A New Economic Model

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Foreward

Change in our society and economy is a constant. The choice is whether we seek to manage and influence it or leave it to chance. There is no doubt that the two economies on the island of Ireland have come a long way from both the troubles and the economic stagnation of the 1980s. However, the economies on our island can and should do better. The uncertainty in the global economy has only further highlighted that a change of direction, which was always necessary is now more urgent.

We argue for a New Economic Model. One that is achievable and realisable and one that will bring meaningful change to all workers, businesses and society at large. The choice is political. It is down to what policy agenda we choose to pursue and not chance. We need to give hope to the next generation of workers that they can have a decent and fulfilling life.

The NEM is based on 4 pillars from which all policies should flow. These pillars are interconnected and form a virtuous loop.

- A more productive dynamic economy, one where the potential of all workers and business is unleashed.
- A focus on more better jobs, not just any job. We cannot have a dynamic productive economy that works for all based on poor jobs and poor working conditions.
- Economic security. We know growth will be slower in the future and change will be a constant. Not every job can be saved nor needs to be saved. But households and workers need to be protected and supported as they upskill and diversify into new careers and job roles.
- Economic resilience. We need a new economic paradigm, one that is not based on boom and bust and that spends in times of plenty and cuts deeper in times of recession.

Congress as the representative voice of workers on the island of Ireland has developed this New Economic Model in conjunction with NERI as our serious contribution to the debate about how we want our society to look and what type of economy we aspire to for our children and grandchildren. We intend to relentlessly promote and popularise this progressive vision of how this island can and should be over the next number of years and beyond.

We will only support policies from governments and executives that exclusively underpin the 4 related pillars mentioned above. This policy paper emerged from a motion of our BDC in 2023 and has been endorsed unanimously by the Congress Executive. We now look forward to bringing the ideas in this new and progressive policy to all workers north and south to ensure the voice of organised labour on this island is at the centre of necessary economic and societal change.

Owen Reidy
General Secretary

Irish Congress of Trade Unions

INTRODUCTION: An Era of Instability and Uncertainty

Ireland is entering into an era of instability and uncertainty. While the fundamentals of the economy may look good on the surface, they conceal significant weaknesses which global economic turbulence will ultimately expose.

Climate change, technological disruption (AI and automation), ageing demographics, de-globalisation (tariffs, economic nationalism), increasing geo-political conflicts and a low-growth future: these trends and events are all impacting on the Irish economies at the same time resulting in economic and social uncertainty and, potentially, stagnation and instability.

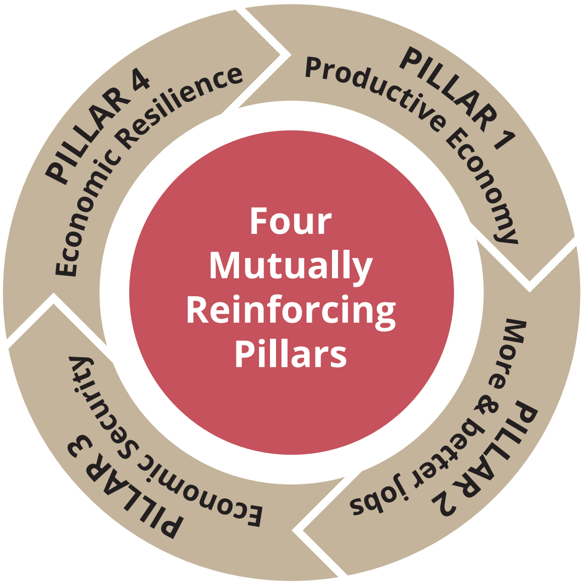
Meeting the Challenge

In just a few decades, the island of Ireland has been transformed. The Republic of Ireland (ROI) has moved from an EU laggard to a high-income economy. A large part of this transformation has been the integration into an increasingly integrated European Union and significant advances in people's skills and education. In Northern Ireland (NI), we moved from conflict to, still incomplete, self-governance based on power-sharing. This has led to progress in life quality and economic performance.

But as we move into an era of instability, we need a new economic model as the two Irish economies are not presently equipped to meet the challenges ahead. This is especially so when considering the poor productivity performance of domestically-owned sectors, the ROI's over-reliance on US Foreign Direct Investment (FDI) and significant infrastructural deficits throughout the island.

ICTU's proposed New Economic Model (NEM) breaks from the prevailing low-road model of economic development, based as it is on minimisation of the social state through privatisations, a laissez faire attitude to intervention, and a low-tax regime;

pursuit of deregulation; de-prioritisation of climate justice; and conflation of wage suppression with 'cost competitiveness'. The NEM attempts to build on the current strengths of the two economies and promising embryonic changes already taking place, repurposing existing policies and institutions. It seeks to resolve the current deficits in our economic and social infrastructure. To achieve transformative change we propose a new framework that outlines those necessary reforms which are feasible in the current politic-economic order.[i]



The NEM is grounded in four pillars:

Pillar 1: The Productive Economy: This is about the pursuit of inclusive and sustainable growth. It emphasises the importance of knowledge, new ideas, skills, and investments in productive infrastructure and in research. It also encompasses new institutional practices such as horizontal innovation through democratising workplace relationships and promoting best enterprise practice.

Pillar 2: More and Better Jobs: This is about the pursuit of full employment in decent jobs. It emphasises policies that protect the labour market from volatile swings, and that maximises the quality and quantity of labour supply and demand. It also encompasses the promotion of quality employment and increased participation, and the phasing out low-road workplace practices.

Pillar 3: Economic and Social Security: This is about the pursuit of economic security throughout people's lives, reducing inequality and abolishing poverty and deprivation. It emphasises the importance of decent wages, a proper social safety set and the provision of universal basic services.

Pillar 4: Economic Resilience: This is about the pursuit of fiscal, price and climate stability. It emphasises an approach designed to provide the conditions for economic dynamism, increasing productivity and creating a new foundation of resilience from shocks.

The NEM seeks to integrate proposals to promote the productive economy, employment quality, economic security and economic resilience in a manner that mutually reinforces each pillar in a coherent framework. This is the way we can unleash the potential of the market economy to the benefit of all social groups. These proposals are outlined more fully in NERI Working Paper 76 'New Economic Model: A Framework for Progress in the 21st Century'.

Pillar 1: The Productive Economy

The NEM devises a three-fold framework to develop the domestic economy.

- Implement policies that enhance the economies productive and innovative capacities – increase investment in education, research and development, and public infrastructure)
- Implement policies that target specific sectors, activities, and technologies.
- Introduce policies that democratise enterprise activity. This leverages the human capital (education and skills of the workforce) in order to promote horizontal innovation.

(a) The Domestic Market Sectors

We are entering a low-growth future due to the ageing of the population and the slowdown in growth of the working age population. In the pre-crash period, average annual growth rates per capita in ROI was 3.9%. Now, the Government projects growth to average only 1.6% annually out to 2030 – and this doesn't factor in risks arising from tariffs and reduced global trade. In NI there is a similar trend. GDP per capita growth rates have fallen even further mirroring a concurrent decline at UK level – from 2.4% pre-crash to 0.7% between 2020 and 2022.

There are serious flaws in our domestic economies that render them ill-equipped to meet the challenge of a low-growth, uncertain future. Across three key dimensions, ROI's domestic enterprise base performs poorly compared to our EU peer group: productivity,[ii] business investment and goods exports. [iii]

Comparative Performance of Republic of Ireland and EU Peer Group Domestic Enterprise Base			
	Real Productivity per Hour: 2022 (€)	Business Investment (% of GDP)	Goods Exports as a % of GDP: 2023
EU Peer Group (Mean)	44.80	8.5	19.7
ROI	35.38	4.3 (GNI*)	9.1 (GNI*)

Similarly, NI compares very poorly to that of Great Britain in productivity, business research and development and exports.

Comparative Performance of Northern Ireland within the UK			
	Productivity per Hour: 2022[iv]	Business R&D as a share of GDP[v vi]	Exports as a share of GDP: 2022[vii]
% of UK average	86.8	71.1	69.3

The NEM addresses these deficits by prioritising investment in skills (education), in productive infrastructure and in research & development. It also emphasises the need to democratise the enterprise base and socialising enterprises' relationships with the state.

We start at the enterprise level, work our way up to a sectoral focus, and finish with the foundational economy-wide policies that will stimulate the economy's productive and innovative potential.

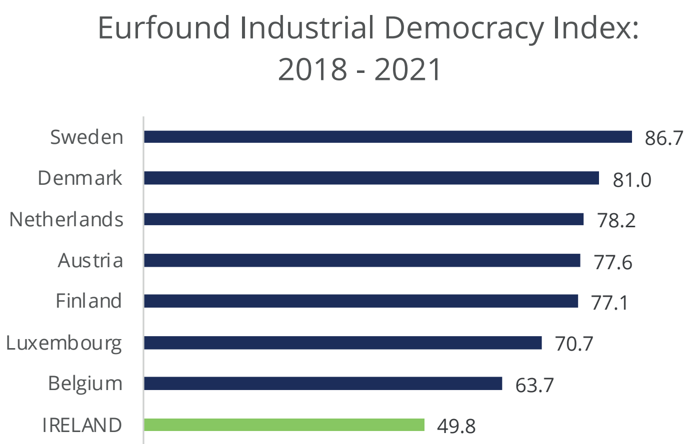
ENTERPRISE LEVEL: Workplace Democracy and 'Good' Companies

At the enterprise level there are two primary (but not exclusive) means to reversing the poor performance of the Irish domestic economies.

