



When it comes to Wikipedia references to Northern Ireland, one of the quirkiest has to be in an entry about Empress Catherine II on her journey to Crimea in 1787. Fast-forward to Enniskillen, July 2013 and the connection becomes clearer. Whilst Grigory Potemkin erected a fake portable settlement along the banks of the Dnieper River to fool the aforementioned 18<sup>th</sup> Century ruler, in 21<sup>st</sup> Century Fermanagh large images were put up in the windows of derelict shops during the G8 Summit to give the appearance of thriving businesses. Clearly, and understandably, Northern Ireland wanted to present itself in the best possible light.

Some argue that the story of Potemkin's efforts is greatly exaggerated, but the phrase 'Potemkin Village' has stuck. And it's one that has pertinence to Northern Ireland - and other economies - beyond a few high profile summer days three years ago.

Potemkin's approach prioritised image over substance. This is something that can work as a short-term strategy, but it can't be sustained over the longer-term, as the holes will soon appear.

Let's consider the analogy of a hypothetical hotel - Hotel Potemkin - adopting such a strategy. An attractive frontage, magnificent décor, and a grand entrance hall provide a first-class impression on arrival. Guests receive personalised, warm welcomes and are escorted to their 5\* bedrooms after a tour of the facilities. Many are amazed at the culinary delights served up in the dining room and marvel at the photographs of A-list celebs pictured with hotel management throughout the building.

Guests feel that they have discovered a hidden treasure. State-of-the-art spa facilities, impeccable service and Michelin starred cuisine. Best of all, the room rates and weekend packages are the lowest anywhere in the UK or Ireland, with some of the taxes charged by hotels elsewhere not applicable. (Indeed, this is the firm's key marketing strapline.) What's not to like!

Unbeknown to the guests, however, Hotel Potemkin is the most loss-making hotel within its group.

And paying guests soon discover that all is not as it first seemed. There is no Wi-Fi in the hotel and it is a struggle to get a mobile phone signal. There is no hot water in the showers, the toilets won't flush and the electricity in the rooms keeps tripping. The front of house staff and management apologise profusely, telling irate customers that a recently-arrived large party of guests used up all the hot water. The in-house electricians and plumbers are heard saying that they warned this would happen; but are quickly asked not to talk down the hotel.

The management's strategy is clearly not a viable long-term approach. They wanted to significantly increase occupancy levels, but the hotel didn't have the infrastructure to cope with demand. Investment in the basic infrastructure was consistently put off in preference for décor and furnishings, advertising and marketing. The rates charged to guests were neither enough to break even nor generate enough revenue to make the necessary investments. On returning home to their Wi-fi friendly homes, the guests are quick to give Hotel Potemkin poor reviews on Trip Advisor. They have realised that you get what you pay for.

Clearly, it wouldn't take long for Hotel Potemkin to go out of business. Similarly, an economy following this playbook would fall down the rankings in terms of economic growth.

Hotel Potemkin is clearly an extreme analogy, and no economy could ever operate with such disregard for fundamentals. But there are some lessons here for Northern Ireland (and elsewhere) as it seeks to further grow investment and rebalance the economy.

For one, history shows that we have a habit of brushing some issues under the carpet, in part because economic development strategies tend not to shine the spotlight all of the economy's weaknesses. New policies get pursued (e.g. lower corporation tax) but some of the older, more fundamental problems are accepted as facts of economic life. And if things are accepted, they tend not to be challenged and therefore aren't fixed.

One such issue that has effectively been accepted as a fact of economic life is our relatively very high levels of Disability Living Allowance claimants. We have also accepted no water charges as a given - but we are the only region of the EU that doesn't actually have them. Does this make us exemplars of best or worst practice? What is for sure is that it prolongs the inadequate investment in our waste and water infrastructure.

To some degree, to potential inward investors, we attract attention away from this lack of infrastructure investment in certain areas by highlighting investment in others, such as telecoms. Indeed, we do have world-class connectivity – for example data travels faster from New York to Northern Ireland than it does from the West Coast to the East Coast of the US. However, travelling from Belfast to Derry – remember these are our two main cities – would likely take longer than travelling a comparable distance between two cities in any other developed economy. We are at the heart of the internet superhighway, but it's one slow lane for large parts of the journey between our key economic centres.

Within the next five years, without adding new infrastructure, Northern Ireland won't have the capacity to meet demand for electricity. This is why an additional North-South Inter-Connector is urgently required. But yet this is an issue that currently seems to be too little discussed. Why is a more of light not being shone upon it? Similarly, £750million is required to bring Belfast's water and waste infrastructure up to the necessary standard. But we hear more talk about things like hosting major international events. We have the potential scenario of enticing additional inward investors but not actually having adequate fundamental infrastructure that they would take for granted. Functioning water and energy infrastructure are not an optional extra in anybody's book.

The fact is that we need to replicate our success with telecoms infrastructure in other areas. But we need to be prepared to meet the bill. When it comes to infrastructure – as with hotels – you get what you pay for. At present (this financial year), Northern Ireland's average household rates bill is £842 – just 54% of what they are paying in Wales (£1,550), which includes water charges. Scotland's average is £1,337.

The more image driven (dare we say superficial?) aspects of achieving a successful economy – the marketing activity, the attention-grabbing incentives and the major events – can be great and have their place. But we also need to be 'super-fiscal' – that is, we need to raise

the revenue and spend it wisely. In short, Potemkin Economics must be consigned to the history books.

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