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New Economic Model

A Framework for Economic Progress in the 21st century

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ABSTRACT

The global economy is entering into an era of instability and uncertainty. While there are many positive aspects to economic performance on the Island of Ireland, both economies contain significant weakness which global economic turbulence and evolving megatrends will ultimately expose. In this NERI Working Paper we sketch out a framework or 'New Economic Model' for inclusive and environmentally sustainable economic progress on the Island of Ireland in the 21st century. Specifically, we articulate an economic model based on four interconnected 'pillars' or goals defined as (A) sustainable growth based on innovation and productivity gains, (B) more and better-quality jobs, (C) economic security for all and (D) a dynamic yet resilient economy. The purpose of the paper is to reflect on the type of policy suite that, in aggregate, could simultaneously achieve all four goals.

The paper begins by exploring the major challenges or megatrends facing the modern advanced economies. The main body of the paper turns to a description of the four pillars and attendant recommendations about the needed direction of policy. In essence, we argue that policymakers need to replace the current 'low-road' model of domestic economic development on the Island of Ireland, based as it is on a particular form of competitiveness through cost reduction, low pay and precariousness. Instead, we argue that policymakers should aim for a 'high-road' model of development based on highly productive well-paid jobs in 'good companies', embedded within top quality social supports and a robust economic and fiscal structure. Such a strategy requires a rethink of our existing enterprise strategy and the nature of economic supports provided.

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SECTION 1: INTRODUCTION

1.1 No going back – Starting a debate

In just a few decades, the island of Ireland has been transformed. The Republic has moved from an EU laggard to a high-income economy. A large part of this transformation has been due to ever closer linkages with an increasingly integrated European Union, significant advances in people's skills and education and a highly successful Foreign Direct Investment (FDI) policy. Northern Ireland moved from conflict to a 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 Irish economies are not presently equipped to meet the challenges ahead. This is especially so when considering the poor productivity performance of the domestically-owned sectors, the Republic's massive overreliance on US FDI, Northern Ireland's relatively poor output performance, and significant infrastructure deficits throughout the island. Furthermore, even the economic boosts of recent decades had only translated partially into peoples' everyday lives, eroded by low pay, high wage and income inequality, shaky services, high cost of housing and general inflation and a lack of protection against the ups and downs of regular economic crises.

The Covid-19 pandemic caused unprecedented disruption to societies and economies around the world. Yet the crisis also produced radical and successful economic policy interventions that would have been unthinkable just months earlier. Western economies collectively spent what would otherwise have been unimaginable trillions of dollars defending their healthcare systems and the productive capacities of their economies. The state became the income, liquidity, and insurance source of last resort for business while workers were similarly protected. The indispensability of basic services and the welfare state were brought into sharp focus. Our understanding of the essential work being performed on a daily basis was forever changed. Also brought into sharp focus was the need to ask ourselves what type of economy we want in the future. The status quo was not working for many on the Island and was, in any event, an environmentally unsustainable model.

It was in this context of policy malleability and rapid changes that the Irish Congress of Trade Unions (2020) initiated a debate on the desirable future direction of the twin Irish economies (North and South) with its ‘No Going back’ (NGB) policy document developed in the early days of the pandemic. That document argued that policymakers needed to replace what it described as the ‘low-road’ model of domestic economic development on the Island of Ireland, based as it was on competitiveness through cost reduction, low pay and precariousness. NGB argued instead for a ‘high-road’ model of development based on highly productive well-paid jobs with a fair share of income for workers and a right to collective bargaining. It further proposed that a reframed economy should be consistent with the UN Sustainable Development Goals and based on the principles of inclusive growth, environmental sustainability, and universal basic services.

1.2 A proposal for a new economic model – An Irish RM

This paper expands on the NGB document and seeks to articulate what the high-road model might look like in practice. It follows in the tradition of the Rehn-Meidner (RM) model developed in the 1950s by the Swedish trade union economists Gosta Rehn and Rudolf Meidner (see Erixon, 2010). The four main goals of the Rehn-Meidner model were (A) high growth, (B) full employment, (C) income equality and (D) low inflation. The idea then was to identify the appropriate policy suite that could simultaneously achieve all four goals, in the process grounding economic success in high quality jobs while protecting workers and households from the risks of economic cycles and crises. The RM model advocated for solidaristic wage policy to incentivise productivity growth and innovation, for active and mobility-enhancing labour market policies and for prudent fiscal and monetary policy for sustainability and inflation control reasons.

Any viable model will need to build on current strengths and promising embryonic changes already taking place, repurposing existing policies and institutions. It should seek to resolve the current deficits in our economic and social infrastructure and do so in a way that is feasible in the current politico-economic order. This discussion paper has the same broad goals as the

RM model but has redefined these goals as well as the underlying policy suite in order to better fit the context of a very different global economy in the 21st century. These goals or 'pillars' are redefined as:

(A) **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 and development (R&D). It also encompasses new institutional practices such as horizontal innovation through the democratisation of workplace relationships and promoting best enterprise practice, as well as business and organisational models that don't simply displace environmental or care costs elsewhere in the economy. The 'good company' should become the norm.

(B) **More and Better Jobs**: This is about the pursuit of full employment with decent jobs for all. It emphasises policies that protect the labour market from volatile swings, and that increase both the quality and quantity of labour supply and demand. It also encompasses the promotion of quality employment and increased participation, and the phasing out of low-road workplace practices. Good companies are based on being good places to work.

(C) **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. Such policies support the 'high road' model of growth beyond the limits of the employing organisation.

(D) **Economic Resilience**: This is about the simultaneous pursuit of dynamism alongside fiscal, price and climate stability. It emphasises the importance of providing suitable macro conditions to facilitate economic dynamism, long-term gains in sustainable and green growth, and a foundation of resilience from shocks. Such shocks have had regular negative effects on workers, households and firms. Proper policy design and system resilience is critical to defending the high road model of growth, employment and well-being.

In the next Section we explore the major challenges or megatrends facing the modern advanced economies before turning to a description of the four pillars and attendant policy recommendations in Sections 3 through 7. Section 8 will then conclude.

SECTION 2: CHALLENGES AND CHANGE

2.1 Preparing for turbulence

Let us start with some positives. The Republic of Ireland and Northern Ireland currently have very high living standards compared to most other countries. The Republic ranked 11th out of 193 countries in the United Nations Human Development Index (HDI) in 2023 (flattered somewhat by the measure of output used) while the United Kingdom ranked 13th (United Nations, 2024). Iceland, Norway, Switzerland, Denmark, Germany and Sweden rounded out the top 6. The UK has very strong elite universities while the Republic has a very high level of university graduation. Life expectancy at birth is over 81 years in both jurisdictions. The Republic ranked 4th in the IMD World Competitiveness rankings in 2024 and the UK 28th. The Global Peace Index ranks the Republic 2nd globally for safety and quality of life and the UK 34th. Trust in public institutions exceeds the OECD average in the Republic although the UK is below the OECD average (OECD, 2024a). Both economies have been operating at close to full employment in recent years. In these and many other ways the economies and institutions on the Island are relatively successful compared to that of most other countries around the world.

But there are also a number of immediate problems and challenges. The Republic and the UK have skewed two-tier economies. High living costs, especially in the South, sit beside under-resourced public services in both jurisdictions. The UK has seen productivity stagnate in recent decades. The Southern Irish economy, in particular, has repeatedly exhibited boom bust tendencies, although the UK, and by extension Northern Ireland, are not immune to unwise macro-policies as the Truss premiership's swift collapse and denouement showed. There is a swathe of festering policy failures in areas as diverse as homelessness and housing, infrastructure delivery, and environmental degradation, while the longer-term fiscal sustainability problems in both jurisdictions have yet to be adequately addressed.

Many crises are unforeseeable events, but many are not. The identifiable future challenges are enormous. The global mission to tackle the climate and biodiversity crises will transform economies and generate even more change than usual in the decades ahead. Both economies on the island of Ireland will have to be gradually reshaped over the next generation if they are to adequately make the green transition, while demographic change and population ageing will increasingly exert debilitating fiscal and economic growth challenges. Technological change will be disruptive. Economy-wide technological disruptions like the steam engine, electricity, and the microchip have historically transformed economies utterly. Alongside general-purpose technologies such as these have been an ongoing stream of other minor and major process, product, and service innovations that have, in their various and complex ways, continuously shifted the workings and structure of the economy. Artificial Intelligence (AI) in one or more forms may well prove to be a transformative technology over the next generation. In addition, changes in taste, fashion, sentiment, and in political decisions and direction will all affect particular industries and regions in uncertain ways. Economies are not self-regulating. Left unattended they will tend towards boom and bust and there will always be regions, communities and industries at risk of falling permanently behind.

Our domestically-owned enterprise base is not equipped to meet the challenges ahead: comparatively poor domestic productivity and low business investment; long-term deficits in our public infrastructure; low pay and high wage inequality; high levels of deprivation (including in-work deprivation); pro-cyclical fiscal policies contributing to boom-and-bust economic cycles; and – in the case of the Republic – high living costs which undermines competitiveness.

There will be no sustainable return to pre-crash growth levels without significant reform. We are entering into a long-term, low-growth future, driven by demographic changes, geo-political conflict and de-globalisation, climate upheaval and technological uncertainty. These shifts will necessitate greater emphasis on maximising productivity through new inclusive institutions and practices, through a Just Transition, and through policies that ensure economic security and fiscal stability. Domestic economies marked by infrastructural deficits, low productivity, low wages and precarious work conditions, low educational investment, unsustainable fiscal policies and high living costs are not economies equipped to meet the challenges of an uncertain future, never mind ensuring prosperity and security for all. We also need to take cognisance of potential changes to the success of the Republic's current foreign direct investment model (FDI) as this could have far-reaching impacts on the productive economy. There is an over-reliance on US capital to fuel FDI and a danger in relying on what is now an unreliable global force.

When considering the existing and looming challenges we can set out some key principles for policymakers. Crucially, we must avoid short-termism in our policymaking. Instead the policy focus should be on the medium-to-long term, albeit we will always need countercyclical macroeconomic triggers and capacities in place that are available and ready to respond to short-term crises as needed. A reactive policy should not be confused with short-termist policy. Stability requires making choices that look ahead. In good times we should be preparing for turbulence, and in bad times we should be protecting living standards and safeguarding our productive capacity. In particular, we need to hardwire fiscal stability and embed price stability, and we must do all of this while fighting climate degradation and protecting incomes. Policy must be agile, willing and able to evolve as context and evidence changes, and, it must be sustainable across all relevant dimensions.