1. Workplace Democracy

To mobilise human capital – the skills and knowledge of Irish workers – **we need to radically extend democracy in the workplace**. ROI fares poorly in terms of democracy.

[viii]As a start, we need to unequivocally vindicate employee collective bargaining rights and remove the employers' veto over employees exercising that right. Numerous academic studies and surveys conclusively show that collective bargaining boosts productivity. This is primarily due to collective bargaining's capacity to solve problems in production, produce new ideas, stimulate innovative activity, and avoid management group-think. Business owners and Government minister who deny employees the right to bargain are undermining enterprise efficiency and national competitiveness. They are a barrier to an innovative, dynamic economy.



Workplace democracy doesn't stop at collective bargaining. It embraces a number of other initiatives:

- board level employee representation through the election of worker-directors;
- collectively agreed employee participation schemes;
- enterprise councils (based on the continental experience with Works Councils) to co-manage the firm;
- labour-managed enterprises and special designations for stakeholder firms.

All these have been shown to promote productivity and enterprise efficiency. This is not surprising. Excluding women and men who have accumulated years of experience, knowledge and skills degrades business performance. Therefore, democratic governance is not an 'add-on'. Different forms of workplace democracy are indispensable elements in driving a competitiveness agenda. However, ROI ranks well below our peer group in terms of democracy in the workplace. This is creating an increasing burden on the productivity economy.

Building on the statutory right to employee collective bargaining (employers already have the right to bargain collectively) there should be wide-scale experimentation in new democratic governance models. Enterprises willing to participate in democratic pilot projects should be publicly resourced. Evidence-based conclusions would then inform the public debate (as occurs with 4-day working-week experiments). This could be given institutional form by re-establishing the National Centre for *Partnership and Performance* as the sponsor for democratic initiatives – designing, monitoring and assessing these pilot schemes.

2. Good Companies

We need to identify strategies to incentivise **'Good Companies'** and to commensurately shift resources away from low-road employers. Good Companies:

- Integrate stakeholders into firm level decision–making (collective bargaining, Board of Directors membership, employee participation, enterprise councils, etc.);
- Pursue efficiency wages and working conditions; in particular, work-life balance and reduced working hours;
- Privilege re-investment – in new technologies and expansion, especially export markets - over value-extraction (dividends, share buy-backs);
- Invest in skills, training and career progression;
- Pursue decarbonisation.

The goal of the Good Company strategy is to, over time, crowd-out low-road employers in the market economy and crowd-in good employers.

Verifiable criteria as to what constitutes a Good Company could be agreed by relevant stakeholders and the Government, with provisions for monitoring and compliance. This would open up a special suite of supports for companies that meet these criteria:

a) prioritisation and preferential weighting in public procurement contracts;
b) special grant-aiding for start-up and incumbent firms; including in-kind supports such as foreign market research
c) de-risking investment through equity funding from the state;

There could be special supports for research and development, for retrofitting and installation of renewable technology, for digitalisation – new supports for companies from the very small to the very large would gradually help instil high-road practices in our enterprise base.

Good Company criteria would not just be reserved for private sector companies: co-determination companies, management buy-outs with employee participation, benefit corporations (for-profit firms with legal duties to a range of stakeholders), public enterprise (including municipal and local government enterprises), non-profits and mutuals, community-owned and labour-owned/labour managed firms; all these and other forms of enterprise would be supported through the Good Company criteria. We need a plurality of different enterprise forms to boost both economic and social activity.

Radically expanding democracy in the workplace and promoting 'Good Companies' can unleash the potential of our domestic market economies. It involves doing business better, investing in people's skills and know-how, and redirecting subsidies away from low-road employers.

SECTORAL LEVEL: Sectoral Taskforces

We need a *'negotiated'* strategy for the economy to promote a competitiveness and productivity agenda. In essence, an evolving informed consensus between the state, employees and employers. Each stakeholder has a critical role, and consensus is best achieved at sectoral level where sector-specific issues and challenges can be assessed across a range of areas including:

- Wages, profits and re-investment;
- Decarbonisation and introduction of Artificial Intelligence and other transformative technologies;
- Expansion into foreign markets (where applicable);
- Supports for 'Good Companies' with targeted subsidies;
- Local and regional difficulties and strengths;
- Skill shortages.

The 2020 Programme for Government committed to establishing Sectoral Taskforces. These were to include the relevant stakeholders (state, employees, employers, civil society) engaging with the relevant Minister. While this proposal wasn't implemented it could become the basis for a full-blown tier of properly-resourced, full-time sectoral planning agencies based around economic sectors (e.g. food manufacturing, retail, hospitality, freight transport).

In NI, the Department for the Economy launched a series of sectoral action plans for 6 key industries. These sectors were chosen on the basis of public consultation and stakeholder engagement and are considered to be the industries with greatest growth potential in the NI economy. However, sectoral planning is not just about developing niche high growth sectors. It is also about tackling those sectors that are underperforming and therefore holding the economy back from its potential.

Policy example - The Impact of AI: Artificial Intelligence has the capacity to boost productivity. However, it is estimated that up to 30 per cent of jobs may be at risk with significant variation from sector to sector. The risk of employment substitution is greater for women and younger people. The introduction of AI should not only be negotiated at enterprise level through collective agreements. It should be a central subject for discussion and strategy at sectoral level. It's not just administrative, secretarial, sales and customer service occupations that are at high-risk. Many professional roles could also be negatively affected. The introduction and roll-out of AI needs to be 'negotiated' at enterprise and sectoral level to ensure that gains can be maximised and losses minimised. There will also need to be a parallel programme of AI skills development across the workforce to ensure workers are properly equipped to manage the new technological environment.

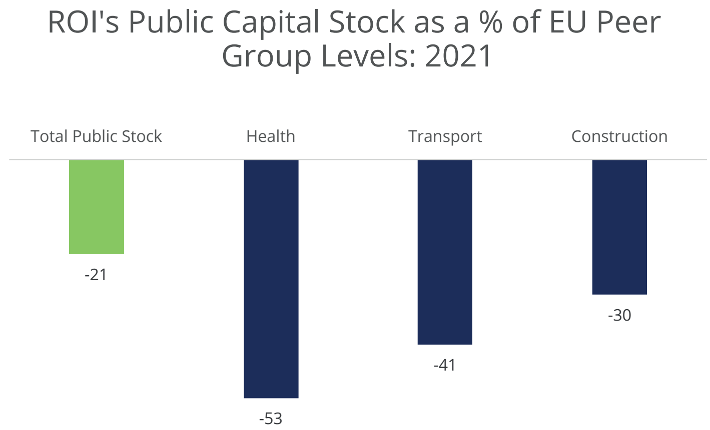
The work of *sectoral taskforces* should not be treated as box-ticking exercise, with meetings every few months dominated by the government reporting on what they are doing. These need to be deliberative and learning bodies that can make recommendations within the new parameters of workplace democracy and 'Good Companies', enabling sector-specific industrial policies.

(3) Investment-Based National Policies

We need to embed productivity-enhancing policies across the economy; namely infrastructural and human capital investment and much higher levels of spending on public research and development.

1. Productive long-term infrastructural investment.

Both Irish economies suffer from poor infrastructural quality. A first step is to acknowledge how far behind we are in terms of infrastructure. We need to build a consensus among all parties and stakeholders around a long-term strategy to close this gap in order to boost our productivity potential.



The IMF and the Fiscal Advisory Council [ix] have found that in areas of housing, transport, health, energy and water ROI's infrastructural quality falls well below other high-income EU economies. In the health sector, public capital stock (the accumulation of past investment) in ROI falls 50% below our peer group average. These deficits impose considerable costs on enterprises and the economy.

In NI the cuts to public capital spending since 2010 amount to £3.1bn of lost public investment. A report for the NI Audit Office highlighted a lack of investment in water infrastructure that could significantly curtail economic growth in the future. Even if current plans were to be fully funded, the water network would continue to be an *'economic constraint in Northern Ireland in 2027 and beyond'*.

