is very large relative to its size, the indigenous sector is far larger in absolute terms. Table 2 shows the 2015 contribution in jobs, payroll taxes, and employment income from foreign-owned MNCs. All three are very substantial, and the per capita income is obviously very high.

**Table 2: Payroll Foreign-Owned MNCs only 2015**

Range of Gross CT €	Number of Employments	Number of Companies with Positive PREM Payments	Value of PAYE/USC Payments €m	Value of PRSI Payments €m	Employment Income €m
1 - 20,000	39,323	767	315	173	1,249
20,001 - 40,000	10,651	195	114	62	431
40,001 - 60,000	6,679	113	72	40	276
60,001 - 80,000	15,944	93	97	39	383
80,001 - 100,000	7,309	80	96	49	335
100,001 - 200,000	28,365	200	244	135	953
200,001 - 500,000	47,397	208	413	214	1,541
500,001 - 1,000,000	44,361	135	381	215	1,508
1,000,001 - 5,000,000	74,979	186	678	371	2,633
5,000,001 - 8,000,000	12,057	34	172	84	585
8,000,001 +	49,285	171	722	347	2,471
<b>Total</b>	<b>336,350</b>	<b>2,182</b>	<b>3,304</b>	<b>1,730</b>	<b>12,363</b>

Source: Revenue analysis. Notes: CT payment amount is gross rather than net; the data exclude companies that had no CT liability or a negative gross CT payment in 2015.

The Revenue produced the same analysis for indigenous enterprises. While the per capita employment income is smaller, the overall contribution of indigenous enterprise is very evident. Indigenous businesses, on the 2015 figures:

- employ 72% of workers,
- pay 55% of payroll taxes, and,
- generate 60% of employment income in the state.

<sup>2</sup> <http://cso.ie/en/csolatestnews/pressreleases/2018pressreleases/pressstatementlabourforcesurveyquarter32017/>

<sup>3</sup> <https://www.revenue.ie/en/corporate/documents/research/corporation-tax-returns-2016.pdf>

**Table 3 Payroll All other Companies 2015**

Range of Gross CT €	Number of Employments	Number of Companies with Positive PREM Payments	Value of PAYE/USC Payments €m	Value of PRSI Payments €m	Employment Income €m
1 - 20,000	357,096	26,923	1,220	758	6,565
20,001 - 40,000	110,270	2,987	431	283	2,234
40,001 - 60,000	56,576	1,210	242	157	1,199
60,001 - 80,000	33,903	618	148	96	741
80,001 - 100,000	22,600	390	101	68	513
100,001 - 200,000	70,299	803	354	227	1,666
200,001 - 500,000	100,196	491	437	301	2,165
500,001 - 1,000,000	25,212	138	138	93	654
1,000,001 - 5,000,000	38,302	94	330	192	1,353
5,000,001 - 8,000,000	1,065	8	11	6	42
8,000,001 +	62,370	2,359	399	209	1,750
<b>Total</b>	<b>877,889</b>	<b>36,021</b>	<b>3,812</b>	<b>2,388</b>	<b>18,881</b>

Source: Revenue analysis. Notes: CT payment amount is gross rather than net; the data exclude companies that had no CT liability, or a negative gross CT payment in 2015.

In short, SMEs are of systemic importance to the Irish economy, which is why, we presume, you have sought our views on your enterprise document. We believe that the small enterprise model is the most suitable foundation for a sustainable United Ireland economy.

### The Economic Critique:

Regarding the study you have cited in your paper, *Modelling Irish Unification*<sup>4</sup>, Vancouver University 2015, while we agree with the broad thrust of many of the arguments made, we do not accept the detail of many of the conclusions, which we will return to below.