We must be clear. Stability does not preclude dynamism. Indeed, the alternative to dynamism is stagnation, and stagnation will ultimately and understandably breed political instability and discontent. People need to believe there is a better future and that their living standards will improve or at least be sustained. Finally, while we need to embed the right foundation of longer-term policies we also need these policies to be stable over the political and economic cycles and resilient to changing global conditions. This means that we also need to pay careful attention to the specific intricacies of policy design, including sequencing, and the potential for perceived or actual winners and losers. Ultimately our challenge is to develop resilient, stable and sustainable economies that are also vibrant, innovative, inclusive and dynamic.

High quality employment and social services and supports are crucial to maintaining this mix of dynamism, stability and resilience. Knowledgeable, empowered workers in strong companies and public organisations provide the flexibility and adaptability to face challenges of instability and competition. Business models rooted in quality rather than simply minimising costs are more likely to sustain the customers, collaborators and competitive ability that underpin stability. Furthermore, the virtuous cycle between well paid jobs, enabling social services and strong public finances is at the core of economic resilience.

2.2 The megatrends

What are the foreseeable pressure points? The Intergovernmental Panel on Climate Change (2023) forecast that climate change and biodiversity loss will worsen over time absent dramatic policy changes. Global warming will create more extreme events and disrupt food production. Besides these changes there will also be ongoing and potentially accelerating technological disruption. We may be in the early stages of a 4th industrial revolution characterised by the use of artificial intelligence (AI), machine learning, advanced robotics, developments in materials and life sciences, various new green technologies, and potentially a range of other advanced technologies including gene editing and nanotechnology. Such disruptions will have various and uncertain implications for the structure of the economy but will certainly alter the needed skills base in the labour market.

Demographic shifts are also certain. An ageing population and a smaller proportion of the population of working age will mean weaker average annual growth and will generate additional fiscal costs for governments. More optimistically, population ageing could create better leverage for workers to pursue real wage increases were labour supply to become increasingly restricted. De-globalisation is already taking place. Tariffs and non-tariff barriers are becoming more commonly used policy levers. The USA and the major EU states seem increasingly likely to shift the focus of their industrial policies away from free trade and towards the greater use of industrial subsidies, other forms of direct state-aid, and the deliberate on-shoring of supply chains. De-globalisation policies will inevitably exert downward pressure on trade levels and this will adversely affect small open economies such as Northern Ireland, and especially the Republic of Ireland. On the other hand, de-globalisation could, in theory, shift the balance of power between capital and labour in favour of labour, at least in so far as capital may become less footloose and less able to play countries and workforces off against each other in a race to the bottom on labour standards.

2.3 Climate change – the existential challenge

Climate change is going to impact the economy in many ways. For households there will be de-carbonisation adjustment costs, job losses in certain sectors, and in some places the loss of built housing stock and land. There may be upward pressures on the cost of living as economies adjust, while increased climate migration from the worst affected countries seems certain. Businesses are vulnerable to the loss of assets and certain business models and activities may not survive, at least in their current forms. There may be stranded assets in sectors such as energy production, transportation and agri-food. Supply chains will shift as will demand patterns.

A successful green transition implies falling yields from green taxes such as taxes on carbon and fuel excises. Yet governments will nevertheless need to fund the green transition costs and must do so while also shouldering much of the costs from more extreme weather events and rising sea levels. The political economy of the green transition will continue to be extremely difficult and the correct sequencing of transition measures will therefore be crucial. If the green transition is mishandled or perceived as unfair then reactionary policies may take hold. The emphasis of policy should therefore, where possible, emphasise carrots (e.g. incentives such as subsidies for retrofitting and electric cars) more than sticks (e.g. punitive taxes where no viable green option such as public transport is available). Vulnerable groups will need to be protected or compensated. In particular, we will need to ensure the green transition is a 'just transition' based on transition income and infrastructure supports, appropriate re-skilling, and regional development strategies based on decent good quality jobs.

The green transition has profound implications for the labour market. Certain 'brown job' (polluting) sectors will fall into relative decline while we can expect greater investment and job creation in new or cleaner technologies, for example, in renewable energy, in green construction and housing retrofits, in forestry, and in green public transport. However, it is unclear whether the number of green jobs created will be sufficient in number to directly replace the lost brown jobs. Furthermore, the environmental impact of inevitable expansions in service employment should be less polluting than 'brown jobs' but will depend to a great degree on policies around housing, transport and energy as they are often delivered 'in-person'. Finally, there are potentially major implications for agriculture practices and for land use. To manage these tensions, we will need to develop an attractive financial model for rural communities that will most likely entail the state paying significant annual sums to incentivise nature services and sustainable land use.

2.4 Technological disruption – Prometheus unbound

The debate about the pace and direction of technological change is set to become more heated as the implications of artificial intelligence (AI) and other technologies become clearer. There are concerns around rising insecurity including job loss and deteriorating job quality, and concerns about the threat of widening inequality were capital instead of labour (see Acemoglu and Johnson, 2024) to reap most of the benefits from changing production methods.

Governments and regional bodies will need to ensure their populations have the requisite digital skills needed to succeed in a changing economic environment and policymakers will need to increasingly focus human capital development on the STEM disciplines (science, technology, engineering and mathematics) and indeed on other skill-sets that will benefit from the anticipated shifts in the structure of the economy (e.g. construction and care skills). This is true not just at second and third level but also in terms of our collective approach to and support for adult education. However, such investments also offer the opportunity for a very practical new engagement between STEM, craft and social sciences and humanities education. The challenges that societies and companies will face in the coming decades combine technical and social aspects. The design of new technologies, the building of new living spaces, new relationships of care, and other new ways of meeting challenges all involve technical aspects, as well as changes to social relationships and human choices. With a high proportion of the population going on to third level education there is the potential to re-imagine education with deeper conversations and learning across disciplines.

We also need to learn from past failures to manage new technology. The lack of regulatory policy around social media technologies has led to disinformation, deteriorating mental health, loss of privacy, widening inequality, increasing concentration of power and wealth and a fraying of democracy itself. How can we ensure that the technologies of the future will be more socially beneficial and how do we ensure that new technologies will be complements to labour rather than substitutes for labour?

If we are able to embed new technologies in ways that *complement* labour then such technologies will enhance labour productivity and living standards. Conversely, developing and imbedding technologies that *substitute for* labour will merely lead to job losses, to rising inequality, and potentially to greater social instability. The losers from the first three industrial revolutions were generally those that worked with their hands. On this occasion it is white collar 'knowledge' workers in areas such as law, accountancy, finance, administration, and marketing that are, in general, more at risk. The political economy and social dynamics may, therefore, play out very differently from past technological shifts.

So how might we best protect high quality jobs from the potential downsides of automation and AI? There are no silver bullets. One part of the solution may be creating a policy environment that incentivises businesses to invest in workers skills and in staff retention as opposed to investing in labour replacing technologies. In practice, while much of the discussion of automation focuses on jobs, what is actually automated are different tasks. There is typically the strong possibility of re-designing jobs with a changed mix of tasks and to become more productive. The more that the focus is on job re-design in organisations and re-training of individuals, the more that the benefits of new technologies can be experienced by all, including good companies. Nonetheless, the experiences of previous eras of technological change suggest that investments in lifelong adult education and in strong social safety nets will be the critical interventions for people at risk from technological change.

2.5 Demographic change – the greying of society

Demographic change will create economic sustainability challenges in a range of ways. One challenge will be a slowing in the rate of economic growth per person. We can think of real economic growth, or for that matter economic decline, as a combination of the changes in average labour productivity and total hours worked in the economy. Current projections for population change imply that the working age ratio will gradually decline over time across all advanced economies. A declining percentage of the population of traditional working age range implies diminished potential for annual growth per person in the absence of other changes. Growth will therefore increasingly depend on finding ways to improve average labour productivity and/or finding ways to encourage higher levels of net inward migration from other countries.

Plausible effects of a declining working age ratio may include labour capacity issues in certain economic sectors along with an increase in real average wages as available labour supply diminishes and labour markets tighten. An ageing population will also lead to changes in the composition of labour demand. We can expect long-term care and healthcare to grow as shares of total employment while employment in education may come under pressure unless there is a meaningful policy shift towards greater support for adult education or smaller class sizes. An ageing population may also shift consumption patterns in other ways, for example there may be more spending on home improvements and eating in, and less on home building and eating out.

A further implication of population ageing will be its effect on fiscal sustainability. There will be increased demand for spending on pensions, on healthcare, and on long-term care. These costs will only be partially offset by reduced spending on childcare and education. In addition, the declining working age ratio will mean less tax receipts will be yielded from employment. This suggests that two of the four major tax headings, namely income tax and social insurance, will, at best, grow more slowly in real terms in the future absent policy change. Less employment income also implies less tax receipts from VAT and Excises.

2.6 De-globalisation – a fractured world order

De-globalisation has obvious implications for global trade and for Foreign Direct Investment (FDI) flows. This is of particular salience to the Republic of Ireland as it is one of the most open economies in the world and has benefited disproportionately in terms of employment and corporation tax receipts from US multinational investment into the country. The more open and export oriented a country is the more vulnerable it will be to tariff wars and to the trade destruction and trade distortion that results. In addition, small countries will be unable to compete with larger countries in their capacity to offer subsidies to incentivise investment and this will create even further headwinds against inward FDI into small countries.

Changes to the corporation tax rate in the USA, or indeed changes within the USA that successfully tackle the aggressive financial planning by US multinationals to reduce or avoid taxes, could have very significant fiscal implications for the Republic of Ireland to the extent that it might encourage the reallocation of Intellectual Property (IP) assets to the USA. Such an occurrence would shift the geographic allocation of profits and thereby erode Ireland's corporation tax base. Overall, a reversal of globalisation creates a challenge to the Republic's core economic model but also reduces the incentive for regions such as Northern Ireland to push for a lowering of their corporation tax rate to attract FDI.

A potentially positive side-effect from de-globalisation might well be a diminished ability of capital to play off countries and government against each other in its relentless drive to reduce business costs including, notably, labour costs. Less pressure on governments to pursue labour market regimes hostile to workers could shift the balance of power between capital and labour in favour of labour, or at least make it less heavily skewed than it currently is in favour of capital. Alternatively, the lower flows of FDI that are implied by de-globalisation policies could potentially make race to the bottom dynamics even more intense.