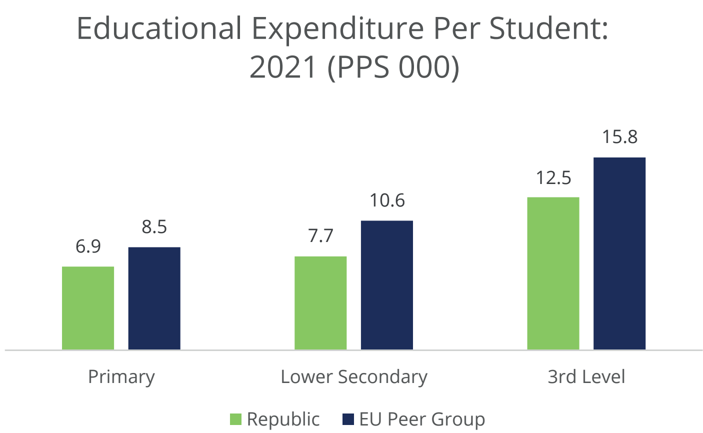
We need to plan the expansion of our various capacities (e.g. labour skills, construction productivity, project management, and planning reform) in order to build this infrastructure – this would be a critical component of the sectoral planning envisaged above. This will involve both increasing immigration and shifting the skill-set of the workforce towards construction and engineering skills. We require a substantial, sustained and smart investment programme – encompassing public, private, educational and green investment. In ROI a prudent use of 'windfall' corporate tax receipts can be used to finance much of this investment.

Pillar 4 examines how fiscal and price stability can underpin this infrastructural drive.

2. Human Capital and Public Research

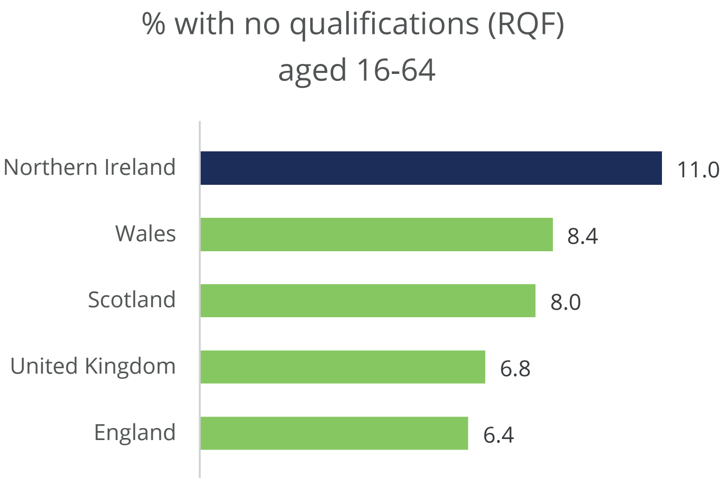
ROI has low levels of public investment in education, R&D and in-work training relative to other high-income European economies. This under-spend is a false economy that makes it extremely difficult to re-orient the domestic economy towards more productive higher value-added activities. In ROI we find:

- **Low levels of educational investment per pupil**. In 2021, educational investments at primary, secondary and 3rd levels were at the bottom of our EU peer group level. Expenditure would have to increase by 24% (primary), 27% (3rd level) and 38% (lower secondary) to reach peer group averages; [x]
- **Low state and higher education investment in research & development**,[xi] though business investment is above our peer group average, this is distorted upwards by the presence of multi-nationals;
- **Falling expenditure** in formal structured training in export-facing domestic companies (measured as a percentage of payroll expenditure).



NI has suffered from years of low-skills attainment, a problem that stretches from post-primary education right through to workplace-based training.

- In NI, **per-pupil funding** reduced in real-terms by around 11% from 2011 to 2022
- NI has the **highest % of people aged 16-64 with no recognised qualifications**. 12.3% of people have no RQF qualifications in NI which is almost double the UK average which is 6.6%[xii];
- NI has the **second lowest level of Higher Education research and development** spending as a share of GDP[xiii];
- In 2023, **3.8% of workers in NI received job-related training** compared to 8.3% of the workforce at UK level[xiv].



Reversing this underperformance will require a considerable investment at all levels of education, both formal and in-work. However, just as with investment in physical assets (infrastructure), the medium-to-long-term returns to the economy would be considerable.

3. Enterprise-Supportive Banking Sector

The establishment of a properly-resourced 3rd force public bank in ROI would not only provide competition in a market that is dominated by a duopoly, it could also provide another source for investment capital. The Irish Government had the opportunity to transform AIB into a fully-fledged public bank but, instead, sold off its shares.

ROI still has the possibility of establishing a public retail and business bank through its holding in Permanent TSB. A public bank has considerable advantages:

a) It is not bound by short-term shareholder value. This frees the bank to engage in longer-term lending with patient capital;
b) It can be mandated to lend into the productive economy (with particular emphasis on green investments); steering away from property and financial products;
c) It can engage in relationship-based lending based on knowledge of local markets and individual borrowers (advantaging SMEs);
d) Public banks can be subject to greater public accountability;
e) Its governance could include stakeholders - employees, employers, civil society, and public-interests' appointees on the Board of Directors.

Further, consideration could be given to merging the Strategic Banking Corporation of Ireland, and even Microfinance and the Strategic Investment Fund into a fully-fledged 3rd force public bank.

In the UK there have been attempts at state-backed finance providers through both the Green Investment Bank and the British Business Bank (BBB). While the Green Investment Bank was ultimately privatised in 2017, the BBB has achieved some success in providing access to finance for SMEs with NI having seen some of the best improvements. However, as it is, the BBB is only an indirect provider of finance with no direct relationship to the firms it supports. Reforming the BBB and devolving some of its lending functions to regions would greatly improve its reach and its impact.

PILLAR 2: Employment Quality and Participation

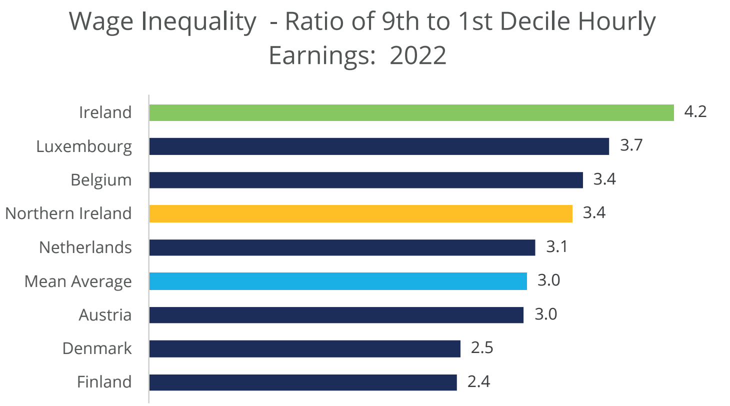
Employment quality is an indispensable and significant contributor to productivity. Put another way, we cannot build a competitive and productive economy on the back of low wages and poor working conditions. As one recent study (among many) put it:

> *'Wage growth exerts persistent and direct positive impact on labor productivity. The effect is confirmed for large changes... Promoting wage growth boosts productivity...higher wages prove to stimulate innovation.'*[xv]

On the surface the labour market on the Island of Ireland looks be in great shape. There was a rapid recovery following the years of austerity and recession. And since 2019, covering the Covid and cost-of-living crises – ROI increased employment by 18% compared to a 3% growth in the EU. ROI's overall employment rate exceeds EU levels while NI has the lowest unemployment rate of almost any European region, 1.6% compared to a UK average of 4.5% in the first quarter of 2025. The number of jobs in NI has increased by over 14% in the last 10 years.

However, beneath the surface our labour markets, are marred by inefficiencies, inequities and barriers to productivity and innovation. This arises from poor employment quality and continuing difficulties accessing the labour market experienced by certain groups.

- In ROI more than one-in-five employees are officially categorised as **low-paid** (i.e. earn less than two-thirds of the median wage).
- **Wage inequality** in ROI is one of the highest in the EU. NI, which has a much lower wage profile, still remains mid table within this group[xvi];



- **In-Work Poverty:** In ROI, over 12% of in-work households are officially categorised as living in enforced deprivation, rising to nearly 22% among households with one person working. In NI the majority of those in relative poverty belong to households where someone works. In total, 155,000 working-age adults were in relative poverty before housing costs with 53% in working households and 47% in workless households;
- The **gender pay gap** in ROI is nearly 18% in the private sector – this compares to a public sector pay gap of less than 4% where collective agreements are near universal.[xvii] In NI the gap is 8% in the public sector compared to 16% in the private sector;
- Bogus self-employment, temporary contracts, under-employment – these all contribute to high levels of **precariousness** with the proportion of temporary agency workers working in ROI's economy being one of the highest in the EU[xviii];
- **Employment Protection:** ROI has a low level of protection against exploitation in the workplace (easy dismissal regulations, low protection for those on temporary contracts). The UK falls even further behind.

Index of Strictness Of Employment[xix]			
	Republic of Ireland	United Kingdom	EU Peer Group Mean Average
Individual and Collective Dismissal	2.13	1.9	2.4
Temporary Contracts	0.86	0.41	1.89

- **Working Time:** Employees in ROI work longer hours than most employees in the EU. 125,000 employees work an average 50 hours or more per week. Workers in NI work on average half an hour more per week than workers in England and Wales and an hour longer than workers in Scotland. Over the long-term, the number of people with two jobs has doubled in percentage terms.