Having framed the unification debate in a social and economic context, ISME sees that your policy paper opens with the assertion ‘*Partition has been an economic disaster for Ireland, North and South.*’ While the localised effects of partition were devastating, particularly where local hinterlands were severed, the broad assertion that partition alone represented an economic disaster for Ireland does not stand up. ISME perceives many issues at play with the diverging economic performance between Ireland and Northern Ireland. In terms purely of population, while the establishment of the Free State in 1922 halted the precipitous decline in the population of the 26 counties post the Act of Union, it did not stop it. The population of what became Northern Ireland recorded modest increases in population from its 1911 low point; and recovered beyond its 1841 level to 1.8m in 2011. However, the Free State population continued to decline, albeit more slowly, from Independence onwards. It was not until the 1971 census that Ireland recorded a population (2.98m) that exceeded the 1926 population of 2.97m. The post-Independence population decline recorded in **Figure 1** below between the red lines amounted to some 154,000 people, 5% of the post-Independence population.

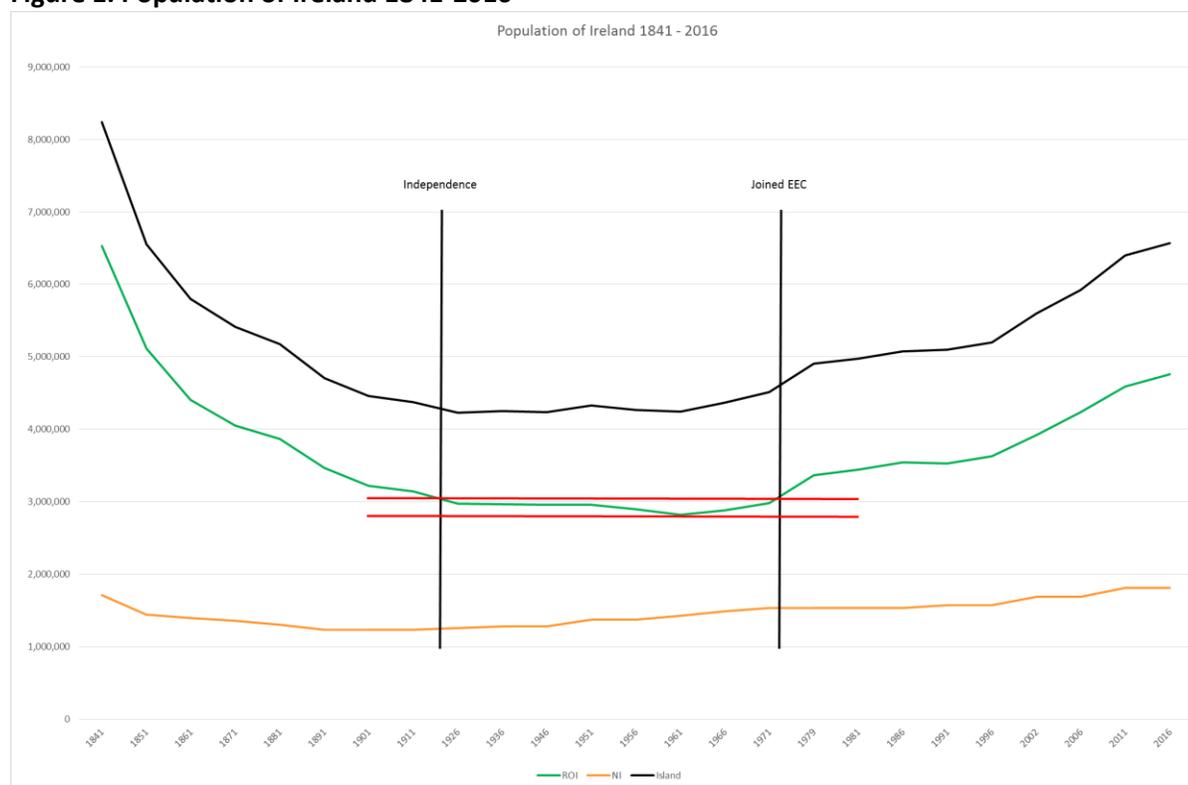
Political borders do not appear to influence economic activity and success per se. Business always finds a way. Irish GDP per capita was 58% that of Great Britain in 1922<sup>5</sup>. By 1938, this had declined to 49% of British GDP.

