

24 July 2025

Minister Paschal Donohoe
Minister for Finance
Department of Finance
Government Buildings
Upper Merrion Street, Dublin 2 D02 R583

Minister Jack Chambers
Minister for Public Expenditure, Infrastructure, Public Service Reform and Digitalisation
Government Buildings
Upper Merrion Street, Dublin 2 D02 R583

Dear Ministers Donohoe and Chambers,

Thank you for agreeing to meet with a delegation from the Irish Congress of Trade Unions on Tuesday 26 August 2025 at 10.30am regarding our pre-budget discussion. Please find below the key points we would ask you and government to consider in your budget deliberations. Please also find attached a copy of the policy paper we cite below entitled “A New Economic Model” which we also look forward to discussing with you. The Congress delegation will be the undersigned along with my colleagues Ger Gibbons of Congress and Tom Mc Donald of NERI.

1. Economic Context and Strategy

The Irish economy and its public finances are both, ostensibly, in a strong position. Labour market performance has been exceptionally robust in recent years while real wage growth has returned now that inflationary pressures have eased. The public finances appear strong in terms of our headline debt and our annual surpluses. However, this is a deeply misleading picture with the government running an underlying deficit once windfall corporation tax receipts are excluded. An economy with such a strong employment and growth performance should be running an underlying surplus. In addition, our heavy reliance on a small number of foreign firms to provide us with our fiscal sustainability is a clear and profound source of risk. Budget 2026 needs to reflect these concerns. Finally, we welcome the move towards multi-annual budgeting. This will assist with better economic planning in the future.

The Irish Congress of Trade Unions (Congress) agrees with the need to ramp up spending on infrastructure. We are aligned with the government on this. However, we also need to ensure that Budget 2026 operates countercyclically and that plans to reduce taxes in areas such as VAT on hospitality are abandoned.

Such policies are economic folly, will do nothing to improve average productivity and living standards and come with great opportunity cost. With the same use of resources, we could lift more than 60,000 children out of poverty. While tariffs are an ongoing risk to the economy the fundamental economic policies that we ought to pursue remain ultimately the same. This is reflected in our proposals below and elsewhere.

This year's Congress Pre Budget-Submission is derived from our 'New Economic Model'¹ (NEM) policy strategy which we will launch in the Autumn of this year. The NEM propositions and proposals are based around 4 complementary pillars (productivity, more and better jobs, economic security and economic resilience) and collectively add up to a framework for economic progress in the 21st century. The sample proposals outlined below are all feasible and achievable over the medium-term. We look forward to engaging positively with the government on these issues.

2. Congress Proposals for Budget 2026 and Beyond

Pillar 1 Selected Proposals (Productivity)

- Congress Proposal 1:

*Congress **strongly supports the prioritisation of government spending on infrastructure but believes that a more holistic approach should be taken to the concept of 'investment' with greater allocations needed for annual spending on human capital (education and skills) and on innovation** (public R&D, technology diffusion).*

Investment in productive public infrastructure is an important component of long-run economic development.² Congress agrees with the analysis that Ireland is suffering from significant infrastructure deficits in a swathe of areas including the energy grid, the water grid, housing and transport (rail, roads and electric charging) with the public capital stock 25% lower than average for a high income European country.³ The infrastructure deficits are placing capacity constraints on long-run economic growth and are contributing to upward price pressures in the relevant areas as well as to a housing crisis. In addition, there needs to be a meaningful step-up in funding and resources available to support green retro-fitting of existing dwellings and non-residential buildings. However, increased allocations for infrastructure will need to be accompanied by a suite of complementary measures to make construction a more enticing sector to enter for workers (or to entice workers from abroad) as housing and other infrastructure targets are not attainable with the current supply of construction workers.