One of the strengths of our economies over the last number of years has been the ability to generate employment. The NEM builds on these strengths to not only create jobs, but to create quality in those employments in order to boost productivity, enterprise efficiency and living standards.

1) Employment Quality

The OECD states:

> *'Job quality plays a vital role in our overall quality of life. Fair wages, benefits, and good working conditions enhance worker well-being, while also **improving productivity and innovation**. Countries must therefore prioritise job quality as well as increasing overall employment. (bold own)'*[xx]

The National Economic and Social Council make a similar argument.

[xxi] *'Potential impacts include improved productivity; enhanced financial performance; improved service and product quality; increased innovation; greater employee engagement;*

improvements in recruitment and retention; enhanced customer service and organisational reputation. . . reducing the number of low-paid employees can boost an enterprise's net business income. . . by reducing both the productivity losses and additional recruitment, administrative and training costs associated with high staff turnover . . . ***increasing the pay of low-skilled workers can generate a range of productivity and organisational performance benefits****. . . '. (bold own)*

Launching the Good Jobs Employment Bill in the Northern Ireland Assembly in July 2024, Minister for the Economy Connor Murphy stated that:

'Ensuring that workers and their families can rely on a decent and secure income is important in its own right. Good Jobs also help to attract and retain people in the workforce, thereby reducing our high level of 'economic inactivity'. And there is compelling evidence that 'Good Jobs' boost workers' productivity and health.'

It is sometimes claimed that employment quality constitutes a cost to business. However, the reverse is true when considered at an economy-wide level. Poor wages and workplace conditions are actually a drag on productivity, harming enterprise performance and undermining economic resilience. Workers in such jobs have little incentive to try their hardest or to invest their efforts in finding workplace efficiencies.

In Pillar 1, we saw that the extension of workplace democracy and the promotion of Good Companies facilitates productivity and economic growth. They are also critical policies in promoting employment quality.

Introducing these two measures will boost employment quality with all the household and business benefits they entail. There are, however, areas where government policy can actively and directly promote employment quality:

- **Raise the minimum wage in ROI to the low-pay threshold over a period of years**. This would mean going beyond the 60% percent of median wage target set by the government for 2026 and increasing the minimum wage to 66% percent of the median wage. This is the policy recommendation of the Low Pay Commission:

> 'The LPC also recommends that after the 60% of the median wage target has been reached . . . the LPC should assess the economic practicality of gradually increasing the targeted threshold rate towards 66% of the median wage and make recommendations accordingly.'

Raising the minimum wage to 66% of the median wage would better ensure that it becomes a genuine hourly 'living wage'.

Focusing on statutory wage floors is necessary but insufficient. In NI the proportion of low paid jobs (earning less than two-thirds of the UK median wage) has fallen by 20 percentage points since 2017 with the introduction of the National Living Wage (NLW). The NLW exceeded 67% in 2024. However, at the same time as this improvement in low pay, the number of high paying jobs also fell. High paid jobs or those with a wage at least 1.5 times the UK median, fell from 19% of jobs in 2017 to 13% in 2024. While setting an adequate earnings floor is essential to a high road economy and to reducing in-work poverty, it is collective bargaining that is needed to ensure gains for other workers.

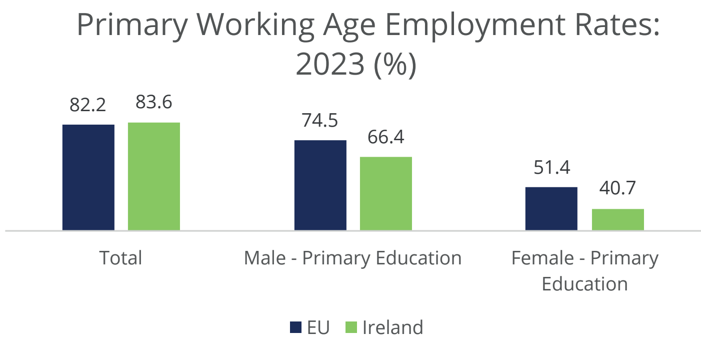
- **Precariousness:** precariousness takes different contractual forms, so there is no single policy initiative that can address the range of precarious activities. One reform, which is the basis of an EU Directive on platform work, would be to introduce a presumption of an employer-employee relationship in all contracts. The burden of proof that any particular contract does not entail such a relationship would lie with the employer.

These twin policies – eliminating low-pay and introducing a presumption of an employer-employee contractual relationship – combined with workplace democracy and Good Companies would constitute a major programme of reform to advance employment quality across the economy.

2) Labour Market Participation

Employment rates are at an historical high. Nearly 84% of primary working age (25-54 years) workers in ROI are in employment. This is slightly above the EU average. However, the figure in NI is 74% which is below the overall UK average of 78%.

High overall employment rates in ROI, disguises low participation rates among socially disadvantaged groups. For example, among those with a primary education, the employment rate falls significantly and is well below the EU average; for women with a primary education, the employment rate is less than half the overall average.[xxii]



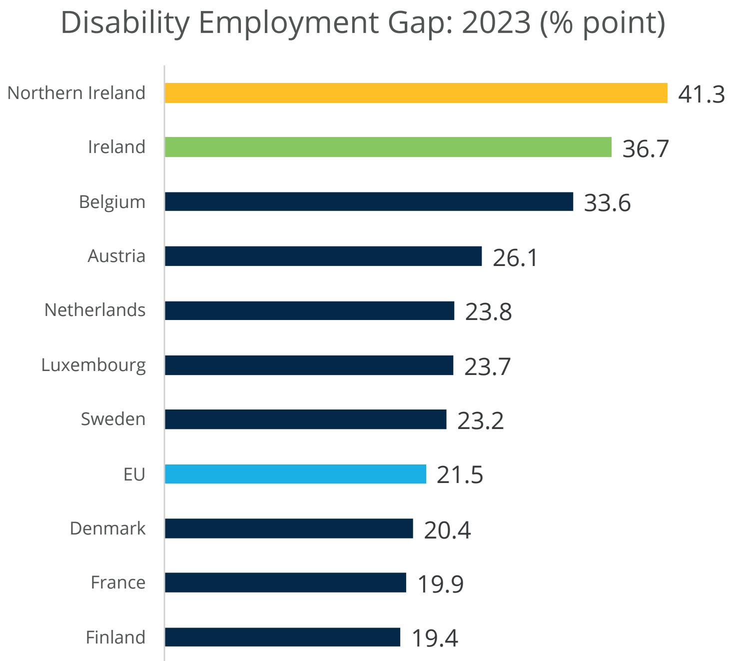
In a further indicator of participation deficits, there are 154,000 people in ROI and 54,000 in NI categorised as 'inactive' (not looking for work) but would like to work. Of those willing to work in ROI, 38% state that caring for children or adults with disabilities prevents them from seeking employment, while in NI, 62% are prevented from doing so through long term illness.

Another disadvantaged group are those with disabilities. For those suffering from a disability, the gap between the employment rate of those with disabilities and the total employment rate is far in excess of the EU average.

This not only squanders valuable human capital; it drives those with disabilities into poverty and deprivation.

A range of measures can be considered to promote labour market participation. For example:

- Mandatory quotas for companies requiring them to hire people with disabilities (as occurs in other EU countries);
- Labour market programmes that target socially disadvantaged constituencies, with full pay for programme participants in work training, education and skills development;
- Expanding accessible public services; in particular, childcare and eldercare;
- Employer of last resort programmes.



Source: NISRA NI LFS and Eurostat EU SILC

As necessary and desirable as they are, high levels of labour force participation and full employment are not in themselves sufficient to guarantee decent living standards. Few would disagree that the jobs of the future need to be of good quality and capable of supporting household's wellbeing needs and householders' ability to participate fully in society. But achieving these goals means pursuing a 'high-road' approach to employment, enterprise, and labour market policy that prioritises and supports a good job agenda.

Employer of Last Resort: We can't rely on the market economy to provide employment to socially disadvantage groups. One measure to create meaningful employment is an Employer of Last Resort programme. This could be modelled on the previous Gateway programme in ROI or the Future Jobs Fund in the UK, providing minimum wage work for participants in approved areas of public and civil society work (monitored by key stakeholders such as trade unions, local employer and civil society groups). This would provide work on 2/3-year contracts with flexibility for caring duties and formal training programmes.

3) Active Labour Market Policies

Active labour market policies should connect people with work, ensuring a steady supply of labour to enterprise, improving people's market skills and driving living standards through access to quality employment.