<sup>4</sup> <http://prcg.com/modeling-irish-unification/report.pdf>

Superficially, the argument could be made that partition was causal. However, The Control of Manufactures Act 1932 is more commonly and reliably cited as the cause for this decline. It led directly to the establishment of the Park Lane brewery in London by Guinness, and the movement of a substantial proportion of Ford's manufacture from Cork to Dagenham. Three decades of economic stagnation followed.

By common agreement, it was not the entry into the EEC in 1973 that reversed Irish population loss and economic decline, it was the adoption in the 1960s of the 'First Program of Economic Expansion.' Significantly, this program moved Ireland away from a closed, anti-trade, protectionist economic policy to a more open, competitive, export-oriented one. ISME feels this is most important in the consideration of a United Ireland economy. Economic policy is not a matter of dry social science; it impacts directly on the health, wealth, and size of the population. Economics matters in a very profound way for society as a whole.

**Figure 1. Population of Ireland 1841-2016**



Note that the slope of the graph in Figure 1 is misleading, because pre-independence censuses ran every 10 years, as opposed to a post-independence gap of five. However the numbers are clear: post 1961 Ireland increased its population at a rate (35,000 per year) almost as significant as it lost it post-famine (48,000 per year). Protectionist, inward-looking economic policies have been tried before, and *do not work*. They consigned two generations of post-independence Ireland to emigration. ISME does not want to see these policies again.

<sup>5</sup> [http://www.finfacts.ie/Irish\\_finance\\_news/articleDetail.php?Ireland-s-national-income-per-head-at-56-of-Great-Britain-s-in-1922-583](http://www.finfacts.ie/Irish_finance_news/articleDetail.php?Ireland-s-national-income-per-head-at-56-of-Great-Britain-s-in-1922-583)

Hopefully you will understand, if not necessarily agree with ISME, that economic policy on the island is relatively more important for the prosperity of the inhabitants than is the presence of a land border running through it. Therefore, and with regard to the assertions made in the paper, we would comment as follows:

1. **Partition is bad for business:** While it stands to reason that a domestic market of 6.6m people would present greater market opportunity than the current situation, it would also increase competition. The fact that ROI and NI are (currently) trading goods and services freely within the EU means that the cross-border barriers to trade that existed heretofore are largely gone. We accept that Brexit will alter this fact; but on a status quo basis, we cannot state definitively that the border is bad for business in the way it was before the advent of the common market.
2. **A United Ireland will Transform the Border Regions:** The border in its current manifestation is largely porous, invisible, and irrelevant to the conduct of personal and commercial life. There are no material 'barriers to trade' that have not already been overcome. An ardent Brexiteer could, just as logically, suggest that a reintegration of Ireland into the UK post Brexit would also result in border transformation. Some have actually suggested this. We do not see the removal of the border alone as a transformative event for border regions.
3. **A United Ireland Means a Balanced Economy:** ISME simply cannot accept this assertion as valid. Regional balance is something all economies seek to achieve, including ROI, yet it is difficult to achieve within ROI. Within the UK, NI is one of the poorer-performing regions;<sup>6</sup> while it has the lowest unemployment rate, it also has the lowest *employment rate*, the second-lowest median weekly earnings, the highest number in public sector employment, and, most worryingly, the highest net fiscal transfer per head, at £5,347 per annum. In ROI, the Ireland 2040 plan commits the Government to '*replace the concept of balanced regional development with the idea of effective regional development...*'
4. **A United Ireland Means Greater Investment:** Again, we do not accept such a broad-brush assessment as proven. Indeed, ISME has long argued for a comprehensive review of indigenous industrial policy for Ireland, which we believe is far too focussed on foreign multinationals. But the notion that a single agency, replacing the IDA, InvestNI, Enterprise Ireland and InterTradeIreland would automatically result in increased inward investment is wishful and fanciful at best. The IDA and EI are excellent at what they do. It is not the agencies with which we take issue. It is our *national industrial policy* which ISME finds deficient. ROI is already one of the most successful locations for inward investment in Europe. To suppose that this success would be further compounded by reunification does not make sense to us.
5. **A United Ireland Means Increased Exports:** Again, and other than the pro-rata increase we would expect from having an industrial base some 35% bigger, we fail to understand how increased exports would flow from reunification alone.
6. **A United Ireland Means Stronger Research and Collaboration:** As your paper mentions, our third-level institutions already cooperate cross-border, and could do more. Whether the existence of the border is a limiting factor in this regard is a moot point. The highest-placed university on the island in the QS world university ranking is Trinity College Dublin, in 104<sup>th</sup> place. Queen's University Belfast is at 180<sup>th</sup> place, and the University of Ulster is below 600. Finding a sustainable funding model for the Irish university system will be many times more important for the tertiary education system than will be reunification.
7. **A United Ireland will Strengthen Key Sectors:** As the quoted InterTradeIreland research shows, there is particular opportunity evident in certain key product and service sectors on the island of Ireland. What the study did not suggest was that reunification was a prerequisite for any of them. As with the trade