2.7 Dynamism and the creative gales of destruction

Other trends are foreseeable but not inevitable. Examples include the type of social fracturing observed in places such as the USA and parts of Europe and the tensions over rural versus urban inequalities expressed in other countries. Covid-19 and a land war in Europe might have been unexpected, but it is clear that future pandemics, wars, and a range of other shocks are foreseeable in at least some form even if their precise nature and timing are uncertain.

The goal of long-term economic and social resilience does not mean we should strive for unchanging stasis. On the contrary, economic and social stability requires people to believe that their living standards will improve, or at least that they can improve. Sustainable improvements in average living standards and well-being require the economic system to be dynamic, agile and ever more productive and inclusive. A focus on 'protecting what we have' might well be politically popular in the short-run but also is a developmental trap and dead-end. A dynamic and flourishing economy is one that successfully embraces and manages flux, churn, evolution, transformation and change.

We need to consider how policymakers can facilitate continuous growth in living standards and enhanced well-being. Adding additional units of capital and labour suffers from the long-run problem of diminishing returns. It turns out that gains in living standards from economic growth can only sustainably be achieved over the longer-term via the introduction and expansion of new or improved innovations through the economy that increase the average productivity of capital and labour. In effect, it is the application of knowledge and ideas in new ways and in new contexts that is the critical enabling input for sustainable long-term improvements in living standards. As such, sustainable growth policy essentially hinges on the production, diffusion and economic application throughout the economy of new ideas – understood not only as formal technical blueprints or instruments but more deeply as new ways of doing things and thinking.

The spread or diffusion of the new idea causes the aggregate level of productivity in the economy to increase. However, the newer and more efficient ideas, often embodied as new 'technologies', while they raise the economy's productive potential, they also render older products and services obsolete. Jobs, businesses, and even industries, which prove unable to adapt to the new reality will eventually be replaced by those better able to exploit the newer more efficient and useful technologies. In theory the process of economic upheaval is for all practical purposes' perpetual with newer technologies and economic activities themselves replaced over time.

We can think of long-run economic change as a process of ebbs and flows characterised by what Joseph Schumpeter (1943) calls 'creative gales of destruction'. Economic progress and development require turmoil and churn which itself is driven forward by human creativity and social imagination. Economic change is not a reality that can be wished away and we cannot and should not seek to prevent it. Preventing such change is to embrace stagnation with a constant risk of individuals and regions becoming left behind. Even so, change needs to be managed with appropriate transition supports. Indeed 'just transition' management is fundamental to any sustainable model of general economic well-being. Its absence or failure as a policy can be seen in the development of economic rust belts in the US and in parts of continental Europe and in the UK.

2.8 Defining the goal – sustainable and inclusive development

Economists are often accused of being overly focused on economic growth. Even so, we ought to care about long-run growth, with certain caveats, because the enormous variation in cross-country living standards that we see today essentially reflects long-term differences in per capita economic growth and development. The compounding impact of growth can translate into transformative improvements in living standards over time.

Of course, not all forms of growth are desirable. Most obviously, growth dependent on environmentally damaging practices comes with negative and potentially irreversible side-effects, and entails costs for current and especially future generations. Similarly, growth that is based on exploitation, that only benefits privileged groups, or that creates 'left-behinds' is equally undesirable and ultimately undermines the legitimacy and sustainability of the socio-economic and political model. Indeed, such a view of growth has been increasingly widely and clearly recognised (see for example NESC, 2023a).

Other forms of growth are also undesirable. For example, growth based on asset price booms, particularly for non-productivity-enhancing assets such as housing, or growth that is based on unsustainable current account deficits or on procyclical and unfinanced fiscal policies. Such periods of growth that are not anchored to the economy's underlying productive capacity tend to generate weaker performances over the longer term and often precipitate damaging balance sheet recessions, and during downturns the inefficient underutilisation of resources including underemployment. This can cause significant economic scarring as skill sets atrophy.

So, if it is not growth per se that matters what are we actually trying to achieve? One perspective is that the primary economic goal should be *sustainable* (across all dimensions) and *inclusive* growth which is capable of delivering lasting improvements in living standards and well-being for everyone. Additionally, growth that is based on sustainability and inclusivity brings resilience to our economy. Resilience in this sense can be thought as synonymous with concepts such as 'economic security' (Galbraith, 1976) whereby the model of growth is pre-programmed to face the disruptions and crises that may come.

2.9 The proposed New Economic Model – '4 pillars'

Our goal then is a prosperous economy and flourishing society that is also both inclusive and sustainable across all relevant dimensions. We want to avoid the booms and bust that have caused such pain and we want to protect people from the vagaries of the international market while recognising that engagement is critical. The ingredients of our proposed model are framed as 4 pillars (see Figure 2.1). They are:

(A) The productive economy

- Promoting productivity and innovation in a low-growth future, new institutions and stakeholder-practices; greater democracy and investment

(B) More and better jobs

- Promoting quality employment and increased participation, phasing out low-road workplace practices

(C) Economic security

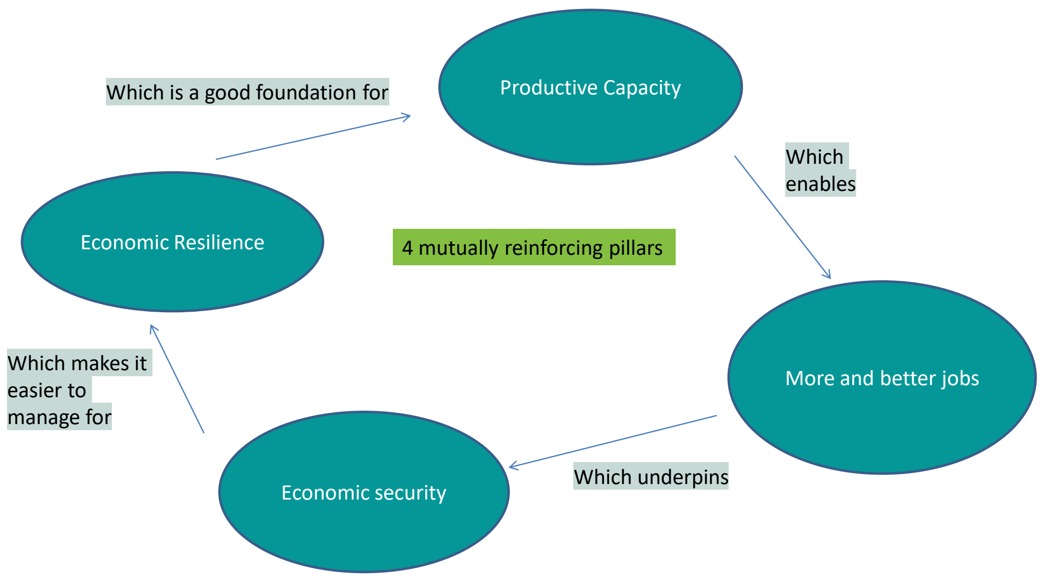
- Ensuring economic security throughout people's lives, reducing inequality and achieving a high level of well-being, abolishing poverty and deprivation

(D) Economic resilience

- Fiscal, price, environmental and political sustainability to promote economic dynamism and increasing productivity

The pillars are complementary and interdependent. More and better jobs anchor people's security and well-being. Economic adequacy and security are in turn, necessary if insufficient conditions for a sustainable and inclusive economic and social model. Insecure people make for unstable, reactionary, and fragile politics and policies. Economic resilience, for its part, provides the essential stable foundation that incentivises the types and scale of public and private investment needed for the high levels of innovative and productive capacity which we see as the ultimate enablers of the high-quality jobs that underpin economic security.

Figure 2.1 Four pillars



While, of necessity, we examine these pillars separately, they are mutually re-enforcing with numerous proposals that achieve more than one objective. For example:

- Collective bargaining can help raise income floors, reduce wage inequality, and promote a more equitable share-out of productivity gains. But it is also a tool for promoting productivity itself and may even add to social, and therefore economic, resilience.
- Employment quality raises living standards, promotes equality, and encourages enterprise efficiency (productivity and competitiveness).

- Universal Basic Services (UBS) boosts equality while reducing living costs.

The proposed New Economic Model (NEM) seeks to integrate proposals to promote the productive economy, employment quality, economic security and resilience in a joined-up manner. In this way we can unleash the potential of the market economy to the benefit of all social groups.

The 4 pillars are each in turn discussed in depth over the next 4 sections. Section 3 and section 4 deal with the ingredients of economic growth – ongoing productivity gains as well as more and better jobs – and together they make the case for a high-road approach to economic development. Section 5 then discusses the policy suite needed to ensure economic security and well-being for everyone before Section 6 turns the focus to achieving economic resilience across four key sustainability dimensions. Section 7 draws together the collected high-level propositions and proposals and briefly assesses the implications for policy. Finally, Section 8 concludes.

SECTION 3: PRODUCTIVITY - THE LEVER OF RICHES

3.1 Pillar 1: Productivity and why we should care

A productive economy is a vital element in a flourishing society. Productivity allows us to make the most of the hours that we work in our economy. It is a measure of how good we are at producing and doing things that are valued nationally and internationally. The organisational practices and institutional conditions that enhance productivity also have profound effects on a broad range of economic issues – how the rewards of work are distributed, how different kinds of work are valued, where we allocate resources, the sustainability of our production of goods and services, and more.

However, the domestic sector in the Republic of Ireland and the private sector in Northern Ireland are characterised by low productivity and investment, a low contribution of exports, infrastructural deficits, low levels of investment in R&D and an imbalance in the market economy that is skewed towards low-value-added activity.

There is a great deal at stake in improving productivity, but at the same time it is often a controversial topic. Some of the controversies relate to how to improve productivity – the difference between competitiveness and productivity, the organisational practices that promote it and the role of market structures, public policies and societal resources in boosting it. However, even the meaning of productivity itself can be disputed. Most obviously, even our conventional measures of productivity are in dispute – particularly in the Republic of Ireland where the weight of foreign companies in the economy leads to major and increasing distortions in GDP and the reliance on alternative measures of national income such as GNI* (see Ní Chasaide, 2023). However, there are broader questions that relate to how well GDP captures national well-being – raising questions of whether measures of productivity based only on monetary measures can fully capture the value that is created (NESC, 2023a). As the world economy most likely enters a period of low quantitative growth, this makes the quality of growth and the value generated by our activity all the more important.

Furthermore, related to this, the relationship between productivity at the individual, organisational and economy-wide levels can be contradictory. An individual can be highly productive in a specific role at the cost of broader organisational coordination and an organisation can be highly productive in generating revenues but impose significant hidden costs on the economy as a whole (e.g. in terms of environmental sustainability). Therefore, a genuinely productive economy is one based not only on productivity at the level of the firm or other organisations but also at the level of the economy and society.