They also should address the phenomenon of 'over-qualification': Approximately 30% of third-level graduates in ROI do not require their level of qualifications, mostly in services and clerical roles, one of the highest levels in the EU.[xxiii]

In NI, the economy is trapped in 'low skills equilibrium' - a mutual causality between low skills acquisition by the workforce and low skill utilisation by firms. The result is both over-qualification and a flight of labour to other economies.[xxiv]

a) Swedish Employment Security Councils

One model worth considering is the Swedish Employment Security Councils. These councils are managed by employer and employee representatives at a regional level. These provide (re) training and skills programmes geared towards the abilities of the employees and the needs of the national and regional economy. They have a highly successful job placement rate with 88% of laid-off workers placed in new employment. Crucially, these councils are based on strong sectoral collective bargaining structures. The success is based on:

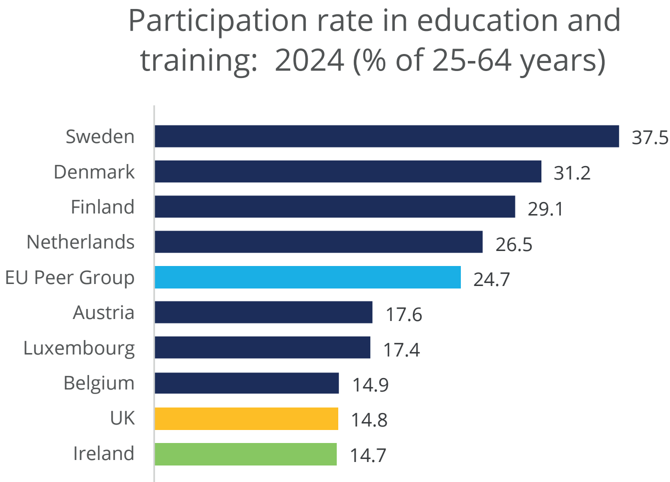
- A strong pay-related unemployment benefit which ensures that employees have the time to engage in job-searches, re-training and re-skilling.
- The assignment of a personal advisor to a redundant employee, placing them in appropriate -training schemes and helping them find a new job from the network of employers linked to the council.

b) Comprehensive Life-Long Learning

We need to develop a **comprehensive and national programme of life-long learning**, with employers and employees given fiscal and other incentives and opportunities to re-skill or up-skill throughout their working lives. Greater resources will be needed for adult education in order to respond to the changing demands and possibilities of the domestic and global economies. Currently, ROI and the UK both rank poorly in the percentage of adults participating in education and training.[xxv] A reformed model will include:

- A radical reform of the apprenticeship programme, featuring living wages coupled with full participation in third-level education and student life; and
- Incentivising companies to boost formal in-work training as part of the 'Good Company' initiative above. In ROI, investment in in-work training has fallen by more than half over the last two decades, while in NI real business expenditure per trainee has fallen by over 20% in the last decade. The Apprenticeship levy which applies in NI was designed to

create a pooled fund for up-skilling the workforce across the UK. In reality, the rigid design of the funding programme has actually led to a 27% reduction in employer spending on training since 2011.[xxvi]



c) Strengthening Social Insurance

Our social insurance system needs to protect the incomes of workers that lose jobs in order that they have the time to re-skill or up-skill and are not obliged to take the first available job they can find. This is in addition to providing security for particular exigencies (e.g. family benefits, long-term illness, retirement) which can reduce in-work stress and, so, boost productivity. These issues will be explored in more detail in Pillar 3.

* * *

In summation, the NEM proposes a three-prong approach to boosting high-quality employment through:

- Improving employment quality (higher wages, reduced precarity);
- Removing barriers to labour market participation (interventions on behalf of disadvantaged social groups), and
- Increasing investment and outcomes in labour market policies (employment security councils, life-long learning).

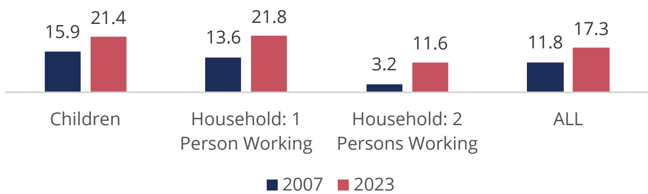
PILLAR 3: Economic and Social Security

Poverty, low incomes, deprivation, social exclusion: these are major barriers to a productive economy, degrading people's skills and life-chances, and depressing enterprise prosperity. As we set out at the beginning of this pamphlet, the island of Ireland has made great strides in terms of living standards over the last number of deacdes. Since 2000, the at-risk poverty rate in ROI has fallen significantly – from 20% to 12% in 2024. In NI the rate of absolute poverty has fallen from 21% in 2013/14 to 15% in 2023/24 . General inequality (as measured by the Gini coefficient) has similarly fallen in both ROI and NI.

On the surface, these statistics give the impression of a robust and secure social settlement. However, in reality, large parts of our economies are plagued by a poverty-productivity trap for many cohorts, whereby low productivity results in higher poverty which, in turn, produces low productivity, and so on.

When measuring what the CSO describes as *'enforced deprivation'*, ROI has not recovered since the crash. Whether it is child poverty, in-work poverty, or poverty throughout the economy, deprivation rates are significantly higher than pre-crash levels. Unfortunately, recent data on deprivation in NI is unavailable, but we know that 13% of all children in NI live in a household defined as food insecure, which rises to 25% among children who live in relative poverty.[xxvii]

ROI Enforced Deprivation Rate: 2007 and 2023 (%)

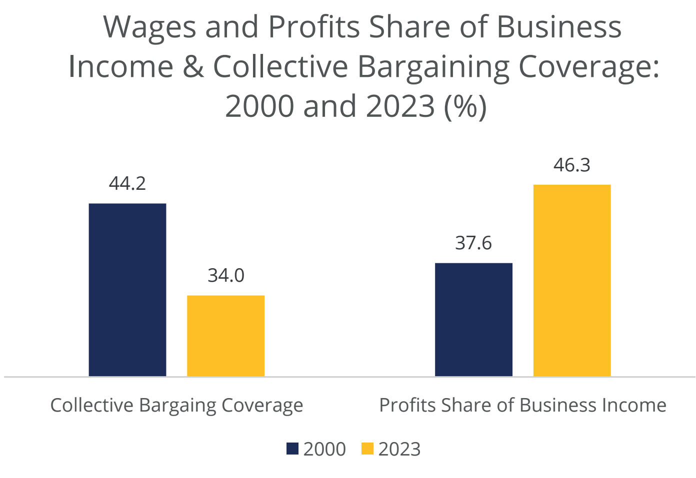


Fortunately, we have a history of overcoming high levels of poverty and deprivation. While much of the progress made in ROI has been due to improved labour market outcomes - increased employment in higher value-added sectors – it is also due to increased investment in public services and improved social protection coverage.

Therefore, when we confront the challenges of eliminating poverty and social exclusion, we can draw helpful lessons from the past. In this Pillar we survey three areas to promote economic and social security.

We, first, note the benefits of workplace democracy. Not only does greater democracy in the workplace boost enterprise efficiency and prosperity, it serves to improve employment quality (as discussed in Pillar 2). In addition, it promotes economic security.

Wages (labour income) are the most important source of income for the vast majority of working age households[xxviii]. Greater equality is associated with a range of life-quality benefits ranging from greater social trust, increased life expectancy and happiness, lower levels of stress, and poverty reduction.



Trade unions and collective bargaining increase the power of labour in the workplace and, therefore its share of income in the economy. As wealth is highly concentrated in the population a larger share for labour income relative to capital income reduces inequality. Greater trade union and collective bargaining presence, therefore, acts to reduce inequality.

- Since 2000, as collective bargaining coverage has fallen, so has labour's share of value-added (business income);
- Evidence suggests the decline in union density in NI and Britain is responsible for a 9.3 percentage point decline in the labour share.[xxix]

In NI, where wages are negotiated collectively through a trade union, employees can enjoy a pay premium of approximately 13%. In ROI, trade union membership combined with collective bargaining will, on average translate to a union wage premium of 8-10%; that is, an employee is likely to receive a higher wage than employees not in a union.

Over the long-term, more equal economies tend to be more stable and prosperous. IMF and OECD[xxx] research finds that higher levels of inequality are associated with slower rates of growth and are a sign of economic inefficiency. Increasing levels of inequality[xxxi] were a causal factor leading up to both the 2008-2012 Financial Crash, and the Great Depression of 1929. As such, policies that reduce inequality play a vital role in sustaining long-run growth and in sustaining the macro-stability of the economic system itself.

1. Universal Basic Services

The universal delivery of public services for free (Universal Basic Services, UBS) allows for collective responsibility to meet needs we all share. It creates greater social cohesion as everyone has access **according to need, not ability to pay**. It is redistributive and enhances greater social equality as public services are worth more to lower income groups.

Expanding the provision of UBS is arguably one of the most structurally important policy shifts that any government could undertake from an economic inequality and cost of-living perspective.

Introducing Universal Basic Services is arguably one of the most structurally important policy shifts that any government could undertake.

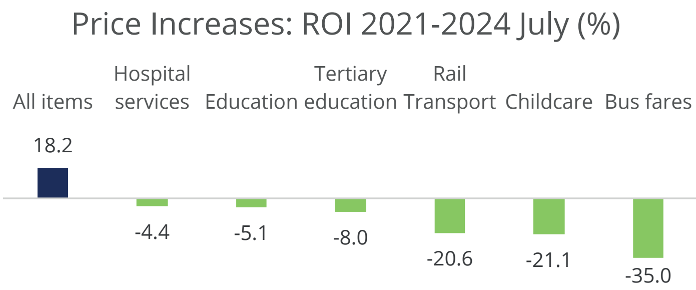
Pooling resources and sharing risks to provide public services is more efficient than relying purely on market transactions, where there is profit extraction, asymmetric information flows, moral hazard and a poor track record of ensuring that basic needs are met.