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<sup>6</sup> <http://researchbriefings.files.parliament.uk/documents/SN06924/SN06924.pdf>

figures you quote, the key issue is that east-west (i.e. NI-GB and ROI-GB) trade flows are *both* larger than ROI-NI. We therefore have the opportunity to exploit the synergies that exist in key sectors *now*.

8. **Delivering a Strong United Ireland Economy:** Again, and not to labour the point, but ISME does not believe that reunification is, of itself, the sole prerequisite to '*enable sustainable growth, deliver meaningful employment, facilitate balanced regional development and provide greater income equality.*' While these benefits might indeed follow a United Ireland, they will not follow simply because of a United Ireland.

To summarise our issues with your United Ireland paper, we believe the notion that strong economic benefits will flow to an all-island economy, and an all-island society, *simply and solely because of reunification*, to be entirely bogus wishful thinking. The notion is also disproven by history:

- The reunification of Germany in 1990, while carried out in the most benign and advantageous manner possible for the Germans in the former GDR, has still not brought 'East German' output to within 70% of 'West German' output. And Germany has poured fiscal transfers into the region for the last 28 years.
- The *Risorgimento* that produced the modern Italian state in the mid-19<sup>th</sup> Century has not resulted in a uniform, united Italy; which retains enormous regional disparities. The secessionist movements in Liguria, Lombardy, and South Tyrol are strongly influenced by the perception of excessive transfers to the south of the country.
- Similarly, the secessionist movements in Catalonia and the Basque Autonomous Community also have a strong economic component to them: Both enjoy a per capita GDP ahead of their compatriots in the other Spanish regions, into which they are net contributors. Despite the high degree of autonomy they enjoy within the Spanish federation, they both have strong (majority?) support for secession. We understand that Sinn Féin strongly supports both secessionist movements.

The parallels, and dangers, that the transfer of a relatively impoverished and transfer-dependant Northern Ireland into a United Ireland would present are obvious. While most citizens in ROI voice constitutionally nationalist sentiments towards Irish reunification, ISME suggests that to *presume* this sentiment would be borne out by a referendum would be folly.

### **The presumption of unity:**

The Good Friday Agreement of 1998 resulted in a constitutional amendment which removed the old Articles 2 and 3 of the 1937 Constitution, and replaced them with Article 3.1 as follows:

*It is the firm will of the Irish Nation, in harmony and friendship, to unite all the people who share the territory of the island of Ireland, in all the diversity of their identities and traditions, recognising that a united Ireland shall be brought about only by peaceful means with the consent of a majority of the people, democratically expressed, **in both jurisdictions** in the island. Until then, the laws enacted by the Parliament established by this Constitution shall have the like area and extent of application as the laws enacted by the Parliament that existed immediately before the coming into operation of this Constitution. [Emphasis ours]*

Beyond the simple, blind assumptions that certain economic virtues would follow Irish reunification, which in any case could only be validated post hoc; ISME believes that the desire for reunification in both Irish jurisdictions cannot be presumed to exist by proponents of unity. In our view, those who wish to see Irish unity must actively foster a positive attitude and drive towards it amongst both communities. Recent European history suggests that to do so would be unwise.