This section of the paper begins by briefly discussing the importance of innovative capacity and where it comes from before turning its attention to the critical investments needed to generate future productivity gains. We then examine the patterns of productivity in the Republic, reviewing the impact of foreign companies, productivity in the domestic sector and the limits and potential for productivity improvements in the Southern Irish economy. The Republic's productivity combines a greatly exaggerated 'high productivity' foreign owned sector with a domestic sector which has comparatively low productivity (Smart and Taft, 2024). However, there is also significant potential in the long-standing record of foreign companies engaging in genuine productive activities (see e.g. Ó Riain 2004) and in the existence of significant pockets of enterprise upgrading in the domestic sector.

We also consider some of the issues that arise, in the Republic in particular, around the link between the organisational and economy-wide levels of productivity. Here, the Republic faces significant challenges as we note that certain types of production are generating significant environmental costs, including in both domestic dominated agriculture and foreign-dominated data and technology. Furthermore, the Republic has long relied on family structures of care to provide the work at home that enables participation in employment but these patterns of care are under significant pressure amidst a variety of social changes.

Having identified the key challenges – and unmet potential – in Irish productivity, the section then turns to the policies and conditions that can enable that potential to be realized. We start by considering some high-level principles for enterprise policy before exploring how various public policies have boosted the business capabilities of firms. Research has clearly demonstrated the positive effects of public policy while noting the limited reach of those policies. In addition, we investigate how patterns of work organisation and employment can also contribute to this enhanced productivity, showing that while the Republic has seen significant movement towards greater training and skills improvement at work, this movement is incomplete, with many with little training and high rates of low pay, while learning at work is comparatively rarely accompanied by worker autonomy and input, thereby reducing productivity.

Finally, we outline the key features of 'the good company' which can be at the heart of realising Irish productivity potential in organisations, but without simply offloading the costs of production on to the broader society. The section concludes with a review of an overall set of public policies and institutional conditions that can both drive companies to a 'high road' model of productivity and organisation and also provide them with the resources to travel that road.

3.2 Productivity and long-run growth – New ideas and innovative capacity

Sustainable economic growth comes from the accumulation and use of labour and capital inputs (i.e. investments in people, technology, machinery, equipment, and infrastructure, as well as more hours worked) combined with improvements in the productivity of labour and capital arising from a variety of sources notably on-going scientific progress and technological change and the diffusion of new ideas and practices. Crucially, additions to labour and capital are both subject to diminishing returns whereas productivity-based growth is not (see McDonnell, 2018).

For conceptual purposes we can identify two types of economic growth. These are (i) extensive growth and (ii) intensive growth. *Extensive* growth entails the accumulation and deployment of inputs such as people, land, materials, infrastructure, machinery and other capital goods. Extensive growth is possible, for example, when barriers to the full employment of resources have been artificially created and/or where private demand for labour is too low to support potential labour supply. In the long run, demographic and resource limitations mean that extensive growth is ultimately constrained.

In contrast, *intensive* or productivity-based growth allows us to obtain higher levels of output using the same volume of inputs, or alternatively, to obtain the same level of output using less inputs. In other words, productivity-based growth is not reliant on an ever-increasing use of resources, is potentially unconstrained in the long-run, and is therefore at least theoretically compatible with environmental sustainability.

Ultimately the determinant of average living standards is output per worker for a given effort – i.e. productivity. The key to productivity gains and what Mokyr (1992) calls the 'Lever of riches' is the production and diffusion of new knowledge and new ideas that are then applied in some economic context. These new ideas can be embodied in physical capital such as machinery or buildings, in intangible assets such as trades skills or intellectual property, or they can be applied directly by people as more efficient or novel work and organisational practices. There is also the related concept of innovations. Innovation is simply a catch-all-term for new ideas or combinations of existing ideas that manifest as a new product or service, a new market, a new source of supply, or even a new organisation. The economy's capacity to innovate helps determine its future potential productive capacity.

Economic growth based on 'new ideas' is sustainable ad infinitum as long as the process of creative and destructive innovation is allowed to continue indefinitely (see Aghion and Howitt, 2009). Technology diffusion is an intrinsic part of the innovation process. We can think of diffusion as the process by which individuals, firms and governments in an economy and society adopt novel ideas and technologies or replace older ideas and technologies with improved versions. The diffusion process can take a long time and is not guaranteed to succeed. It depends on the perceived benefits and costs, on factors related to the industrial, social and cultural environment, and on factors related to uncertainty and to the availability of information (Hall, 2004).

Notable factors that have influenced historical diffusion patterns over recent centuries include:
(A) Improvements in *communication and transportation technologies*;
(B) Increases in effective population size and density, and the growth of cities which tend to foster *cosmopolitanism and exposure to different and diverse people* with their own novel ideas and perspectives;
(C) Cultural shifts including greater *openness to other people's idea and tolerance for risk*;
(D) Improvements in *population-wide education and human capital* which enhances the populations' ability to generate, identify and absorb new ideas,
(E) Changes in 'organisational technologies' with *new structures and ways of doing things* and changes in occupations and professions, and
(E) *Changes in a society's legal and cultural 'rules of the game'*, or what North (1990) calls institutions.[1]

[1] The rules of the game condition the incentives, expectations, and behaviour of economic actors as well as the costs to generating, diffusing and applying knowledge. Examples include the strength and predictability of property rights; the education system; the financial system; the regulatory system; corruption levels; quality of governance and political stability; fiscal policy including taxation, and the legal system including patent law.

The economic system's ability to generate original ideas and to communicate, diffuse and assimilate existing innovations is referred to by Furman et al (2002) as its 'innovative capacity'. Innovative capacity determines the baseline ability to generate the productivity improvements necessary for sustainable gains in average living standards. Identifying the levers that influence innovative capacity is therefore somewhat analogous to identifying the levers to influence long-run sustainable growth.

Sustainable growth in output per hour worked depends on improving labour productivity and the economy's productive capacity. This in turn depends, at least in part, on the economy's innovative capacity because the greater the ability to innovate and the spread or diffusion of economically useful ideas and technologies, the greater will be the economy-wide benefits. At a *national* level we can frame it as National Innovative Capacity (NIC) with each country or region having its own innovation system comprised of innovating organisations with various capacities and different linkages to each other, as well as to knowledge flows.

In essence, enhancing their respective national innovative capacities is the critical dimension to improving the long-term performance of the two economies on the Island of Ireland. Ultimately a strong innovative capacity depends on developing, nurturing and safeguarding the conditions in which the promethean fire of human creativity can thrive and be rewarded. A country's innovative capacity is a function of:

(A) People's education, skills, experience and contacts (human capital);
(B) Prior investments in infrastructure, machinery and intangible assets, and in public and private research (R&D);
(C) The cost of, and capacity for, knowledge production, diffusion and use, and
(D) The quality and diversity of private capital markets and the enterprise structure

We can better understand the potential barriers to technology adoption by framing the individual or organisation's technology adoption 'decision' through a series of questions (see Table 3.1). These factors point to a range of potential policy levers available to government.

Table 3.1 Questions underpinning the technology adoption decision

Category	Question	Factors of relevance
A	Is the individual or organisation **'aware'** of the technology	Education, experience, physical location, contact with existing users
B	Does the individual or organisation have the **'opportunity'** to acquire the technology?	Technological constraints, infrastructure constraints, market constraints, legal constraints, physical location
C	Does the individual or organisation have the **'capacity'** to acquire the technology?	Income and wealth, access to affordable finance, education and skill-set, social contacts
D	What is the individual/organisation's anticipated level of **'utility'** from the technology?	Personal preferences, perceived relative advantage, familiarity with similar technology, culture

3.3 The critical investments for growth

3.3.1 Human Capital

We cannot improve the productive capacity of the economy without first investing in the people and capital that actually produce the goods and services. The most important investment is in people. Skill levels, educational attainment, and experience are all proxies, or at least aspects, of what economists call individual human capital (OECD, 1998). We can think of human capital as the knowledge, skills, experience, competences and creativity of individuals that is relevant to economic activity. Human capital development, which is a life-long process, not only enhances labour productivity but is also a necessary input for and complement to innovation and technology adoption. The level of human capital actually being utilised at an economy level (labour input) depends not only on individuals' human capital but also hours worked and the extent to which there is labour market skills mismatch or overqualification in the economy.

Public Spending on education and skills generates positive externalities for the wider economy to the extent that it represents genuine investment in human capital. Najaf-zada (2024) finds that spending on education generally results in a positive contribution to growth in output rates per person. Human capital is associated with a greater capacity to identify, adopt and use new technologies. Indeed, human capital is a necessary input for, and complement to, innovation and technology diffusion (Barro and Sala-i-Martin, 2003). There is evidence that strong education systems are associated with increases in the long-run per capita growth rate (see Hanushek and Wößmann, 2007). Skill levels and cognition for the population as a whole appears to exert a positive effect on growth. In other words, it is not just the top of the achievement distribution or the production of scientists and engineers that matters. To the extent that income is correlated with human capital we can expect that focusing on population-wide improvements in human capital instead of concentrating resources on elite academic performance and institutions might enable more inclusive growth and less economy-wide inequality (McDonnell, 2015).

As it happens, McDonnell and Mac Flynn (2023) show that the Republic of Ireland and the UK both under-spend per pupil on primary and secondary education relative to peer high-income countries in Western Europe. The Republic also under-spends on tertiary education. Fiscal savings of this nature are likely to be false economies in the long run because the relative lack of investment in human capital should ultimately translate into consistently lower levels of innovation and productivity growth and eventually into a weaker economy and tax receipts. There is, therefore, a strong economic argument that per pupil spending on education should, at minimum, be increased to the average for peer high-income European countries over the medium-term.

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

- Northern Ireland has the highest percentage of people aged 16-64 with no recognised qualifications of any British or Irish region. 12.3% of people have no RQF qualifications in NI which is almost double the UK average of 6.6%.
- Northern Ireland has the second lowest level of higher education research and development spending as a share of GDP (NISRA, 2025a).
- In 2023, 3.8% of workers in Northern Ireland received job-related training compared to 8.3% of the workforce at UK level (NISRA, 2025b).

As to what to focus education spending on, Hanushek and Wöβmann (2012) find that extra resources for improved buildings, formative assessment and smaller classroom sizes all have positive effects on outcomes. However, they find that it is the quality of teachers and teaching in schools that appear to be the key to better outcomes. This involves increased teacher autonomy, accountability and salaries, alongside life-long learning and training for teachers.

