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Economic Security

New Economic Model: Pillar 3

This is the 9th in the NERI's long-read series. It is also the 1st in a new policy discussion series sketching the outline of a proposed 'New Economic Framework or Model' (NEM) for the two economies (North and South) on the Island of Ireland.

This long-read is concerned with economic security and inequality, as well as with income adequacy and well-being. Any model of economic development, if it is to be genuinely inclusive, must be predicated on sustainable progress in each of these areas. These goals motivate the discussion in the long-read.

Economic security is one of the four mutually reinforcing pillars that underpin the proposed NEM. The other three pillars will be the subject of forthcoming long-reads and are also addressed in other NERI outputs.

The other three pillars are:

(A) Productivity and innovation in the economy,

(B) Participation and good or better jobs, and

(C) Economic dynamism, resilience and sustainability.

These pillars are each of profound relevance for economic security and vice versa. This long-read should therefore be read in conjunction with those outputs.

Our purpose is to describe the key elements of a sustainable, prosperous and inclusive economy, and to identify some of the main policy levers and achievable reforms. Policy must seek to avoid the booms and busts which have caused such huge pain in the past. Policy should also seek to protect people from the ups and downs of the international economy and the ruptures from new technologies while simultaneously recognising that engagement and adoption is critical.

There are a number of challenges for us to consider. How do we ensure economic security throughout people's lives? How do we reduce economic inequality? How do we minimise poverty and deprivation and how do we attain a high level of economic well-being for all?

The key levers for economic security include, but are not limited to:

(1) A strong labour market;
(2) Wage and labour market policies such as collective bargaining, a genuine living wage and a strong social wage;
(3) Redistribution via tax and welfare policy;
(4) A social insurance model that protects against economic transitions;
(5) A basic floor of subsidised high quality universal public services, and
(6) Adequacy-based minimum income floors as a final backstop.

We need a new economic model for both jurisdictions on the Island of Ireland - Fit for the challenges of the 21st century

Why will we need to change in the future? Economies themselves are constantly in flux and they change for many reasons. There are economy-wide technological disruptions like the steam engine, electricity, and the microchip that have transformed economies utterly. Alongside general-purpose technologies such as these has been an ongoing stream of other minor and major process, product, and service innovations that have, in their various and complex ways, shifted the workings and structure of the economy. Artificial Intelligence in one or more forms may prove to be a transformative technology over the next generation.

In addition, changes in taste, fashion, sentiment, and political decisions and direction will all affect particular industries and regions in uncertain ways. The global mission to tackle the climate and biodiversity crises will transform economies and generate even more change than usual in the decades ahead.

People will lose their jobs and existing jobs will change. We know that change is coming even if we cannot predict exactly what that change will look like. We will need safeguards to prevent people and regions from falling off the economic cliff. Laissez faire policies are not going to protect or resuscitate falling behind households and regions.

And yet we know that we can't simply stand still. If we don't embrace economic change we will fall behind and at best we will see our living standards stagnate. So, what we want is economic disruption that complements workers not disruption that substitutes for them. We also need to ensure that the way we deal with change is guided by just transition principles. This means that real income protections and new educational and job opportunities are made available for those adversely affected.

Already our current economic and social model is failing too many people. Consider material deprivation. Examples of deprivation include an inability to replace worn out furniture or afford new clothes; an inability to afford a night out or have family and friends over, or deprivation can include having to go without heating in the last month. We can think of the deprivation rate as a proxy for the prevalence of income inadequacy in a population or subgroup, or even as a point in time measure of those in severe economic insecurity.

As of 2023, fully 17.3% of people were experiencing enforced deprivation in the Republic of Ireland. Unfortunately, recent data on deprivation in Northern Ireland is unavailable. This data gap should be addressed in order to better inform policymakers and public debate. The United Kingdom had an absolute poverty rate of 18% in 2022-23 once housing costs are considered.

Focusing on the Republic, we can see that certain groups are especially likely to experience deprivation. Children are the most affected age group at 21.4 per cent, or more than one in five. In contrast, the over 65s are the least vulnerable group at 10.7 per cent. Exactly half that of children. Child poverty and deprivation are not just a moral consideration. Child poverty also causes a real drag on long-run economic performance because it undermines the human capital potential and life chances of the future adult and, therefore, diminishes their productive capacity.