Like the example of German reunification above, there had always been a presumption that Greek Cypriots would take any opportunity to end the partition of the island imposed after the Turkish invasion in 1974. Such an opportunity arose in 2004 under the 'Annan Plan' with the accession of the Republic of Cyprus to the EU. While the Greek Cypriot majority had always been the most vociferous advocates for unity since the 1974 partition, they rejected the 2004 referendum which would have reunified the island by an overwhelming 75% against. In contrast, 65% of Turkish Cypriots voted in favour of the reunification, despite the fact that many Turkish settlers would have had to cede property occupied by them since 1974, and despite the fact their octogenarian president, Rauf Denktaş, had called for a 'no' vote.

There has been much international dissection of the 2004 vote by the divided community of Cyprus. In looking at the Greek Cypriot rejection in particular, some commentators suggested that those voting against the Annan plan assumed a better deal would be put on the table following rejection. Others felt that the treatment of land and settlers' rights was to blame. However, the relative opinions of the Turkish and Greek Cypriot communities are not the proximate issue here. The relevant issue is the fact that the greatest proponents of unity (the Greek Cypriots), and the previously greatest opponents of unity (the Turkish Cypriots) reversed their positions in a free and fair referendum.

ISME therefore considers it presumptuous in the extreme for anyone to assume that the two polities in Ireland would simultaneously vote in favour of a united Ireland, without an overarching strategy to ensure both communities perceived 'gain' in such a vote. We therefore suggest that anyone aspiring to the peaceful reunification of Ireland must direct their energies at the securing of affirmative political, social, and economic buy-in of both polities on the island. All must perceive gain, even if they perceive different gains. ISME will leave the political and social aspects to others, and confine ourselves to the following economic observations:

1. While those advocating retention of the Union in NI frequently cite the extent of social transfer, we do not believe that this is sustainable in the long run. The tensions regarding application of the Barnett Formula in NI,<sup>7</sup> which pre-existed the Brexit vote by three years, are likely to resurface, as NI is 90% dependent on the 'Block Vote.' Although it appears that a significant number of unionists voted in favour of Brexit, they appear to have done so on the basis that Westminster would back-fill any loss of EU transfers. Such transfers cannot be taken as a given into the future.
2. Whatever the likelihood of the ongoing stability of the Barnett Formula, the ROI taxpayer could not afford to shoulder the quantum of the current transfer to NI, or anything like it. We therefore suggest that the continuance of, or support for, economic policies which require maintenance of this level of transfer, are essentially partitionist in the long run. The NI economy must start to converge with that of ROI if reunification is not to be opposed by a majority of the ROI electorate.
3. Since any attempt to converge the economies post-reunification would inevitably be portrayed as 'austerity' by those in NI opposed to a United Ireland, it is essential to the success of the reunification process that economic convergence *precedes* a United Ireland. It cannot follow it.
4. We believe that the Irish economic model, with relatively low business taxes, relatively high social transfers, and a medium state footprint, is more sustainable than that of the current NI economy, where state and semi-state employment comes to approximately 30% of total employment.
5. We consider that the outcome of a hard Brexit, external to the customs union, will have material impacts for the NI economy in particular.

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<sup>7</sup> [http://www.nicva.org/sites/default/files/d7content/attachments-resources/cee\\_fiscal\\_powers\\_report\\_2013.pdf](http://www.nicva.org/sites/default/files/d7content/attachments-resources/cee_fiscal_powers_report_2013.pdf)

## External Events:

‘Man plans and God laughs’ is an old Yiddish proverb summing our inability to foresee the impact of significant events. While many political parties in Ireland continue to plan for the peaceful reunification of ROI and NI, ISME suggests that external, unplanned, ‘Schumpeter’-style unpredictable events are far more likely to influence eventual outcomes than any ongoing political process.