Of course, human capital is not exactly the same thing as schooling. It is a much wider concept. Children possess powerful learning abilities, and their home environment can be as important as school from a developmental perspective. The OECD (1998) points to parental investment of time and the fostering of learning attitudes and habits as important inputs to development. The early years are the most important for learning, and the surrounding environment and particularly the home is crucial to the development of cognitive and non-cognitive skills.

External factors such as poverty and deprivation can therefore have damaging and lasting effects on development. The potential impact on development is obviously a tragedy for the individual, but it is also a loss of potential human capital to the wider society and economy. From this perspective, we can see that policies that reduce childhood poverty should also be understood as investments in the long-term health of the economy. Family and childcare supports and in-kind public health services are effectively pro-growth policies to the extent that they decrease the risk and severity of child poverty and therefore help inculcate the formation of human capital.

Policies focused on increasing the skills and learning ability of disadvantaged children may similarly provide a large potential dividend to society, both in terms of economic growth and lower levels of inequality. James Heckman (2000) goes so far as to argue that investing in learning in early childhood brings greater returns than at any other stage of life. He points out that early learning and positive learning experiences makes it easier to go on learning throughout life. In other words, early learning of creativity, problem solving, and constructive evidence-based scepticism is likely to lead to improved learning of all kinds and is likely to be much more effective than trying to teach these abilities at tertiary level or indeed later into adulthood.

We can draw two important inferences. The first is that additional resources for education should prioritise early years learning while ensuring some additional resources at all levels. The second is that extra schooling resources should focus on disadvantaged families and disadvantaged areas where the probability or risk of falling behind or of not developing to individual potential is likely to be highest. Providing disadvantaged families and disadvantaged areas with access to quality and affordable early learning and early schooling supports should be understood as a bedrock long-term policy for enhancing the economy's productive capacity as well as being fundamental to easing the impact of poverty on young lives.

Even so, additional resources cannot be limited just to early learning as under-resourcing at secondary and tertiary levels – a particular issue in the Republic – has particularly negative effects on those from disadvantaged backgrounds who are typically managing greater and more complex demands alongside their education. Given the particularly high percentage of young people attending tertiary education in the Republic, this becomes an important institution where inequalities are currently reproduced but can be tackled in ways that significantly increase fairness and productivity.

3.3.2 Infrastructure

Investment in productive public infrastructure is an important component of long-run economic development. Public spending on infrastructure will raise output in the short-term because of demand effects and can therefore be an important countercyclical tool to combat an expected recession or as a means of reversing an ongoing fall in aggregate demand. In addition, we would expect efficient and appropriate investment in infrastructure to benefit growth in the long-run through supply effects and enhanced productive capacity. A meta-analysis of sixty-eight studies by Bom and Ligthart, (2014) found that public capital investment does indeed have a positive long run effect on output.

Spending on infrastructure declined precipitously in the Republic during the post financial crash austerity years though it has in recent years been on an upward trend as a percentage of GNI*. McDonnell and Mac Flynn (2023) show that per capita spending on infrastructure in the UK is well below the average for high-income economies. The Fiscal Advisory Council found that in areas of housing, transport, health, energy and water Irish infrastructural investment – as measured in public capital stock - falls well behind other high-income economies (IFAC, 2024). Such deficits undermine the productive economy's ability to generate income, imposing considerable costs on enterprises and households.

In Northern Ireland the cuts to public capital spending since 2010 amount to £3.1bn of lost (Mac Flynn and Wilson, 2025) 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'. More generally, low levels of spending on infrastructure have likely contributed to the UK and Northern Ireland's low level of productivity growth in recent years.

We need to plan the expansion of our capacity (e.g. labour supply, planning and legal reform, land use, project management) in order to build the needed infrastructure. Of course, not all investments have the same impact and there is a danger of projects being chosen for electoral reasons or operating inefficiently with soft budget constraints and weak oversight. As such, all major projects should be subjected ex ante to rigorous and independent cost benefit evaluation, including evaluation of the opportunity costs foregone. Fiscal and other support for private investment is also important, but policymakers should be careful not to unduly distort investment decisions via favourable tax treatment for certain types of investments, in particular in relation to relatively unproductive assets such as residential and commercial property.

Support for private investment should come, instead, via access to finance at a reasonable cost. This requires well-functioning and competitive capital markets. The establishment of a Savings and Investment union in the Euro area would help improve financial market development and access to capital in the small Republic of Ireland economy.

In addition, the establishment of independent state or regional investment banks could address market failures in terms of access to finance for high potential start-ups. Public bank or State Investment Bank (SIB) models have worked well in Germany and elsewhere (Duggan, 2013). SIBs can use state backing to centralise and leverage financing for investment both in infrastructure and in R&D. Public banks can be mandated to lend into the productive economy with particular emphasis on, for example, green investments – staying away from property and financial products. Also, because they are not bound by short-term shareholder value they are free to engage in longer-term lending with patient capital. Special purpose vehicles can be established within SIBs to focus on specialised sectors of the economy such as renewable energy or housing, or to focus on specific regional areas such as Northern Ireland, or the North, West and Midlands in the Republic of Ireland.

3.3.3 R&D

Aghion and Howitt (2009) describe spending on R&D as a special type of investment and specifically as 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. Spending on R&D is complemented by spending on the development of the labour force's stock of human capital.

The characteristics of economically useful knowledge lead it to generate productivity gains, positive spill-overs, and increasing returns to scale and scope (see McDonnell, 2018). However, the characteristics of knowledge also make it difficult for knowledge producers to appropriate or internalise all of the benefits of knowledge production. For example, it is difficult to prevent a new technique or product that a business has developed from being copied and exploited by other organisations and individuals. This of course reduces the private incentive to undertake R&D activity. In other words, the private returns are less than the social returns and this means that private investment in R&D will be less than the socially optimal amount of investment in knowledge production. Knowledge production is also an inherently uncertain activity which further diminishes the private incentive to invest. The end result is a structural market failure that creates a justification for state intervention.

The most straightforward supports for engaging in R&D come in the form of patents awarded, in government subsidies, or via tax expenditures, although supports in the form of tax reliefs can come with significant deadweight if not properly designed. Support can also come indirectly in the form of legal or insurance safeguards that protect risk takers in the event of failure. For example, a lenient bankruptcy regime that does not overly penalise failure would encourage greater risk-taking and enable serial entrepreneurs to try new models of business activity and technologies, and to continuously apply the lessons learned in a form of ongoing learning by doing. The design of 'protections' for innovators must be undertaken carefully as instruments such as patents have also been used by dominant firms to stymie new entrants and block new innovations.

States can also directly invest in R&D through the creation and support of research institutions such as universities. Ó Riain (2004) argues that government has played a critical role in the growth of successful innovation economies in countries as different as Finland, the US, Israel and Taiwan – and also made significant contributions to the Republic's successes of the early 'Celtic Tiger' era. Mazzucato (2013) argues that Germany's successful competitiveness strategy has been driven by its ability to build a strong innovation system, with patient long-term finance, strong science-industry links, and above average R&D/GDP spending.

McDonnell and Mac Flynn (2023) find that the UK ranked bottom in 2019 amongst a group of 12 high-income Western European countries in terms of per capita private investment in R&D and also in terms of per capita public investment. The UK's per capita spend was even lower than the EU average despite having a much higher per capita income than the EU. The Republic of Ireland did somewhat better than the UK but ranks just 10th for private R&D investment and 11th for public R&D investment. The Republic's public R&D spend would need to almost double to reach the unweighted Western European average while the UK would need to more than double its public spend to reach that average.

While there is no absolute consensus about the optimal level of spending on human capital, on public infrastructure and on R&D it seems very unlikely that further investments in these areas from their current levels would yield negative results in terms of growth outcomes. If sustainable economic growth is genuinely a priority of governments, then policymakers should ensure that the significant under-spends on education, infrastructure and R&D are progressively eliminated over the medium-term. These expenditure categories are essential for intensive growth – i.e. for the sustainable economic growth premised on greater efficiency in the use of inputs. The UK's poor productivity performance in recent years is unsurprising when we consider the chronic lack of investment in these areas while the Republic of Ireland may have become over-dependent on its foreign multinational sector as a source of growth.

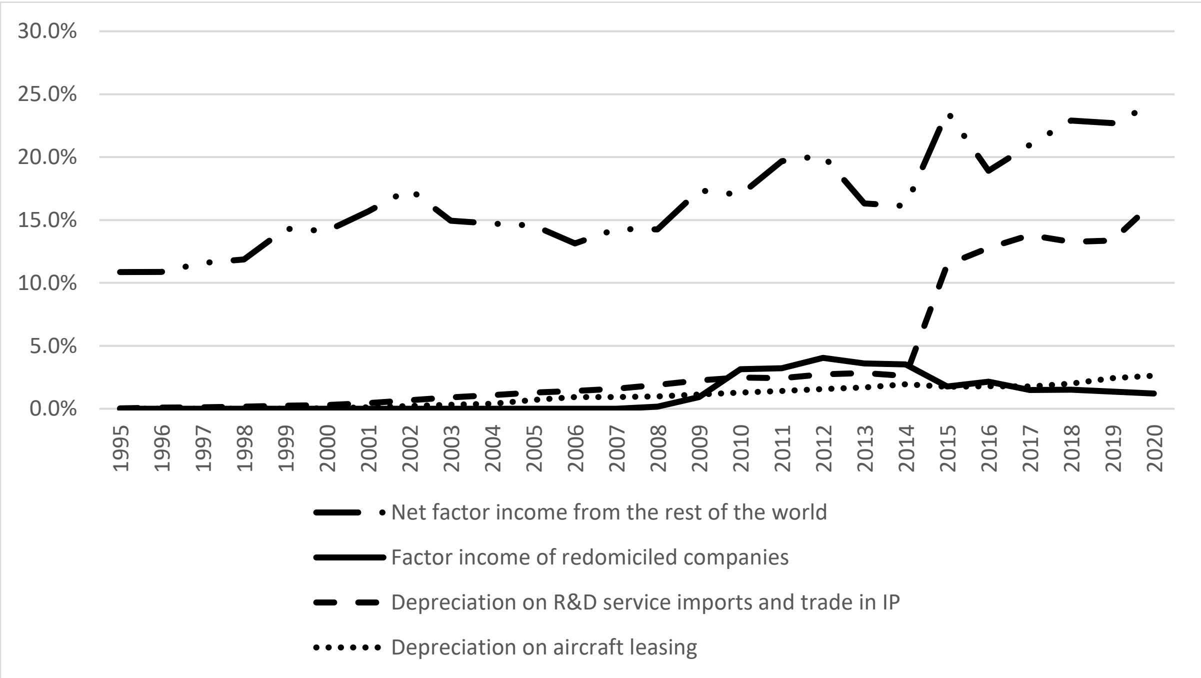
Finally, if future economic development is to be associated with resource decoupling in order to reflect ecological boundaries and long run environmental sustainability, then investment in all three of these areas will be critical. New capital infrastructure and new technologies and activities will be necessary if we are to fundamentally change economic activity in a green direction most crucially in our energy systems and transport networks.