¹ ICTU (2025) [A New Economic Model](#)

² A meta-analysis of sixty-eight studies found that public capital investment has a positive long run effect on output. [Bom, P. and J. Ligthart \(2014\)](#)

³ IFAC (2024) [Ireland's Infrastructure Demands](#)

While the increased focus on infrastructure is welcome, it's important to emphasise that productivity gains also arise from spending on human capital and spending on innovation (on R&D). We cannot improve the productive capacity of the economy without first investing in the people and capital that produce the goods and services. Therefore, the single most important investment we can make is in people. Similarly, spending on R&D is an investment in knowledge production. Any new knowledge produced has the potential to generate positive externalities through new technologies, or through more efficient or novel ways of using existing technologies and capital and labour resources. For this reason, it is generally assumed that higher levels of R&D spending will be correlated with long-run productivity gains, international competitiveness and growth.⁴ Spending on R&D is complemented by spending on the development of the labour force's stock of human capital.⁵

Congress is proposing that over the medium term per pupil government spending on human capital (education and skills) and per capita spending on public R&D are both incrementally increased to bring Ireland into line with other high-income European countries. The surplus in the National Training Fund should be deployed to upskill workers.

- Congress Proposal 2:

*The **government should abandon its Budget 2026 plans to extend the 9% VAT rate to include hospitality.** Over time the government should broaden the tax base by bringing the VAT rate on hospitality into line with the standard VAT rate. Some of the yield from this measure could be used to simultaneously reduce the standard VAT rate.*

Congress rejects the unsubstantiated view that the accommodation and food sector is doing badly. Employment in the sector increased by 11,600 or 6.5% between the first quarters of 2024 and 2025.⁶ This is a very robust performance by any measure and shows a sector that has never performed better. Data also shows that incorporations are strongly outnumbering liquidations in the sector.⁷ Roantree (2025)⁸ notes that accommodation, catering and restaurant services are already being subsidised annually (via tax relief) by almost €2 billion per year as they pay a reduced 13.5% VAT rate instead of the 23% paid by most other sectors. Revenue (2024, p27)⁹ estimated that the cost of **reducing the 13.5% rate to 9% for a full year would cost €810 million** with the figure likely to be slightly higher this year.

The sector is doing very well by historical standards and there is no obvious rationale for providing an additional tax subsidy to this low value added and low pay sector. Even if the sector was struggling the rationale for a VAT cut would be weak as the firms that would benefit most from a VAT cut are also those that are already doing well in relative terms. The biggest winners will be the large chain operators and there are likely to be few employment benefits and significant deadweight loss.

⁴ Aghion, P. and P. Howitt (2025) [The Economics of Growth. Cambridge MIT Press.](#)

⁵ Human capital is the knowledge, skills, experience, competences and creativity of individuals that is relevant to economic activity.

⁶ CSO (2025) Labour Force Survey [QLF03 - Persons aged 15-89 years in Employment](#)

⁷ Oireachtas (2024) [Company Closures – Tuesday, 25 Jun 2024 – Parliamentary Questions \(33rd Dáil\) – Houses of the Oireachtas](#)

⁸ Roantree, B. (2025) Will the Government really put McDonald's ahead of Children in Poverty, Irish Times, July 5.

⁹ Revenue Ready Reckoner (2024) [Revenue Ready Reckoner – Post Budget 2025](#)

It should also be noted that while tax cuts on consumption goods will, in general, tend to disproportionately benefit poorer households (e.g. VAT cuts on household essentials) the opposite is likely to be the case for tax cuts on discretionary products such as hospitality goods which tend to be regressive in that they disproportionately benefit the better off.

The Commission on Taxation and Welfare recommended limiting the use of reduced rates of VAT and argued that the costs of reducing the VAT rate from 13.5% to 9% would outweigh the benefits. This is also the position taken by the IMF and by the OECD (see COTW, 2025 for a discussion).¹⁰ Finally, preferential tax treatment for low value-added economic activities distorts economic activity in a lower productivity direction and at a very significant opportunity and fiscal cost (e.g. less spending available for education, infrastructure, or cuts to taxes on workers). Thus, the proposed extension of the 9% rate to hospitality (if maintained permanently) is likely to lead to lower economic growth over the medium-to-long-term. Cutting the VAT rate on hospitality is economic madness.

Pillar 2 Selected Proposals (More and better jobs)

- Congress Proposal 3:

The government should use Budget 2026 as an opportunity to strengthen collective bargaining as required by the EU's Adequate Minimum Wage Directive.