Crucially, employment is not always a sufficient solution to deprivation in and of itself. One in eight of those in employment in the Republic, or 12.3 per cent, experienced deprivation in 2023, either due to a mix of inadequate wages or inadequate hours or both. In other words, we need labour market policy to go beyond mere job creation to consider the actual quality of the available employment. This has important implications for the types of fiscal and other supports we may wish to give, or indeed not give, to the labour market and to specific sectors.

Those outside of work fare even worse. Almost half (44.7 per cent) of those unable to work due to long-standing health problems or disability experienced some form of deprivation in 2023, while the same was true for three out of eight unemployed people (37.8 per cent). Lone parents (45.6 per cent) and renters (36.5 per cent) are other notably vulnerable groups. Women are marginally more likely than men to experience deprivation.

Economic security is a non-negotiable pillar of any meaningful model of economic development

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The labour market is by far the most important source of income for the majority of working age households. Given its importance, we must, therefore, consider the issues of market income inequality and adequacy and what can be done to improve outcomes.

Greater equality is associated with a range of quality of life and well-being benefits across the economy and society, ranging from greater social trust, to increased life expectancy and happiness, to lower levels of crime and stress.

Inequality intensifies distributional conflicts, reduces trust, and makes societies inherently unstable. Closer economic equality in middle- and higher-income economies is likely to be correlated with higher probabilities of individual economic security and lower levels of deprivation and poverty.

Over the long-term, more equal economies tend to be more stable and prosperous. IMF and OECD research finds that higher levels of inequality are associated with slower rates of growth and are a sign of economic inefficiency. Michael Kumhof and Romain Ranciere found that increasing levels of inequality were a causal factor leading up to both the 2008-12 Financial Crash, and the Great Depression of 1929.

As such, policies that reduce inequality ought to be understood as playing a vital role in sustaining long-run growth and in sustaining the macro-stability of the economic system itself.

What strategies beyond the welfare system can we pursue in order to reduce income inequality? One of the most important levers available to policymakers is to increase the levels of trade union density and collective bargaining coverage.

Trade unions and collective bargaining influence market income inequality for a number of reasons. Most significantly trade unions and collective bargaining increase the bargaining power of labour and by extension the share of income in the economy that goes to labour. Why does that matter?

Wealth inequality tends to be much higher in any given population than income inequality. Wealth accumulates further wealth over time causing it to become increasingly concentrated within the population. As wealth becomes concentrated it means that capital income also becomes concentrated. Policies that lead to a greater share of income going to labour instead of capital will tend to ameliorate wealth concentration and income inequality as indeed will policies that place a greater emphasis on taxing capital and wealth instead of taxing labour.

The rise in wealth inequality in many countries over recent decades has also coincided with a decline in union density. Why might this be? Greater union density and collective bargaining reduces the asymmetry of power between workers and business owners and acts to redistribute income away from the owners of capital (i.e. the holders of wealth) and towards wage earners.

Alex Bryson estimates that union wage premiums are meaningful and statistically significant. Farber et al estimate that the union wage premium amounted to 10 per cent to 20 per cent in the United States in the 20th century. Frank Walsh estimates a union wage premium of 8-10 per cent in the Republic of Ireland.

Using cross-country data for European and North American economies Zsolt Darvas, Giulia Gotti and Kamil Sekut find a negative correlation between income inequality and both trade union density and collective bargaining coverage. This relationship was generally found to hold across countries and across time.

In addition, because trade unions act in the interest of all the workers that they represent, their presence tends to help ensure that the labour share is itself more evenly distributed between workers, whether in a firm or in a sector.

Trade unions increase the labour share - and therefore reduce inequality - this is because unions increase the bargaining power of labour

In most cases, the median or 'middle' worker will earn less than the mean wage within a firm, sector or economy. This occurs because there tends to be greater compression at the bottom of a wage distribution than at the top of a wage distribution. A minority of high paid workers at the top tend to skew the mean upwards.