3.4 Exploring productivity developments

Across the most successful small open economies, the productivity of the export sector has been central to the success of the broader economy. The Republic shares this experience of an export sector that leads on all measures of productivity. However, as is well known, the Republic is also distinctive in the dominant role of foreign corporations and the distortions that this produces in measures of productivity, from macro measures such as GDP to micro measures such as returns on investment in R&D.

Overall, the foreign owned sector exhibits levels of 'productivity' that are so high that they can only be explained by financial flows and their accounting treatment, flows that have famously surged in the past decade (see Figure 3.1 which shows the trends in the value of each component of distorting activity, as a percentage of GDP). Nonetheless, fictional and real activities are entangled in complex ways in the foreign-dominated sectors and the foreign owned sector makes very significant contributions in terms of employment and higher wages.

Figure 3.1: Trends in Adjustments to National Income; Components as a Percentage of GDP



Source: CSO

The relation between the productivity of foreign firms and domestic enterprises and the broader economy is more complex – with a mix of limited spillovers, competition for labour and other resources and boosts to domestic demand (Barry et al, 2005; Brady, 2019). However, the impact of the dominance of foreign firms reaches beyond the measures used or the economic linkages. The more successful small European economies historically combined the growth of exporters with key investments in and institutional supports for domestic innovation, workforce development, financial system development and social capabilities. In the Republic, the dominance of foreign investment put productivity bargains in a different position within the broader social contract. Productivity was imported directly with new corporations, rather than developed in conjunction with supporting institutions and local spillovers. In an economy dominated by foreign investors the central relation between exporters and the state came to be framed around questions of minimising taxation rather than managing the relation between wage increases and productivity improvements, particularly when measured levels of productivity were largely fictional due to transfer pricing and other multinational firm accounting strategies.

Therefore, the Republic is characterised both by comparatively weak real productivity in domestic enterprises and the underdevelopment of the institutional systems that support productivity growth and enterprise upgrading. Whatever the role of the foreign investment led development strategy, it is clear that domestic private enterprise in Ireland is generally characterised by lower productivity than in comparable EU countries (see Table 3.2).

Table 3.2: Comparative Performance of Ireland and EU Peer Group Domestic Enterprise Base

	Real Productivity per Hour: 2017-2019 average	Manufacturing Investment per Employee: 2017-2019 average (000s)	Enterprise Exports as a % of GDP: 2022
EU Peer Group	32.8	11.1	21.7
ROI	28.0	2.2	9.7 *(GNI*)*

Source: Smart and Taft (2024)

Nonetheless, there is evidence that key moments of economic recovery were driven at least as much by Irish owned exporters as by foreign export firms (see Table 3.3). This shows that employment in Irish exporters increased much more quickly post-crash than it did in foreign firms. Foreign firms only passed out the contribution of Irish exporters once the economic recovery from the great financial crash was well underway. This reflected the relative success of an enterprise policy focused on indigenous exporters that operated parallel to the foreign investment strategy, although with relatively few links to it.

Table 3.3: Irish (Republic) and Foreign Exporters (Employment change per annum in each period)

Years	Irish	Foreign
Total 2001	47,750	154,419
2001-3 (Dot.com)	-2536	-4900
2004-7 (Recovery)	911	1020

2008-9 (Global Financial Crisis)	-1852	-5894
2010-12 (Recovery)	6165	1893
2013-2015 (Growth)	4160	4584
2016-2021 ('Leprechaun Economics')	3635	10918

Note: Export-Based Employment calculated as: Employment*(Exports/Total Sales)[i]
Data: Annual Business Survey of Economic Impact (ABSEI); , CSO Database.

Even as the historical benefits of foreign investment were clear in employment growth and wage increases, so were the costs of a system driven domestically by a distorted tax structure and facing significant international tensions. Nonetheless, the contribution of domestic enterprise at key moments suggests that there is significant potential for development and transformation. We can start to imagine what transformations in Irish society and economy could be achieved with a true leap in terms of productivity, given what has been achieved on fairly modest gains to date.

Turning to Northern Ireland, and despite some improvement in recent years, output per hour worked in 2022 was just 86% of the UK average and Northern Ireland was the second worst performing region, only coming narrowly ahead of Wales. Business investment in research and development (R&D) as a share of GDP is just over 70% of the UK average in Northern Ireland. Only 3 of the 11 British regions perform worse. This is compounded by the UK itself having one of the lowest rates of business investment in the G7 group of major economies. Exports in Northern Ireland also underperformed the UK average. This is despite Northern Ireland having access to both the UK and EU internal markets under the Windsor Framework agreement that governs trading rules post-Brexit.

Finally, the domestic market economy is unbalanced, with a high level of employment and economic activity in low value-added sectors such as hospitality in both the Republic of Ireland and Northern Ireland. For instance, in our peer group of comparable European countries, hospitality makes up only 7% of total domestic market employment. In the Republic, it is 12.2% – nearly twice our peer group level. Hospitality is a notorious low-productivity sector. Our over-reliance suggests a structural imbalance in the market economy which drives down overall productivity in both economies. We therefore need to transition resources – labour and capital – to higher-income and higher-productivity sectors and avoid policies that give preferential support to low productivity sectors. We consider these and other economic deficits in our proposals later in this section.

3.5 The productive economy and externalities on the broader society

The discussion of the character of Ireland's productive economy to this point has been largely focused on enterprises within different sectors. However, as we outlined earlier, this is only part of the story of a productive economy. In particular, all activities generate externalities, or knock on costs and/or benefits for the broader economy in which they are located. We have touched on this question as it relates to the impact of foreign investment on domestic enterprise and the broader economy. However, there are also more general externalities to be considered, as they relate to the conditions of any enterprise operating effectively and the impacts that leaves on the broader society. This sounds impossibly broad but in practice two issues are critical – the societal and environmental sustainability of productive economies.

Discussions of productive efficiency tend to focus on the producing employees and organisation, but understanding the productive economy reminds us that these employees take a great deal of care and effort to 'reproduce' away from production. This relates to the production of the workers themselves (e.g. through care and education) and the work that they do themselves to care for and 'reproduce' past and future producers – through eldercare and childcare in particular. Indeed, the demographic pressures around these demands of care are in many ways increasing, particularly as a 'sandwich generation' increasingly faces demands of childcare, eldercare and their own working lives at the same time (McGarrigle and Kenny, 2013). Such workers face complex arrangements to reconcile paid work and unpaid care, linking together in their everyday lives the macroeconomic imperatives of productivity and the reproduction of the social foundations that sustain that productivity (for the dilemmas involved see Lafferty et al, 2023). The ability to reconcile these is challenged by organisational changes where the demands of work are often intensified, both in the work process itself and the balance between work and non-work (Green et al, 2021; Ó Riain and Healy, 2024). Indeed, Ó Riain and Healy (2024) find across Europe that workers who are in the more secure, better paid positions face significant challenges of the intensification of work and the intrusion of work into the rest of their lives – suggesting a significant tension between organisational productivity and its social foundations.

The other obvious externality of organisational productivity is the impact on environmental sustainability. There are various direct environmental effects of productive activity. Emissions vary significantly by sector, as do projections of future emissions trends (without mitigating measures) – with agriculture a large producer of emissions forecast to remain fairly stable and the smaller emissions producers of manufacturing and industrial processes forecast to decrease and increase, respectively (EPA, 2025). The inputs into sectors can also have significant environmental effects, with the energy (and to a lesser extent water) demands of data centres having a significantly increased effect on the energy infrastructure in recent years.

However, there are multiple other points of connection between the productive system and its environmental conditions. The organisation of working time and the mix of in-person and remote work are major influences on the transport needs and patterns of the workforce, for example. Indeed, the debates on remote working (extending back well before the pandemic in Irish public policy e.g. DBEI, 2019) involve different perspectives on the particular balance and mix of the role of in-person collaboration in improving productivity, the environmental benefits of reduced commuting and the benefits of employee flexibility (linking it to the care issue discussed above).

Therefore, we can see that genuine productivity is linked not only to organisational efficiencies but to firms and organisations that don't simply offload the demands or costs of productivity onto the broader society. There is a need for a synergy between firms and the institutions and social structures that enable them. Much of these hours, most notably care work, are unpaid or undervalued and therefore not fully reflected in official output statistics. More broadly however the discussion of productivity relates not only to the revenues that are generated within the economy but also to what gets counted and valued through those revenues (NESC, 2023a). Furthermore, productivity is enhanced when it draws on broader social capabilities and these in turn are only strengthened and developed when they are expressed in the productive and business strategies of firms. Successful societies are good at doing good things. For example, the promotion of the wind energy sector in Denmark boosted private energy providers, enhanced the public renewable energy sector and was linked to more sustainable transport and industrial energy practices (Van Est, 2022).

3.6 The current policy strategies

Done right, it is possible to construct a high road path to organisational and economy-wide productivity where firms generate low levels of costs for the broader society and are enabled to do this by supportive institutions.

The Republic has developed a number of such supportive institutions and policies in recent decades that have been a significant contributor to development. These include a range of supports provided mainly through Enterprise Ireland around organisational development, financing, research, marketing and exporting, and more. Agencies played a crucial role in supporting and promoting this upgrading, especially in the Irish owned sectors through grant aid, soft supports, promoting associations and networking and providing and incentivising financing of businesses - working through a network of agencies to form a “developmental network state” (Ó Riain 2004). Significant additional state funding of research activity and infrastructure, albeit highly concentrated in priority sectors, has been provided for 25 years. This complex mix of supports has been concentrated on export activities, with a preference for technology-based firms. The evidence we have suggests that state grants and R&D investments have had positive effects on exports and employment (O'Malley et al. 1992; Ó Riain 2004; Girma et al. 2008). This model is now firmly institutionalised, centered particularly around the well-established agencies of Enterprise Ireland.