Research from the OECD¹¹ and the European Commission¹² notes that collective bargaining delivers higher productivity, improving the quality of the employment relationship and overall job quality, and enhancing horizontal innovation within firms. It also induces better wage conditions which induces employees and forces employers to work more productively. Improving workplace democracy will help improve the poor performance of the Irish domestic economy and properly unleash the potential of our domestic firms and workforce. As such, Congress proposes that government spending rules in relation to public procurement be altered to provide prioritisation and preferential weighting for 'good company' firms that engage constructively with trade unions and collective bargaining. In addition, the current discrimination whereby there is a tax break available for membership of a business or farming organisation but not for trade union membership should cease in Budget 2026.

- Congress Proposal 4:

The government should increase the minimum wage to the level of the living wage in 2026 as previously committed to by the main parties in government.

Congress is of the view that hourly wages below that of the living wage¹³ are incompatible with any notion of dignity or a quality job and are a de-facto subsidy to bad employers.

¹⁰ COTW (2022) [Report of the Commission on Taxation and Welfare](#)

¹¹ OECD (2019) [Negotiating our Way Up: Collective Bargaining in a Changing World of Work](#)

¹² European Commission (2020) [Impact Assessment: Proposal for a Directive of the European Parliament and of the Council on Adequate Minimum Wages in the European Union](#).

¹³ Living Wage Technical Group (2024) Living Wage Update
https://www.livingwage.ie/download/pdf/living_wage_2024-25_4_page_paper.pdf

11.6% of employees experienced enforced deprivation in 2024 reflecting an inadequacy of wages in the face of Ireland's high cost of living.¹⁴ 'Low road' competitiveness strategies based on pushing down costs are not compatible with well-being goals and over time, increase in-work poverty and push economies in a lower average productivity direction.

Labour market developments in the UK over recent years have shown that much higher minimum wages as a percentage of median wages are fully compatible with maintaining full employment.

Pillar 3 Selected Proposals (Economic Security)

- Congress Proposal 5:

*The **government** should introduce a 2nd tier of child benefit in Budget 2026 to reduce by 60,000 the incidence of child poverty in Ireland.*

Congress believes that the extent of child poverty and childhood deprivation in Ireland represents a profound public policy failure. More than 1 in 5 children in Ireland (21.2%)¹⁵ were experiencing material deprivation in 2024. Children have the highest probability of experiencing deprivation of any age cohort and are almost 3 times as likely to be in deprivation as the over 65s (7.7%). Ending child poverty should be a defining goal for this government. Child poverty represents perhaps the single most significant barrier a person can face to achieving a flourishing, thriving adulthood. It is also a major barrier to long-run productivity due to the negative impact it has on human capital. Research from the ESRI¹⁶ indicates that adding a 2nd tier of child benefit would lift more than 50,000 children out of poverty at a cost of €773 million. Crucially, introducing a 2nd tier of child benefit¹⁷ is a much less costly and more effective way of reducing child poverty than simply increasing the rate of child benefit itself. All households with children would receive an amount determined by the number of children they have and their means.

- Congress Proposal 6:

*The **government** should develop a public childcare option over the medium-term beginning with geographic areas that are currently underserved in terms of affordable childcare availability.*

Congress is proposing¹⁸ that over time a public system of early childhood education should be developed that guarantees a place for every child, similar to our primary school system.

¹⁴ CSO (2025) Enforced Deprivation <https://www.cso.ie/en/releasesandpublications/ep/p-silced/surveyonincomeandlivingconditionssilcenforceddeprivation2024/enforceddeprivation/>

¹⁵ CSO (2024) [Enforced Deprivation Survey on Income and Living Conditions \(SILC\): Enforced Deprivation 2024 - Central Statistics Office](#)

¹⁶ ESRI (2025) [The effect of child-related benefits on child poverty and deprivation in Ireland | ESRI](#)

¹⁷ As proposed by the Commission on Taxation and Welfare (2022) [Report of the Commission on Taxation and Welfare](#)

¹⁸ The ICTU is a member of the NWCI's 'Together for Public' campaign calling for delivery of early education and care for every child. https://www.nwci.ie/discover/what_we_do/together_for_public

Support for Universal Basic Services (UBS) such as free or heavily subsidised **education**, **transport** and **healthcare** is a key method for reducing the negative practical impacts arising from income inequality and inadequacy and is also fundamental to safeguarding economic security. If we are to meet the triple bottom line targets of sustainable economic growth, lower inequality and environmental sustainability then we will need to re-imagine the bounds of the welfare state. We can think of UBS, as synonymous with the provision of free or extremely low-cost public services available to all and funded by taxation.