Thus, workers acting collectively will tend to vote in favour of a policy of wage compression i.e. they will tend to vote to reduce existing wage disparities. On the other hand, with no trade union, more skilled workers acting individually will be able to leverage their more marketable skill sets into higher wages, but this must be at the expense of other workers unless the wage share in the firm or sector also increases.

In other words, trade unions are interested not just in aggregate pay but also in relative pay. The greater the scope of a collective bargaining agreement, the greater will be the ability to compress relative pay within a particular sector. In this way, collective bargaining can also help reduce gender pay inequalities. Research from the IMF finds that less prevalent trade union presence and collective bargaining are indeed associated with higher market inequality.

As it happens, there has been a decline in the labour share and in trade union density in most OECD countries since the 1970's with larger declines in the labour share tending to occur in those countries with higher falls in union density and collective bargaining coverage. For example, Onaran et al find that the decline in union density in the UK is responsible for a 9.3 percentage point decline in the labour share.

Any government interested in reducing market inequalities should, therefore, pursue policies that increase collective bargaining coverage in the economy. This insight underpins the European Union's recent Adequate Minimum wage Directive.

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There are additional strategies that can also help reduce income inequality and the incidence of in-work poverty. Important levers include minimum wages, the tax and welfare system, and the provision of subsidised public services

Dale Belman and Paul Wolfson found based on their meta-analysis of more than 200 scholarly publications that moderate increases in the minimum wage disproportionately increase the earnings of those at the bottom of the income distribution and reduce wage inequality. There was also some modest evidence of positive spill-over effects on the wages of those earning slightly more than the new minimum wage while negative employment effects were generally found to be too small to be statistically detectable.

The UK government's target is that the minimum wage should reach two-thirds of median earnings for those aged 21 and over by 2024. The UK Low Pay Commission's analysis is that this will not significantly risk employment prospects. The government in the Republic of Ireland has committed to a 60 per cent of median earnings target by 2026. The target should then gradually transition to 66 per cent in order to achieve a genuine living wage.

While wage minima are important it is the tax and welfare system along with the subsidised provision of public services that are the most significant tools for alleviating the effects of market inequality. Fiscal policy will be addressed more fully in the long-read on economic resilience and was discussed in a previous long-read. For the purposes of the current discussion it is important to note that the design, scale and progressivity of the tax system have profound implications for inequality and for the envelope of public spending.

Tax policy is fundamental to any strategy to reduce inequality - taxes on capital tend to be the most progressive of all but a holistic approach to tax policy is necessary

The Republic and the UK both collect less revenue as a share of economic output than is the norm for Western European countries. This is important because it suggests there may be scope to expand the revenue base without damaging the economy. As it happens, the European Union's most competitive economies are those with the largest tax bases suggesting there may not be a simple trade-off between higher taxes and competitiveness. The structure and composition of the tax system is likely to be more important for competitiveness and growth.

Different taxes have often very different effects on poverty and distribution and indeed will have very different effects on economic growth. Taxes on wealth and capital and progressive taxes on income will tend to reduce wealth and income inequalities. On the other hand, taxes on consumption will tend to disproportionately affect lower income households. Notably, tax expenditures, colloquially known as tax breaks, will, in general, disproportionately benefit more affluent households. Taxes on capital stocks and especially property appear to be the most aligned with economic growth.

There are essentially three major taxes. These are income tax, VAT and corporation tax. Social contributions (Pay Related Social Insurance and National Insurance Contributions), while not strictly taxes, are the fourth major source of government revenue. Other taxes such as excises, stamp duty, taxes on properties and inheritances, and taxes on capital gains all tend to bring in much less revenue in most countries.

Taxes on consumption in the Republic of Ireland and in the UK, which are mainly VAT and various excises, are broadly typical of Western European norms with the Republic having a slightly higher than average implicit or effective tax rate on consumption. Consumption taxes tend to be regressive and are certainly less progressive than other forms of taxation, at least in general terms. Exceptions to the rule exist for certain types of luxury goods and non-necessities.