Other policy frameworks co-exist and, in some ways, compete with this ‘developmental state’ strategy. One such policy has emphasised the freeing of private capital through reduced taxes, regulatory change and ‘market making’ (Gallagher et al, 2021). However, there is little evidence that private finance played a central role in Ireland’s economic transformation (Honohan, 2006). Surges in such financing have shaped the construction sector significantly. Another policy has targeted the low productivity domestic sectors more explicitly but with a view to maintaining them rather than transforming and growing them. This strategy has emphasised the reduction of costs – most explicitly by reducing the ‘tax wedge’ for employers (by coordinating the minimum wage and tax bands, by keeping employer payroll taxes comparatively low and through some welfare subsidies for low pay rates). It is perhaps no surprise that the Republic has one of the highest rates of low pay in Europe, particularly among middle aged and older workers (Ó Riain, 2025). Ireland’s policies to transform the capabilities of domestic exporters exist alongside other policy approaches that lock in low cost, low productivity strategies.

Northern Ireland has, in many ways attempted to borrow many elements of the policy environment in the Republic, particularly as it relates to supporting FDI and wrap around investment supports for domestic firms. However, much of that support has been called into question given the relative underperformance of the Northern Ireland economy over the past two decades. Invest Northern Ireland is the main economic development agency in Northern Ireland and delivers many of the economic policy objectives outlined by the Department of the Economy. A recent review of Invest NI (Independent Review of Invest Northern Ireland, 2023) has provided some welcome evaluation of the policy impact to date and shows a clear need for change based on its findings.

Overall the review found that while Invest NI's programmes had a "positive impact on employment growth among assisted firms", it became almost solely focused on job creation and was "acting as a job promotion agency without a firm understanding of jobs actually created through the support." Of its total support spending, two thirds went to domestic firms, while over 50% of the support provided to foreign owned firms went to just 10 companies. An overarching theme within the analysis of Invest NI's support programmes was the on-going support which was provided to many firms. In this sense, much of the resources allocated to economic development was going to preservation of existing client firms rather than seeking out new firms or new growth opportunities. Of the many recommendations for Invest NI from the review, there was a clear focus on recognising that FDI is not intrinsically more productive than indigenous industry and that financial support to firms, foreign and domestic needs to focus on additionality and added value.

This mixed picture of policy strategies is mirrored in developments in the organisation of work, which has a direct effect on productivity. Employer labour market and employment strategies and practices are shaped by what employees are expected to do at work and the organisation of work itself. This takes a number of typical forms across Europe (Ó Riain and Healy, 2024; Holm and Lorenz, 2015). Put most simply, these organisational approaches are formed from two key dimensions – *Learning*, whether there's an opportunity for learning and whether the job involves complex tasks, and *Autonomy*, how much scope people have at work to make decisions about their own work and how it's done. Where there is little complexity and little autonomy, we find 'Simple' jobs, most common in Mediterranean economies. Where there is a lot of learning but relatively low autonomy, you get the now classic model of lean production that has been much debated in recent decades with the influence of Japanese production methods in particular. Highly pressured, it is most common in large scale services and manufacturing. Finally, there is a learning system where the workers have a lot of complexity to face, but also a lot of autonomy. The Learning forms of work are strongest in the Nordics and Lean is generally strongest in the UK, the Republic and continental countries such as Germany, France and Austria. Overall, there is a shift towards more pressurised work, but also a growth in its complexity. Work is often more interesting, but also more demanding.

Table 3.4 provides a brief comparison of these key features of productive organisations in Denmark, the Republic, the Netherlands and the UK in 2021, for both all sectors and the Less Knowledge Intensive Services (LKIS), which tend to be characterised by low productivity. The Republic and the UK have a particularly high level of training provided on the job although it is unclear what exactly this involves and the degree of training being referred to. Perhaps more reliably, the gaps between countries in rates of 'learning on the job' are fairly negligible.

Table 3.4: Learning and Autonomy at Work, 2021; Less Knowledge Intensive Services (LKIS) and All Sectors

	All				**LKIS**			
	DK	IE	NL	UK	DK	IE	NL	UK
Training paid by Employer (Employees only)	29.7	59.7	50.9	60.5	22.6	45.8	38.7	47.9
Training on the job (Employees only)	49.1	60.2	43.5	57.1	44.5	56.1	32.9	52.4
Learning New Things (High – often or always)	56.1	59.7	55.1	57.8	47.2	48.4	40.9	45.6
Autonomy (High – often or always across tasks, methods and pace)	54.2	38.6	57.5	41.6	49.9	32.6	52.2	40.1
High on both Autonomy and Learning	33.8	25.9	35.1	26.5	27.3	19.9	28.1	21.1

Source: Author's Calculations, European Survey of Working Conditions

What is perhaps more telling is the relatively low percentage of employees in the Republic and the UK who have significant autonomy in controlling their own work tasks, method and pace.

Denmark and Netherlands have similarly high levels of autonomy at work. It's also worth noting that while there are some small differences in autonomy in work in the service sector compared to all employment, country differences are in fact much more consistent and significant. Not surprisingly then we find that the percentage of workers who have high levels of both autonomy and learning are significantly higher in Denmark and the Netherlands than in the Republic and the UK. Broadly speaking, this reflects the dominance of Lean organisations in the UK and the Republic with ‘constrained-learning’ while Denmark and Netherlands have a higher proportion of Learning organisations characterised by ‘discretionary-learning’, with more scope for workers to decide how to apply their knowledge.

This is true in the LKIS sectors, where the Republic’s (and Northern Ireland’s) ‘low learning trap’ is a significant barrier to productivity improvement (Ó Riain and Healy, 2018; Mac Flynn, 2017). In such sectors, there is relatively weak access to computer use; less access to decision-making and less access to learning; greater exposure to different forms of precarious employment. In the Republic today, even as the overall labour market is upgrading in many respects, significant parts of the low productivity domestic labour market are caught in a low learning trap. People are coming into that labour market with gaps in education, networks, experience and other resources - but the labour market itself is not enabling them to bridge those gaps. Indeed, it is reinforcing them.

However, this is far from inevitable. Indeed, Curran and O’Driscoll (2023) provide a fascinating case study of the Armada Hotel which has put ‘decent work’ and the McKinsey 7 S framework at the centre of its productivity strategy in a LKIS sector. They argue that it provides “a case of exceptionally good practice that could inspire and inform other establishments in the industry as they grapple with post-pandemic recovery” (2023: 4). Similarly, Fáilte Ireland research and practice seeks to place improved workplace conditions at the heart of new recruitment and productivity strategies in tourism (Fáilte Ireland, 2022).

There are significant elements in Ireland of a ‘high road’ towards productivity that is driven by organisational upgrading, new capabilities in sectors and society and by work systems that draw on worker skills and give them the freedom to use them in enhancing productivity. Such a ‘high road’ does not have to be invented from scratch but can be built on some existing foundations, although it would require that competing approaches be sidelined. The remainder of this paper outlines some broad strokes of an approach to doing this.

3.7 Reforms to enterprise policy – Part 1: The innovation system

In general, a specific public policy measure can only be justified to the extent that the society-wide benefits outweigh the deadweight, opportunity, and other costs of providing the measure. Enterprise policies and supports for business can be justified to the extent that a society's overall well-being is enhanced by a fast but sustainable rate of inclusive economic growth over the longer term, and to the extent that properly designed enterprise policies can potentially facilitate such growth and use it as a tool to tackle societal challenges. Furthermore, enterprise policy can support the growth of key organisational resources that form systems of innovation that are the long-term foundations of productivity. This has been a historical key weakness of the economies on the island of Ireland compared to other small open European economies (Mjoset, 1992).

Enterprise policy has been filling the gaps in many of our faltering institutions, but in a far too limited way. This extends across the various factors of production. As regards capital, the financial system has been exceptionally poor in channeling funds to productive investment and innovation, with disastrous consequences in the crash of 2008. The development of labour has been very significant in the education system, but much patchier and polarised in the labour market itself. Ireland's labour market is still characterised by a "low learning trap" for workers entering with lower levels of formal education (see Ó Riain, 2017). Research – even in technology and innovation – has historically been underfunded and still lags behind the innovation leaders. Perhaps even more fundamentally, Ireland's workplaces are often characterised by high levels of hierarchy and control and there is much to be done to develop 'learning organisations'.

Noting the critical importance of fostering a dynamic and productive innovation system we can identify a range of potentially growth enhancing policies. There are implications for the design of fiscal policy, education policy, and enterprise and competition policy as well as implications for the appropriateness of specific supports and interventions.

3.7.1 The wrong type of intervention

One needed area of reform is in relation to the overuse of tax reliefs. In particular, tax reliefs that subsidise and preferentially promote low value-added business activities or failing business models, and/or impede meritocracy and promote intergenerational equality of opportunity can be understood as forestalling the processes of dynamic churn and economic development. Such policies carry fiscal and other opportunity costs and are likely to be counterproductive by producing slower growth in the long-run. Examples of these policies include preferential reduced VAT rates for low-value added activities, blanket reductions in corporation tax and preferential inheritance tax breaks that entrench inequality of opportunity and often keep business management in less than capable hands.

Overall, the use of tax expenditures as a tool of public policy should be minimised. Similarly, subsidies for business (including agriculture) can be deleterious to long-run growth to the extent that they skew incentives and distort resource allocation. Given the various downsides (e.g. perverse incentives, market distortions, deadweight, negative distributional effects, rent-seeking, complexity), tax expenditures are only justifiable where there is clear evidence of inherent structural market failure. Specifically, tax expenditures for SMEs/entrepreneurs are only justified if they pass a number of tests:

A) There must be a clear and defined market failure
B) The market failure cannot be adequately remedied through regulatory reform or otherwise through direct government intervention
C) Direct government subsidies or other interventions are unlikely to end or sufficiently ameliorate the market failure, or could only end the market failure at a higher fiscal cost than via tax expenditure.

Even when these criteria are fulfilled, the rationale for the tax expenditure should be assessed on an ongoing basis to establish its effectiveness at ameliorating the market failure, the scale of the deadweight loss, any unintended consequences, the distributional impact, and the opportunity costs including the cost to the exchequer and the policy options foregone. Finally, sunset clauses and caps should always form part of tax relief design.

Supports for the continuation of non-viable existing businesses also have little merit in terms of generating new ideas and new innovations, or in terms of promoting a vibrant churn of business entry and exit. A high rate of Schumpeterian business churn is an important element in the ongoing process of generating innovation and technology diffusion. Policymakers should therefore seek to avoid trapping resources in underperforming or even ‘zombie’ firms with unviable business models or weak management practices.