A non-exhaustive list of essential needs might include healthcare, education, housing, transport, libraries, childcare and adult care. Arguments can be made for including other needs, such as, food, water, legal and digital services, and electricity.

UBS not only provides material safety, but life-opportunity and social participation as well. It offers benefits across four dimensions: greater equality; efficiency of outputs; solidarity, and environmental sustainability.[xxxii] For example, providing free public transport would assist in reducing carbon emissions in a manner consistent with just transition principles.

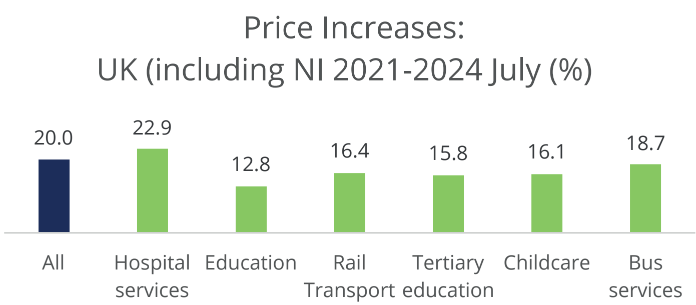
UBS amounts to a *de-commodification* of the affected range of services. As such, it would diminish the importance of market-based income and social transfers. The Irish government has already made some tentative and welcome steps in this direction such as free schoolbooks and free hot lunches. This should be integrated into a long-term drive to de-commodify essential and life-quality services in the economy.

But UBS can be an instrument within wider economic goals. For example: during the cost-of-living crisis in ROI, while prices in general were rising, the cost of accessing many public services were falling through government initiatives.



During this three-year period, general prices rose by over 18%. Public services, however, fell – in some instances by 35% (bus fares)[xxxiii]. By reducing the cost of accessing public services, and accessing services that should be public such as childcare, we can help maintain price stability and reduce living costs.

We can contrast this progressive performance with that of the UK over the same period. NI did not see any of the interventions in public service provision that ROI did and the evolution of prices in those services stands in stark contrast. The price of Hospital services increased by almost 23% between 2021 and 2014 compared to a reduction in ROI of 4.4%. Similarly, bus fares which fell by over 35% in ROI, increased by almost 19% in the UK[xxxiv]. Given that the increase in price level between ROI and the UK has been similar in most other areas of the economy, it shows the benefits of state intervention and de-commodification.



We need to promote UBS throughout the island. In ROI, expenditure on public services is relatively weak. It would have to rise by 15% in 2023 to reach the average of our peer group (as measured by real spending per capita). This would have meant an additional €9.6 billion in 2023. The UK would have to increase its spending on public services by £36 billion to £77 billion to match the expenditure of the two high-income European countries in the G20 – Germany and France.

Employee-Led Innovation: There is considerable discussion of public sector productivity, though measuring it in public services is difficult. Using the principles of workplace democracy, we should go to the people who actually produce the services; that is, public sector employees. Increasing productivity and efficiencies requires employee-led innovation programmes throughout the public sector, mobilising the ideas and experience of employees and translating them into greater efficiency and higher quality. Such programmes are conducted throughout other EU countries. This, however, requires a paradigm shift to support a workplace culture that supports service and process innovation, and includes all employees.

We need to rethink our mindset and consider universal basic services not just as a cost but as critical investments in the social infrastructure required for households, enterprises and communities to flourish.

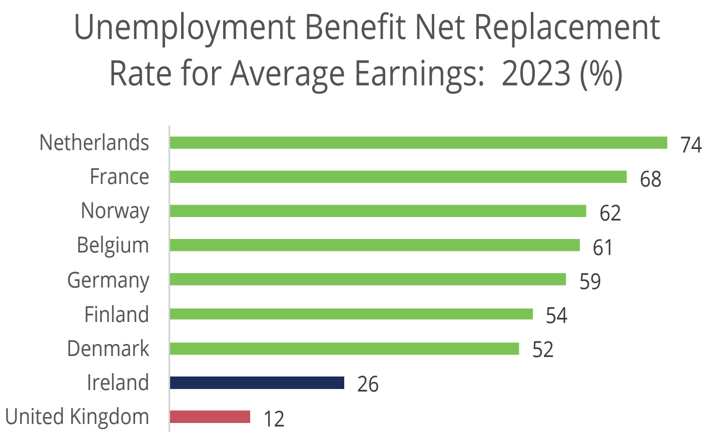
b) Social Insurance

Social insurance is defined as the "moral infrastructure" of social solidarity, protecting those in work from financial risks and the vagaries of the market.[xxxv] These risks include unemployment, illness and injury, family formation including care for family members, and income inadequacy in old age. A strong social insurance system - financed by employees, employers and self-employed - can reduce fears over sudden loss of income by providing a strong income floor.

In almost all other European countries, in-work benefits are pay-related. While the Irish government has taken some positive steps in introducing a pay-related element to sickness pay and unemployment benefit, these still lag EU norms, with all other benefits remaining flat-rate. The UK has the lowest replacement rate of any comparable EU country[xxxvi].

Unemployment Benefit: while ROI has introduced a pay-related benefit, it still falls short of similar benefits in other countries. A strong unemployment benefit:

a) cushions a sudden fall in household income;
b) provides an automatic stabiliser to buttress domestic demand during recessions;
c) provides time for recipients to find appropriate work, thus reducing skills mismatch.



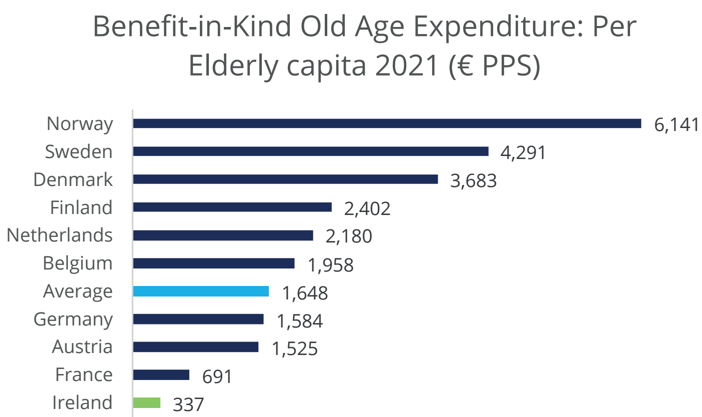
With the new pay-related reforms to unemployment benefit in ROI, the net replacement ratio will still only rise to approximately 40%. A further concern is that the duration for the pay-related benefits may not be long enough for workers to retrain and acquire new skills.

Maternity Benefit: ROI's flat-rate payment for maternity benefit is an outlier in Europe. Nearly half of EU countries provide 100% pay-related maternity benefits; that is, employees receive their total wage during maternity leave. ROI's flat-rate payment means that average earners receive only 32%. In NI employees can be eligible for maternity benefit that is linked to pay at 90% of average earnings, but only for the first 6 weeks after which it returns to a flat rate payment.

The NEM calls for the expansion of pay-related benefits to all relevant social insurance programmes, with conditions (e.g. duration, benefit rates) based on best practice in the EU. Many commentators debate the question of whether ROI should be a high or low-taxed economy. Public discourse would benefit if we were to debate whether we should be a high or low-insured economy and society.

c) Social Protection and Eliminating Poverty

For those unable to work, or struggle to secure stable employment, reliance on social protection should not result in poverty. Poverty incurs a very high cost – not only to individuals experiencing it, but to the economy. St. Vincent de Paul estimated in 2017[xxxvii] that poverty could cost the economy up to €7 billion, not counting the opportunity costs of lost consumption and skills.



Poverty – especially child poverty – is a drag on the productive economy,[xxxviii] in addition to being a social obscenity.

In NI, the cash amounts of working-age benefits were frozen or increased at a rate below inflation in seven of the last fourteen years, resulting in the real value of basic unemployment support falling by 7.6%.[xxxix]

As it stands, social protection assistance rates are insufficient to raise people above the poverty line. In addition, in-kind benefits and non-cash supports are particularly weak. This reflects low investment in public services and the over-reliance on cash payments.

Arbitrary decisions over rates and expenditure from year-to-year undermines household expectations and fiscal stability. We need a two-fold process:

- Raise social protection rates to an adequate household expenditure benchmark (e.g. the Vincentians Minimum Essential Standard of Living Expenditure Budget);
- Link subsequent social protection rate increases to a similar benchmark such as wages.

Income benchmarking has been variously recommended by a range of bodies including the NERI, the ESRI, the Commission on Tax and Welfare, the Pensions Commission and many others.