Nevertheless, consumption taxes can actually promote a levelling-out of living standards to the extent that they contribute to funding social transfers and an enhanced provision of subsidised public services. The Nordic economies all have high taxes on consumption but generally low levels of income inequality and high levels of well-being. The point being made is that the policy focus should be on improving the growth and redistribution effectiveness of the overall tax and welfare system rather than on the direct effect of individual measures.

In general, the most effective tax levers for reducing income and wealth inequality are progressive taxes on incomes and progressive taxes on wealth. The Republic already has a highly progressive income tax system with very low effective tax rates on low incomes.

However, taxes on the different forms of wealth, for example on inheritances, on land and on property, are generally very modest, in both the Republic and in the UK, relative to total household wealth. Indeed, wealth and capital more generally are treated much more favourably by the tax system than is labour income.

This suggests scope to shift the composition of the tax base towards greater levels of taxation on capital in both the Republic and in the UK. The Republic's Commission on Taxation and Welfare concluded that future tax design should give particular focus to increasing taxes on wealth and capital income.

There are of course many other strategies to reduce income inequality whether more generally or for specific groups. For example, gender pay gap reporting and affordable and available childcare can help reduce gender inequalities. Automatic enrolment of workers into retirement plans that are both government and employer subsidised can help reduce income inequalities in old age.

Reducing wealth inequality is more challenging. Ultimately, a meaningful difference can only be made by reforming tax policy so that there is greater taxation of capital assets and wealth more generally, including that of land and property, but especially of intergenerational transfers whether in the form of inheritances or gifts. Reducing the share of income going to capital can also help slow down the concentration of wealth over time.

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Economic security and well-being require policies that protect people through the inevitable transitions, shifts and shocks that characterise all modern economies. The green and digital transitions will create profound challenges for our economies and societies.

Social cohesion depends on protecting workers against these shocks via income replacement and active labour market programmes that ensure people have the skills needed to thrive in the changed economy. Unemployment insurance is a way of planning for change by protecting the incomes of those who are impacted by disruption.

How governments respond to crises can have dramatic impacts on present and future well-being. Misguided fiscal policy in the lead up to 2008 followed by a botched response to the 2008 financial crash has left ongoing scars in many countries. The collapse in capital spending contributed to the housing crisis and associated economic and societal problems in the Republic, while the austerity in the UK contributed to a running down of essential public services and to a stagnation of living standards.

In contrast, beyond a delayed and ultimately temporary surge in price inflation, there have been surprisingly limited negative effects from the Covid-19 pandemic on the economies and labour markets of Europe. A radical albeit appropriate policy response based on the principles of solidarity for all and on preserving the economy's productive capacity made all the difference compared to the 2008 crisis response. Massive financial support was provided to businesses and households enabling economies to bounce back once the health crisis had receded. Instead of an economic crash to rival the great depression of the 1930s we were able to sidestep a long legacy of economic misery.

The economic lesson of the pandemic is that a well-funded social security net is fundamental to economic security and recovery

Instead of being a drag on growth or competitiveness, a proper well-funded social security net was revealed as one of the fundamental components of a resilient economy. Providing income security in times of economic disruption not only alleviates distress for individuals and families, it is also a key investment in economic stability and recovery.

Income related social insurance provides a form of security that enables people to be less risk averse because they will still be able to maintain their living standards when temporarily out of work. The diminution of individual risk aversion exerts a positive effect on the economy by pushing people towards newer and better jobs. This reduces over-qualification and ensures better job matching and better utilisation of human capital and skills. The lessening of risk aversion also makes people more likely to start a new business or otherwise engage in entrepreneurial activity.

In addition, income related social insurance dampens the amplitude or severity of recessions by enabling consumption smoothing across the economic cycle. Crucially, pay related unemployment benefits help preserve aggregate economy-wide incomes and demand during recessions. This protects other people's jobs and prevents a downward spiral of economic decline.

This is particularly salient to the Republic of Ireland and the UK because both economies operate particularly threadbare social security systems by European standards.