Subsidised universal service provision amounts to a virtual income and is preferable to cash transfers in many instances. The provision of UBS also gives governments a degree of control over important components of the cost of living.

As a priority, Budget 2026 should provide for an expansion of UBS to include a public childcare option that is available and affordable to all. This would increase labour supply particularly from second earners and lone parents. There would also be an obvious gender equality dimension to such a reform. By reducing barriers to labour force participation and education it would also provide a meaningful boost to the economy's productive capacity. Finally, it would provide a means of ensuring decent pay and conditions in the sector thereby turning childcare into a viable career option and improving standards in the sector.

Pillar 4 Selected Proposals (A resilient economic and social model)

- Congress Proposal 7:

*The **government** should ensure that Budget 2026 and subsequent budgets are **countercyclical**. Net spending should not exceed 5% in Budget 2026 with higher levels of actual spending increases funded by a broadening of the state's revenue base with an emphasis on capital taxes and the watering down of tax expenditures.*

Congress is proposing that fiscal stability needs to be embedded and hardwired into the economic model. However, great care is needed in the design of any fiscal rules so that other goals such as adequacy and sustainable growth are not sacrificed. Most importantly, we need to clearly define the goals our fiscal rules and frameworks are attempting to achieve and, on that basis, design a structure that can reconcile these multiple goals. Ultimately, we want to ensure that our policies are sustainable but without impeding necessary investments in the long-term health of the economy. Given the current strong health of the economy and the imperative that fiscal policy be countercyclical it is the view of Congress that Budget 2026 should seek to dampen inflationary pressures.

Congress believes there is a need to reconcile the closing of existing public spending deficits across a range of public policy areas with the simultaneous need to be fiscally countercyclical. In this context, we are proposing that a net annual spending increase of 5% be targeted over the medium-term with actual public spending increases more than 5% funded through a broadening of the state's tax base. Congress is proposing that such revenue broadening should come primarily through increases in capital taxes; reductions in the generosity of existing tax expenditures, and gradual increases in employer PRSI and self-employed PRSI.

The Commission on Taxation and Welfare has made several recommendations proposing meaningful increases in revenue from capital taxes and from the reduced generosity of tax expenditures and Congress is proposing that these measures should form the core of the revenue increasing package.¹⁹

- Congress Proposal 8:

*The **government should move to a ‘carrot over stick’ approach to managing the green transition** with much more significant and generous funding made available for public transport and for green subsidies to enable lower income households to invest in housing retrofits and in electric vehicles.*

Economic resilience cannot be separated from the protection of our shared environment on the island. The economy does not exist apart from the planet at large. Rather, it is embedded within our atmosphere, local and planetary chemical cycles and ecosystems. Future prosperity and well-being are intimately tied to the preservation of our natural resources. As the adage goes ‘there are no jobs on a dead planet’. However, the green transition risks disproportionately hitting lower income households that have limited resources to invest in reducing their carbon footprint whether through housing retrofits or electric vehicles.

Congress acknowledges that taxes on pollution such as the carbon tax are effective instruments. However, such policies are understandably unpopular and are at permanent risk of being rolled back. We are therefore proposing for both equity and political economy reasons that the government’s fiscal strategy for supporting the green transition should pivot towards a greater emphasis on carrots (subsidies) rather than sticks (taxes). In practice, this will mean much higher levels of spending on public transport and enhanced funding for schemes to provide income tapered subsidies for housing retrofits and electric vehicles²⁰ to make these options genuinely affordable to all households. This socialises the cost of the transition. Such an approach can change the narrative of the green transition from one of a punitive household cost to a more positive one about reducing living costs while helping the planet. We look forward to our discussion next month.

Yours sincerely,



Owen Reidy
General Secretary

¹⁹ COTW (2022) [Foundations for the Future](#)

²⁰ Climate Change Advisory Council (2025) Annual Review 2025 – Transport
<https://www.climatecouncil.ie/news/press-release-annual-review-2025---transport-.html>