A proper, well-funded social security net is one of the fundamental components of a resilient economy. Providing income security in times of economic disruption and social disadvantage not only alleviates distress for individuals and families, it is also a key investment in economic and fiscal stability.

Child Poverty and Productivity: child poverty not only degrades individuals' life-chances and living standards into adulthood, it degrades productivity and competitiveness. Studies reveal that low childhood income impairs productivity later in life.[xl] Poverty also increases unnecessary public costs: homelessness, health expenditure, social protection, low educational outcomes, etc.[xli] Irish levels of child poverty are considerable; in 2023, in ROI over 21% of children suffer enforced deprivation. In NI, 19% of children suffer from absolute poverty.[xlii] This can only have a depressing impact on living standards, social equity and productivity, and should be at the top of the productive economy's agenda.

Pillar 4: Economic Resilience

A dynamic and productive economy embraces flux, churn, evolution, transformation and change. We need to develop, nurture and safeguard the conditions in which human creativity and entrepreneurship can thrive (e.g. promoting Good Companies and an open tolerant society). This change process, however, can be highly disruptive and potentially damaging to the social fabric.

In essence, economic progress can mean turmoil.

In an uncertain world we need our economies and societies to be 'anti-fragile', that is, capable of thriving and flourishing even while under external or internal stress; hence, a 'resilient' economy. A resilient economy does not attempt to hold back change. Attempts to do so will only lead to social stagnation and economic decline - outcomes that can be exploited by authoritarian and oligarchic forces.

Stability does not preclude dynamism. Indeed, it is a fundamental pre-requisite for dynamism. Stability requires making choices that look ahead. In good times, preparing for turbulence; in bad times, safeguarding living standards and our productive capacity. We consider resilience across four key stability dimensions: fiscal stability, price stability, climate justice and political economy.

a) Fiscal Stability

In order to be economically radical, we need to be fiscally conservative. Fiscal stability is hardwired in the NEM. While we should be sceptical of fiscal rules, there are common sense guidelines.

- **Pursue counter-cyclical fiscal policies** - running surpluses in good times and spending those surpluses in downturns.

In ROI, fiscal stability has been missing for a long time. Prior to the crash, the government fuelled unsustainable growth based on property transactions. During the recession, the government withdrew money from the productive economy, lengthening and deepening the downturn. Today, the government is cutting taxes, increasing spending and relying on 'windfall' corporate tax revenue to balance the books. Conversely, the UK government is talking about cutting back public expenditure at a time when the economy clearly needs a boost, particularly for investment spending which had fallen back so much over the last 15 years.

- **End *'fiscal gimmickry'*** as the Fiscal Council described current government policy in ROI.

Windfall corporate tax receipts in ROI should be fully removed from the budget - either to long-term savings funds, to be used for future countercyclical infrastructural investments (when the economy is in a downturn), or for projects that earn a cash-return. A clear and transparent set of protocols on the use of these funds should be agreed by all political parties.

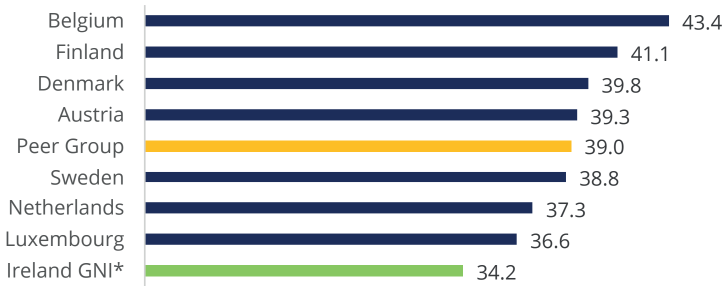
Only by building up a large reserve through removing all corporate tax receipts from the budget can policymakers insulate ROI's economy from international bond markets. From experience we know that these markets can punish governments and states that find themselves in fiscal difficulties or that attempt to pursue counter-cyclical policies during recessions.

- **Apply a *golden rule* for investment** – allowing for borrowing to invest, factoring in capacity constraints (e.g. labour), inflationary pressures, and the economic cycle.

We need to have an honest conversation with people. ROI is effectively running a budgetary deficit. This is wholly inappropriate in current times adds to inflationary pressures (see below) and leave the country exposed if the 'windfall' receipts start to disappear. The government's current fiscal position is irresponsible and unnecessarily risky.

We need to move away from a low-spend fiscal strategy without relying on windfall corporate tax receipts. In ROI, government spending excluding that related to old age made up 34.2% of GNI* compared to 39%t of GDP in our EU peer.[xliii] This calculation factors out spending on state pensions given ROI's low age demographic. ROI would have to spend an additional €14 billion a year to reach its peer group average.

Government Expenditure (excluding Old Age Expenditure): 2023 (% of GDP)



Not only do we need to raise revenue in order to correct our fiscal imbalance (i.e. running a deficit at nearly full capacity), we will need additional revenues to invest in public services, social protection, human capital and physical investment.

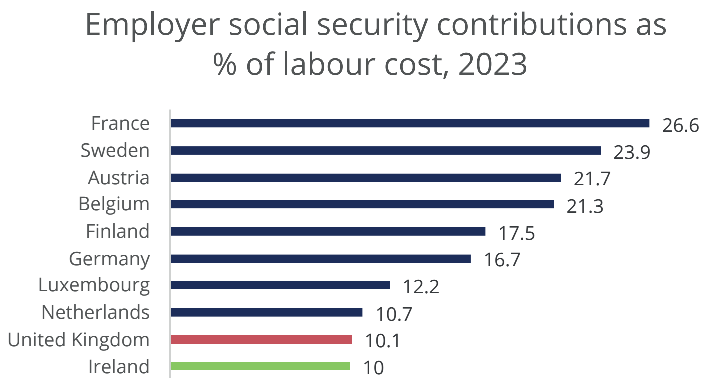
ROI's Commission on Taxation proposed a material increase in tax revenue to fund expanded public services and strong social protection supports. It focused on increased taxation on capital (income and stocks), on unearned income, and carbon activities as opposed to labour. These proposals would be progressive and have only a marginal impact on economic performance.

Irish Fiscal Council Advisory Estimates of Tax Yield from Commission on Taxation Proposals (€ million)					
Property	Indirect Tax	Capital & wealth	Environ-mental	Other	Total Estimate
4,933	2,502	2,427	2,314	555	12,731

The Irish Fiscal Advisory Council [xliv] estimated the potential tax yield from the Commission's proposals would raise up to €12.7 billion.

Further sources of tax revenue - additional to what the Commission proposed - could come from increasing employers' and self-employed PRSI to average European levels. ROI and NI have the lowest employer contributions of any advanced European economies.

The UK government have begun to address this issue by lowering the threshold and raising the rate of employer contributions. In ROI, the Government is increasing PRSI incrementally. Even so, employer contributions as a share of labour costs will continue to be significantly below our peer-group average.



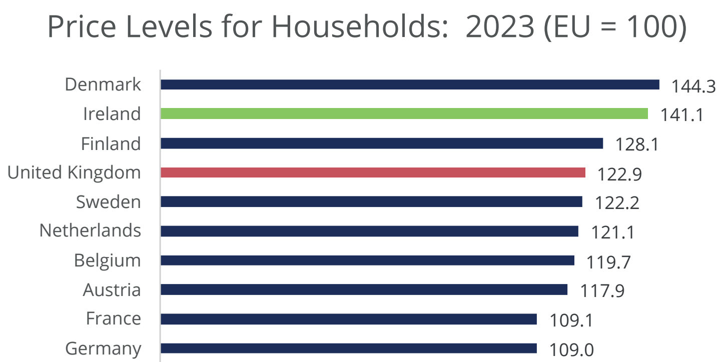
Perhaps the Commission's most notable finding is that tax expenditures (i.e. tax breaks) should only be used in extreme, time-limited circumstances. Tax expenditures are economically distortive, regressive, and contain high levels of economically inefficient deadweight. Such narrowing of the tax base is only justified where there was a clear and structural market failure and where the proposed tax break had passed full economic and social evaluations. Eliminating tax breaks would create scope to generate billions in additional revenue.

In summary, the NEM's' strategy is to:

- Fully remove corporate tax receipts from the budget, basing fiscal policy on the modified government balance (which is currently in deficit);
- Phase in tax increases on capital and wealth as per the Commission on Taxation proposals and phase out inefficient tax expenditures in order to run an appropriately sustainable structural balance and, over the long-term, enable an increase in government spending to our peer group norms;
- Incrementally increase employer social insurance contributions (PRSI) over the long-term;
- Establish a strict protocol for using corporate tax receipts for critical investment.
- A broadly similar strategy minus the windfall corporation tax receipts is appropriate for the UK and for NI.

b) Price Stability

Both Ireland and the UK suffer from high costs. This imposes unnecessary burdens on households and enterprises.



Irish prices are 41% above the EU average, the highest bar Denmark.[xlv] While UK prices are not as high, they still rank fourth in the table of high-income European countries.