Before the onset of the pandemic, unemployment benefits in the UK and in the Republic were flat rate payments. This was in contrast with most other European countries where payments tend to be made as a percentage of previous earnings. The UK had by far the lowest replacement rate of any OECD country with just 17 per cent net income replacement for a person earning two thirds of the average wage. The Republic, while more generous than the UK, was very much in the lower half of OECD countries.

Paul Mac Flynn calculates the OECD average replacement rate prior to the pandemic at 58 per cent for those on two thirds of the average wage and 51 per cent for those on the average wage. Twelve OECD countries had replacement rates of 70 per cent or higher for those on two thirds of average wages with five having rates of 70 per cent or higher for those earning on the average wage.

Temporary schemes introduced in the UK during the pandemic saw replacement rates surge to 72 per cent for those on the average wage and 83 per cent for those on two thirds of the average. The Republic, while not as generous, introduced similar temporary schemes.

The Irish government announced the introduction of a new pay-related unemployment benefit in 2024. The payment will be set at 60 per cent of previous earnings for three months, subject to a maximum of €450. The percentages and maximum amounts then decline in steps over the following six months.

One concern is that the duration for the pay-related benefits may not be long enough for workers to retrain and acquire new skills. In addition, the cap is set at too low a level and will still lead to relatively low replacement rates by European standards. It is nonetheless a welcome initial reform and one that should be replicated in the UK.

Spending on social security in most European countries is funded through a mix of general taxation and social contributions. When we look at the taxation of labour in both the UK and in the Republic, it becomes clear why the social security system has been less generous than in peer countries. Comparing social contributions, we see that both countries are well below the OECD average and almost bottom of the table among European countries. However, there is an imbalance in the shortfall of labour taxes with employer contributions particularly low as a percentage of labour costs, and also as a percentage of GDP for the UK and of GNI* for the Republic of Ireland.

A full set of reforms to the tax system and to social contributions are considered much more fully in the forthcoming long-read on economic resilience but it is nevertheless clear that a fit for purpose social insurance system will require significant increases in social contributions over time.

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Universal Basic Services (UBS) represent another important policy lever that we can use to reduce the practical impacts of income inequality and inadequacy and to safeguard economic security. If we are to meet the triple bottom line targets of sustainable economic growth, lower inequality and environmental sustainability then we will first need to re-imagine the bounds of the welfare state.

We can think of universal basic services, or 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.

What might an appropriate policy framework for UBS look like? An important underpinning principle is that right of access to essential basic services should be on the basis of need and sufficiency rather than ability to pay.

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

Expanding the provision of UBS is arguably one of the most structurally important policy shifts that any government could take from an economic inequality and cost-of-living perspective. Such a policy programme would amount to a de-commodification of the affected range of services. As such, it would diminish the importance of market-based income and social transfers. Anna Coote and Andrew Percy argue that UBS offers benefits that range across four dimensions: greater equality; efficiency of outputs; solidarity, and environmental sustainability.

For example, expanding UBS to ensure accessible and affordable public transport for all would assist countries in reducing their carbon emissions in a manner consistent with just transition principles. This is particularly relevant in the context of increasing taxes on carbon usage which may be effective but also tend to be regressive.

Similarly, expanding UBS to include a public childcare option that is available and affordable to all would increase labour supply particularly from second earners and lone parents. There is also an obvious gender equality dimension to such a reform.

There are other potential interventions. Expanding UBS to include greater provision of affordable public housing could help ameliorate the ongoing market failures and the chronic undersupply of housing in the Republic and in the UK. Increasing the supply of affordable housing would also improve labour mobility and reduce cost-of-living pressures across the economy which would in turn improve competitiveness.

Expanding universal services is one of the most important shifts that could be taken from an inequality and cost-of-living perspective

For some basic services, policies designed to ensure sufficient minimum incomes for all might be more appropriate. It will depend on the context. In addition, not all basic services need necessarily be provided *directly* by central or local governments. What is crucial from a policy perspective is that access is available, affordable, universal and guaranteed.

Most OECD countries provide some form of UBS in at least one of the above areas. Education is by far the most common example although in many countries free or heavily subsidised education is only available to children. Every country offers its own individual suite of universal services. The UK provides healthcare as a universal basic service through its National Health Service, while the Republic of Ireland provides free public transport for everyone aged 66 and over, as well as free water for most of the population.