The examples above of German reunification in 1990, and the rejected Cypriot reunification referendum in 2004 were not the culminations of long-term strategic plans in either society. In the case of Germany, reunification solely resulted from the collapse of the Soviet Union. In the case of Cyprus, the reunification referendum was purely the out-working of Cypriot accession to the EU. Locally unforeseen externalities were the initiators of the reunification process, successful in Germany’s case, rejected by the long pro-reunification Greek Cypriots in the case of Cyprus.

As to the external events that could prompt moves towards an Irish reunification, it is interesting to speculate:

- A vote for Scottish independence.
- A rise in English nationalism, with a decrease in regional economic transfers under the Barnett Formula.
- A Spanish-style increase in devolved powers to the UK regions, giving Stormont far more say in its own affairs.
- A materially negative post-Brexit impact on the agricultural or manufacturing sectors in NI.
- The rise of a centrist, or non-traditionally aligned political party in NI.
- Involvement of the UK in another large-scale international conflict which lacked popular (or regional) support.

However, the lesson to be drawn is that the social, political, and economic foundations for a successful reunification must be in place *before* reunification takes place. There is no point in attempting economic and fiscal rectitude *after* an externality occurs, since reunification would likely be blamed for any negative consequences of adjustment.

## Consistency of the Message:

Perhaps the greatest area of difficulty that ISME members had with the United Ireland paper was the consistency of the Sinn Féin message about enterprise contained within it. The United Ireland document is written in economic terms, sympathetic to the contribution of, and value added by, small businesses to Ireland. Indeed some of the sentiments are so pro-business that they could have been written by a member of the ISME National Council.

However, when we look at both Sinn Fein’s policy positions, but more particularly the contributions of its Deputies in Dáil Éireann and its private member’s bills, an entirely different picture emerges.

The ‘Putting SME’s First’ policy document dates from 2014. While ISME members would agree with its policy statements on upward-only rents, business costs and commercial rates, there is little else within it to suggest the party understands or is engaged with the problems of small business owners.

The party’s policies on income tax, USC, elimination of water charges, and elimination of property tax are inconsistent with maintaining a sustainable tax-base. Every objective economic commentator agrees that our tax

base has become dangerously dependent on two heads- income tax and corporation tax; yet Sinn Féin policy would increase rather than decrease this exposure to a fiscal crash. And of the bills tabled by Sinn Féin in the 32<sup>nd</sup> Dáil, not once was ISME asked for its views, despite the fact that the Extreme Weather (Miscellaneous Provisions Bill), the Banded Hours Bill, the Industrial Relations (Collective Action) Bill, the Trade Union Representation (Miscellaneous Provisions) Bill, and the National Minimum Wage (Removal of Sub-minimum Rates of Pay) Bill would all materially impact most small and medium enterprises.

Worse still, the [recent Dáil debate](#) on the Extreme Weather (Miscellaneous Provisions Bill) suggested that Sinn Féin deputies were not merely ignorant of the views of small business owners; but they impute malicious motives and intent towards employees to some employers. ISME acknowledges that this sort of Dáil contribution has an audience, but that audience is mostly among the voters for parties of the self-styled left, which do not cleave to recognisably socialist policies, and which command a level of popular support which barely exceeds the margin of error.

Sinn Féin is different. As a party which has partaken in the Stormont administration, and which seeks to hold office in the next Dáil, it must engage with those who employ *half the Irish working population*. ISME considers it highly likely that Sinn Féin will form part of the Government elected by the 33<sup>rd</sup> Dáil. Conscious of this, and the fact that only the SME sector has a realistic chance of counter-balancing the effects of a slimmed-down state sector in a post-reunification NI, I would politely suggest that it behoves you and the other deputies in Sinn Féin to start taking the views of those employers seriously.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Neil McDonnell', followed by a long, sweeping horizontal line that ends in a circular flourish.

**Neil McDonnell**  
**Chief Executive**  
**ISME, the *independent* business organisation**