The elimination of pro-cyclical policies as outlined above can help stabilise prices in the long-term, removing inflationary pressures associated with booms. Other measures can include:

1. **Adopting 'supply-side' measures:** in many sectors, low supply is a significant driver of higher prices. For example, ROI's housing stock would have to increase by over 20,000 per year to reach our peer group average. Rather than relying on developer-led strategies (tax cuts, deregulations, public subsidies), the state needs to mobilise the capital and labour to build the houses needed to overcome the crisis. In energy, the low supply of renewable energy resources drives up energy costs – some of the highest in Europe;
2. **Abolishing demand-side subsidies:** in markets with unregulated prices and low supply, fuelling demand merely leads to higher prices (e.g. subsidies for house purchasing);
3. **Decommodify services:** provide more goods and services through the public sector for free or at-below market rates as referred to in Pillar 3;
4. **Administrative directives**, or price controls, can in certain situations be introduced as temporary emergency measures or as part of broader regulation of particular sectors – such as the regulation of childcare fees;
5. **Reshaping price markets:** prices in some sectors can be shaped to provide relief to low - and average-income households. An example of this is energy block tariffs (see box below);

Energy Block Tariffs: Energy prices for households can be 'reshaped' to benefit low-income groups. For example, a set amount of kilowatts of electricity could be provided free (or at below-market rate) to all households (and even enterprises) with competition above that threshold. This could significantly reduce energy poverty, incentivise decarbonisation and shift energy costs from low-income to high-income households.

6. **Removing anti-competitive practices:** For example, the National Competitiveness and Productivity Council have highlighted the damage that high legal and insurance costs have done to our enterprise base and households;
7. **Capital markets union:** limited access to capital puts enterprises in ROI at a competitive disadvantage. The average interest rate to business in ROI is the fourth highest in the Eurozone.[xlvi] We need to complete the pan-EU capital markets union in order to improve competition in the supply of funding for Irish companies.

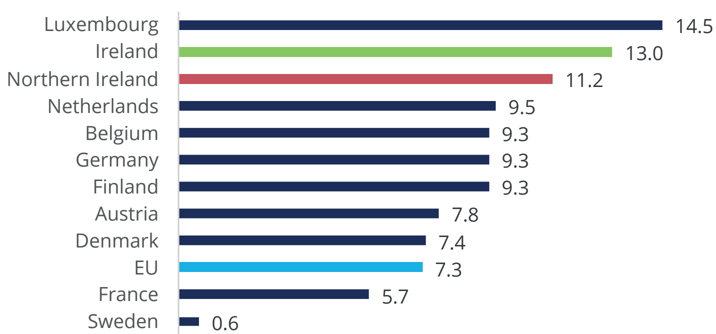
c) Climate Justice and Just Transition

Economic resilience cannot be separated from protection of our shared environment. 'There are no jobs on a dead planet'.

It is not just a matter of preserving our island and planet. ROI's Climate Change Advisory Council and the Irish Fiscal Advisory Council[xlvii] found that ROI had the worst record in reaching the 2030 emissions-reduction targets. Failure to reach these targets could incur costs of up to €26 billion.

ROI and NI are already the highest emitters of greenhouse gases, bar Luxembourg.[xlviii] Large-scale state-led green investment in energy, transport, land use, and housing will be required. This will include replacement of reduced tax revenue from fossil-fuel activities income supports for low-average income earners; and additional costs arising from more extreme weather.

Greenhouse Gases: 2022 Tonnes per capita)



The CCAC/IFAC report proposes three measures which could make a big difference in reaching our targets and reducing the €27 billion in fines and penalties:

- **Electricity grid:** expanding and greening the electricity grid beyond current plans;
- **Electric Vehicles:** reduce the cost of 700,000 electric vehicles to under €15,000 and ramping up charging networks;
- **Forestry and Peatlands:** re-wet peatlands and support forestry through a combination of afforestation and prevention of deforestation.

These measures need to be complemented by further policy initiatives: the ending of government subsidies for fossil fuel consumption, greater funding for low-carbon technologies, expansion of wind and solar power and the planning reform to support this, comprehensive retrofitting supports and related demand-reducing policies, expansion of public transport, etc.

The NEM puts considerable emphasis on investment-led fiscal strategies. However, there are other elements that can promote decarbonisation and climate justice.

- **Good Companies** could receive additional supports to decarbonise enterprise activity. This includes the potential for a public-led consortium to mobilise capital and skills to develop our off-shore and marine resources – instead of helplessly relying on market mechanisms and the willingness of private capital to invest;
- **Workplace democracy** can drive a reduction of carbon emissions. A recent study found[xlix] that, on average, a 1% increase in collective bargaining coverage reduces per capita CO_2 emissions by 0.25% in the long run. This is most likely due to employees' bargaining and advocacy strategies. This finding is confirmed by a study of OECD members over a 40-year period[l];
- **Sectoral Planning:** this allows stakeholders to identify and address the decarbonisation issues at a sectoral level, creating a consensus over carbon-reducing strategies.

Policy must adhere to 'Just Transition' principles: this means meaningful public consultation, income protection for lost jobs, job creation in affected regions, significant investments in skills development and retraining supports for green and grey jobs, as well as addressing affordability barriers for low-income households and small businesses. In both economies the capacity to bear the brunt of the transition to renewable technologic and a low carbon-consumption future will be unequal in the absence of very significant government subsidies.

d) Political Economy

Policies need popular support. There are many who feel they are losing control of their lives. The dominance of the neoliberal worldview has produced alienation and frustration that have fomented a populist right-wing backlash in many countries. High housing and other living costs, under-resourced public services, and career and wage stagnation are all potential sources of discontent. A more inclusive, democratic economic model needs to address these issues.

Resilience requires a deepening of democracy, inclusive consultation, and economic and corporate transparency. In a political economy context we need to consider how best we can enhance regional and local decision-making in ways that can provide an enhanced voice for communities and for workers.

ROI has one of the most centralised fiscal structures in the EU. Local government plays little role in public expenditure – whether public services, social protection, enterprise supports or infrastructure – while regional government plays only a limited advisory role. In the UK, while local government plays a stronger fiscal role than ROI, it still remains weak by EU standards.

Local Government Expenditure as a % of Total Government Expenditure: 2023					
Denmark	Sweden	Finland	EU Average *	UK	ROI
66.9	50.6	42.7	34.6	19.8	10.1

* Includes both local and regional government

In the higher-spend Nordic economies, local government expenditure makes up between 43% and 67% of total government spending. The EU average is 35%. ROI is a lowly 10%, even below tiny Luxembourg; while the UK is just under 20%.

In terms of political economy, trust in local and regional governments is considerably higher than in national governments. Eurobarometer[li] shows that in the EU trust in local and regional governments is 59% compared to 33% who trust in their national government. In ROI, the figures are 61% and 48% respectively.

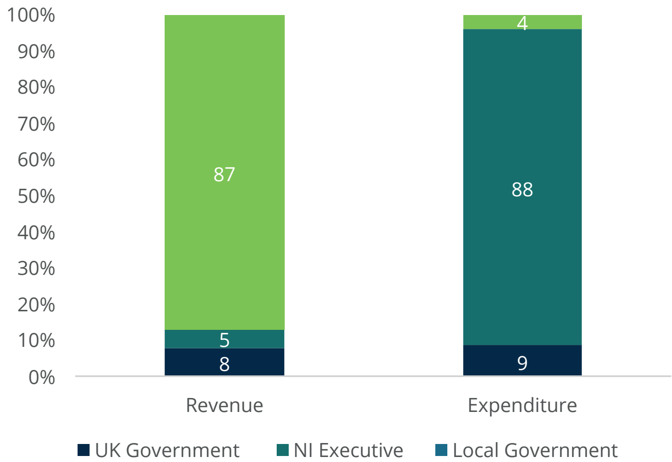
Strong local and regional governments can have a number of advantages over the current centralised regime beyond that of popular trust.

- The potential for greater oversight, accountability and trust at the local level, facilitating greater acceptance of higher taxes – especially as it is seen to be spent in the local area;
- The potential for greater experimentation and pilots as local governments can monitor what others do, selecting successful programmes and avoiding failures.

While local government can be financed by local taxes, there is scope for statutorily setting a proportion of central revenue to be directed into a Local Government Fund and distributed on the basis of an agreed formula.

In contrast, in NI the vast majority of expenditure has been devolved to the Executive, but the vast majority of revenue raising remains with the UK government[lii]. This imbalance can lead to a democratic deficit where a layer of government has no say in how revenue is raised and, therefore, has no way of affecting the total amount available for public expenditure.

Devolving public expenditure can lead to more efficient and appropriate outcomes for users of public services. However, there needs to be a balance between expenditure and revenue and at the very least, there must be a mechanism whereby the effect of taxation decisions taken at national level are assessed in terms of their regional impact.



There have been proposals to devolve further tax raising powers to the NI Executive by the NI Fiscal Commission. Their report states that any such process requires careful deliberation and risk sharing between levels of government to avoid widening existing regional inequalities.

Endnotes

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