The Nordic model can point to low child poverty, low poverty amongst women, high levels of income, and low levels of inequality

There is significant variation between countries. At one extreme, the Nordic model includes a near monopoly role for the public sector as provider of many essential services, whereas the liberal model at the other extreme, and best exemplified by the United States, is based on private provision of services and the principle of market dominance.

Adherents for the universalist Nordic model can point to its success in achieving excellent welfare outcomes. As well as the strongest employment rates in the world, the Nordics have achieved low levels of child poverty and poverty amongst women, high rates of female labour force participation, and low levels of income inequality.

The Nordic model is based on strong egalitarianism, a near monopoly role for the public sector as service providers, along with generous income transfers. Despite their high tax levels, the universalist welfare states tend to rank amongst the most competitive in the world and are characterised by very high levels of labour productivity and per capita output. These countries also tend to perform very well across many well-being indicators.

The case against universalism tends to hinge on the need for a high level of employment, a willingness to pay high taxes, and inevitable deadweight and inefficiency when public services are used on people that do not need them.

We need to think of universal basic services as not just costs but rather critical investments in the social infrastructure required for economies and communities to flourish. For example, the expansion of public services such as childcare and early education would provide a meaningful boost to the economy's productive capacity by reducing barriers to labour force participation and to education. An investment in economy capacity and not just a cost.

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Finally, we must consider income adequacy for those that are either unable to access the labour market for whatever reason, or that do not receive an adequate income from their employment. These groups are particularly prone to experiencing deprivation and poverty. In essence, deprivation, poverty, and the inability to meet basic needs reflect a mismatch between income and the cost-of-living.

Labour market dynamics will never in themselves be able to ensure adequate incomes for everyone. For an individual this may be due to caring responsibilities; it could be age related; linked to a disability; to skills mismatch; to the take-up of education and education opportunities, or it may simply be that not enough jobs exist to meet labour supply or that jobs are badly paid. Direct income support from the state will, therefore, always be an essential component of public policy.

It is crucial that the debates about income sufficiency and poverty reduction are evidence based and transparent given the implications for individuals and households. What is needed is an on-going, preferably annual, income benchmarking exercise to establish, on an adequacy basis, a set of minimum income floors for households of various types and with differential needs and requirements.

Such an exercise ought to encompass working-age and other income supports including supports for children, the unemployed, people experiencing disabilities, pensioners, and people parenting alone.

Income benchmarking has been variously recommended by a range of bodies including the NERI, the ESRI, the Commission on Tax and Welfare (COTW), the Pensions Commission and indeed many others. Such an exercise should be led by an independent commission established with all of the necessary resources. Its analysis, while remaining advisory, should then feed into the annual budgetary process with its recommendations and methodologies helping to underpin a set of multi-annual targets made public well in advance of the annual budget.

An obvious question is what to benchmark the various payments against. There are a number of ostensibly plausible options that include: A) percentages of the median wage, B) percentages of the median income, C) indexation to consumer price inflation or the personal consumption deflator, or even D) derived values linked to an individual or household's minimum essential standard of living (MESL). A composite set of indicators or indeed multiple indicators could also be used. The value of the relevant income support could then be set at a defined percentage or narrow range of percentages against the benchmark.

The labour market can never ensure adequate incomes for everyone - direct income support will always be part of the policymaker's toolkit

Benchmarking to price alone is unsuitable because the value of the income support would increasingly fall below that of wages over time. Wage growth outstrips price growth in most years and relative living standards for those reliant on income supports would deteriorate over time.

On the other hand, benchmarking against wages has a number of advantages. Doing so:

(1) ensures rates are set cognisant of employment impacts;

(2) ensures rates are indirectly linked to productivity and output growth to the extent wages are themselves linked to productivity, and

(3) ensures households on fixed incomes don't fall further behind average living standards.

Benchmarking to wages is also compatible with fiscal sustainability in so far as wage growth is itself a function of economic growth and the growth in tax receipts.

The main argument in favour of the MESL as benchmark is that it is cost-of-living and not wages that actually determines an *adequate* income level. The logic goes that only the cost of living can be a meaningful benchmark for adequacy.

While benchmarking is fundamental to income adequacy there are other welfare reforms that would similarly enhance the functioning of the system and support other policy goals such as the minimisation of employment disincentives or other undesirable effects.

The 2022 Commission on Taxation and Welfare proposed moving to a tapered system of welfare payments based on household income. Under this model the value of all supports would taper down gradually from a 100 per cent support for the lowest income households, and eventually reach 0% per cent at a higher income level.

We need to change our model of income supports to one based on actual need - benchmarking and tapering are the key reforms

Ideally, a consistent and systematic income tapering approach to welfare payments would, over the short-to-medium term, replace all existing supports based on employment status or any other arbitrary threshold, such as days or hours worked or age.

Removing welfare supports is functionally the same, from a household income perspective, as introducing a tax. Thus, the gradual tapering down of supports helps minimise employment disincentives by ensuring that marginal effective tax rates (METRs) are kept low. An income tapering model is also fully consistent with the goal of income inadequacy.

Other policy goals could be approached in a similar way. For example, the goal of eliminating child poverty could be tackled by introducing a benchmarked 2nd tier of child income support that diminishes or tapers gradually as household income increases.

Finally, the welfare system in both jurisdictions needs to be reformed to make it simpler and more coherent. Most importantly, policymakers should seek to gradually eliminate all cliff edges and step-effects from the welfare system. These are often arbitrary and can distort individual, household and employer incentives. Michael Doolan and Claire Keane have put together a list of these cliff edges and distortions in the Republic of Ireland. In the longer term, these, and their analogues in the UK, should be replaced by more streamlined welfare systems benchmarked against income adequacy.

Crucially, the entire system including all of the secondary benefits and non-cash supports (e.g. housing and health supports) should be analysed and designed holistically on a cross-departmental basis in order to ensure that the overall system of supports is internally integrated, coherent and based on appropriate and necessary data gathering and analysis.

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Policies that influence economic security and well-being extend well beyond the brief overview sketched in this long-read. It is also worth re-emphasising that these policies should be seen as complementary to those in the other three pillars.

The main policies identified in this long-read can be broadly summarised as follows and they apply equally to the Republic of Ireland and to the UK and Northern Ireland:

A) Collective bargaining should be made the norm across all sectors of the economy.
B) Barriers to joining trade unions should be eliminated in order to combat the long-term threats of declining labour share and rising income inequality.
C) The minimum wage should become a living wage and set at 66 per cent of the median wage.
D) Revenue as a share of national output/income should be meaningfully increased to ensure it is capable of meeting the increased fiscal pressures of the coming

decades (demographics, green and digital transitions etc) and to fund an expansion of universal services.

E) Revenue raising measures should focus on increasing taxes on capital including taxes on inheritance, on capital gains, on land, on property and on net wealth.

F) The use of tax expenditures should be severely curtailed. Such measures tend to be regressive and non-transparent and they also tend to distort economic activity. Tax expenditures are discussed in greater depth in the forthcoming long-reads on productivity and resilience.

G) Social insurance should be expanded to ensure adequate net replacement rates are provided for all workers that lose their jobs.

H) Employer social contributions (the social wage) should be increased gradually over time in to fund the expansion of social insurance benefits.

I) There needs to be an expansion of universal basic services. In the first instance this should include the creation of a public option in childcare with carers becoming public servants.

J) The cost of using public services should be gradually reduced over time on the basis that public services are merit goods and their provision should be based on need rather than on ability to pay. This includes healthcare, education and public transport.

K) All welfare rates whether for children, for pensioners, or for those of working age should be set on the basis of income adequacy benchmarking.

L) All social transfers should have a tapering component with the percentage value of the support declining gradually as non-welfare income increases.

M) The overall welfare systems should be reformed in order to systematically remove all cliff edges, step-effects, and other distortions from the system.

N) The welfare systems should be designed holistically on a cross-departmental basis to ensure coherence, appropriate data gathering and analysis.