3.7.2 The right type of intervention

Policy should seek to reduce financial and administrative barriers to firm entry and exit, and to avoid economic ‘lock-in’ to particular activities or outdated technologies. Examples of good policy in this regard include generous and expeditious bankruptcy laws that do not penalise failure and that encourage young firms to exit the market quickly and entrepreneurs to ‘learn and try again’ differently. A greater acceptance of churn also necessitates generous and ongoing supports for life-long learning and education in order to enable workers to learn new skills and adapt to new technologies. Such supports will facilitate people transitioning to employment or entrepreneurship in growing sectors of the economy. This is essential from a just transition and therefore political economy perspective but also makes sense from a productive and innovative capacity perspective.

Furthermore, we need to think about enterprise development as more than simply a focus on generating additional exports and even employment. The development of organisational capabilities in a society is the core of enterprise policy but is also central to tackling societal challenges. If, for example, enterprises or networks of enterprises emerged that were making new strides in promoting environmentally sound construction or care pathways in community healthcare provision these might not lead to exports but would be of enormous economic and social value even if they didn’t. Enterprise policy can be a significant part of what drives reform in these areas as it bumps up against the problems and highlights them for a cohort of organisations that have a high profile within the political system. Improving enterprise policy can also address challenges for Irish society.

The Republic has a set of institutions that have been relatively successful in supporting and guiding indigenous firms towards organisational development and ultimately successful exporting – from the programmes of Enterprise Ireland to the network of Local Enterprise Offices that feed into them. While funding is an important element, even more significant are the supports for organisational development, including networking, mentoring and a variety of investments. For example, there are multiple existing and potential points of engagement between firms and the policy system in the Republic. These include direct contact with firms by agencies such as Enterprise Ireland but also county enterprise boards, Skillnets or other institutions. The key activity of such agencies is 'enabling winners' not 'picking' them – a critical goal is organisational transformation and enhancing productivity. The resources and supports provided through these contacts are important but just as significant are that these connections form part of a learning ecosystem within sectors. The 'footprint of such agencies can be continually extended to generate new activity, particular in regions with lower rates of growth.

Nonetheless, extensive fiscal supports should generally be restricted to firms with significant developmental potential – which can include the development of new capabilities in a region; potential areas of import substitution such as renewable energy; and most clearly export-oriented sectors. Evaluation of particular enterprise policies should be based on the broader long-run 'societal' impacts, including the opportunity costs, and not just on the private firm impact. Such criteria could be included in reports on local and national impacts of enterprise supports. For example, the characteristics of knowledge and the potential for gains from knowledge spill-overs suggests that 'new ideas' will be produced by markets at a level below the socially optimal rate. This means there is a strong societal justification for government intervention to encourage R&D activities either through direct provision, through subsidies for business or indeed through tax reliefs for business notwithstanding other concerns about the use of tax expenditures. A similar positive case can be made for firms seeking to invest in green technologies.

The optimal approach to encouraging a dynamic economy and society is to focus on openness and opportunity and on the economic security that encourages risk-taking. The measures discussed later to support employment quality and economic and social security provide a strong foundation for such innovation and experimentation. More specifically, enterprise policy should focus on the wider picture of maximising the economy's overall innovative capacity. Most obviously, governments could increase public funding for both basic and commercially driven research in order to increase the production, diffusion and use of new ideas. Ideally, this would be accompanied by the establishment of more attractive and secure career paths for researchers and by the establishment of deeper collaborative linkages between government, firms and universities.

In addition, governments should continuously examine the scope for reforms to education policy in order to ensure a balance between alignment with the developmental needs of the economy and society, an ongoing diversity of expertise and perspectives and to ensure that it does not leave certain cohorts behind. Related to this is the need to meaningfully increase investment in education, and in personal development and skills, particularly for those disadvantaged cohorts that are most at risk of falling behind. Development policy should take a particular focus on early years learning and on measures to eliminate childhood poverty. Eliminating child poverty is not just a moral necessity but also an economic imperative.

Where capital markets are not well-functioning there is a case for some form of state support to provide patient long-term finance in order to support innovative effort and technology diffusion. Crucially, the concept of the state as an investor entails equity stakes in speculative high-risk and high-potential start-ups with an additional but less important secondary function of providing conditional[2] low-cost loans for private enterprise. Mazzucato (2013) describes the notion of the entrepreneurial state. The state is seen as primarily an 'innovative mission-oriented investor of last resort', not a 'lender of last resort', and as a 'sharer in risk-taking' and not just a 'reactive fixer of market failures'. For example, she emphasises the need for a mission-oriented approach to the enormous but necessary economy-wide transition to net zero, and she notes the unique ability of the state to provide the patient, long-term, strategic, committed finance necessary to make that transition. As noted above, the Republic in particular has a reasonably developed institutional infrastructure of such supports – these supports can be extended downwards to support early stage company development and upwards to link to major societal challenges – including for example, housing, health and just transition.

There are at least three main areas where appropriate government intervention could potentially enhance the long-run productive capacity of the economy via supports for enterprise. These areas are:

1. *Increasing the economy-wide rate of generation of high potential start-ups (HPSUs) and raising equity finance for HPSUs*

[2] E.g. conditions related to minimum environmental and labour standards. Follow-up loans could additionally be conditional on factors such as export performance.

Relevant supports to inculcate HPSUs include meaningful increases in public spending on R&D including funding for basic research, as well as meaningful increases in funding generally for Science, Technology and Innovation courses and activities, for the career progression of STEM researchers, and for administrative and information related supports aimed at facilitating establishment of HPSUs. In addition, governments could consider establishing independent state investment banks (SIBs) focused on investment in potential and existing HPSUs via a combination of equity stakes and low interest loans. The presence of the Strategic Banking Corporation of Ireland and the Ireland Strategic Investment Fund in the Republic provide a strong basis for this activity. The UK National Wealth Fund which replaced the UK Infrastructure Bank in 2024 is designed to provide early investment for new firms and technology where private capital is lacking. Nascent firms often have difficulty securing finance due to their lack of a track record. Investment banks of this nature could use their size and wider societal remit to focus on radical high risk and high reward activities that might otherwise struggle to receive private financing. The development of these advanced firms feeds off the broader raising of the productive base of the enterprise economy.

2. *Incentivising in research, development and innovation*

Enterprise policy should also seek to incentivise experimentation by firms in new ideas, in technology adoption, and in new business models and practices. Tax credits for R&D make sense in this context. They should be accompanied by administrative supports to reduce the burden and the uncertainty around the use of these types of supports. Direct subsidies for innovation are likely to be of great significance for smaller firms and early stage companies and may carry less deadweight loss than tax expenditures. The appropriate nature and design of government supports targeted at increasing technology diffusion will depend on the precise reasons underlying the diffusion failure (see Table 3.1 in section 3.2).

In addition, governments should seek to better develop their regional or national systems of innovation (NSIs) in order to cultivate and widen innovative capacity. This would entail deeper and more systemic collaboration between firms, academia, think-tanks and government including via access to researchers, secondments and demonstrations, and information campaigns. Small and new firms would particularly benefit from access to the human and technical capital embodied within university and government connections. Large scale advanced R&D programmes and institutions have focused on sectoral areas and research priority areas that are closest to the needs of the large multinationals located in Ireland, particularly in the Republic. While these make sense for a certain range and type of firm, the research supports ecosystem needs to be more diverse in the types of research supported and the programmes that smaller companies, with still developing capacities, can participate in.

Finally, R&D carries significant upfront costs and has a high probability of failure. The small sizes of the Republic of Ireland and Northern Ireland mean that they both must inevitably specialise in a limited selection of technologies and activities. Policymakers should explore how best to establish collaborative linkages between the key actors in their respective NSI's as well as the key NSI actors in other countries. Cost sharing, improved scale and cross-fertilisation of ideas between countries and regions opens up additional possibilities for frontier innovation and facilitates technology diffusion.

3. *Attracting and retaining human capital and diffusing technology more broadly*

The ability of an SME to become aware of and exploit new ideas is called its 'absorptive capacity'. Human capital is the most important element of absorptive capacity. An unintended consequence of the Republic of Ireland's successful FDI strategy may have been a 'golden cage effect' whereby human capital is diverted away from the domestic economy and indigenous companies by the attractive opportunities and career prospects offered by foreign multinationals. Such a golden cage effect may be contributing to weaker technology diffusion outside of these multinationals by reducing absorptive capacity outside of these firms. Smart and Taft (2024) find the Republic has significant productivity deficits outside of the multinational sectors.

Impediments to labour supply and skills bottlenecks can also retard technology diffusion and absorptive capacity. Significant impediments to employment include the cost and/or lack of availability of childcare and adult care, as well as barriers to internal labour market mobility and inward migration such as housing costs and availability. Greater funding could also be made available to incentivise firms to invest in the human capital of their workforce and to incentivise engagement with academics and business networks.

A high-level checklist of appropriate policy reforms to enhance our innovation system might include:

(1) Allocating higher levels of per capita spending on public R&D and providing generous subsidies and tax breaks for private research;

(2) Creating a safety net for entrepreneurship and risk-taking including via social insurance reforms and lenient bankruptcy laws;
(3) Establishing attractive career paths for STEM workers and for other researchers particularly at PhD level and beyond;
(4) Providing fiscal supports for ICT adoption and financial and other supports that encourage the life-long re-or-up-skilling of workers and managers more generally;
(5) Improving infrastructure especially in technologies that facilitate communication and learning such as broadband and artificial intelligence (AI);
(6) Enacting patent reform at EU and UK levels to prevent the monopolisation or mothballing of technologies;
(7) Building out an entrepreneurial state in which the state takes a leading and activist innovation and entrepreneurship role as proposed for example by Mazzucato (2013);
(8) Encouraging inward migration in order to bring in a flow of new skills, new ideas and new perspectives into the economy;
(9) Promoting horizontal innovations from within organisations by encouraging a greater degree of employee voice and autonomy, more active learning by doing, and better communication of internal expertise, and
(10) Ensuring greater economic and social inclusivity including the elimination of child poverty and the other barriers that prevent individuals fully participating and flourishing in the economy. Greater inclusivity allows everyone to potentially contribute to or exploit the sum of knowledge in the economy.

3.8 Reforms to enterprise policy – Part 2: Workplace democracy, 'good companies' and sectoral taskforces

Fundamental to good growth is the promotion of productivity at firm level. It's clear that tax breaks, wage suppression and deregulation do not drive productivity. Instead the more reliable route to productivity runs through high quality employment and employee participation, learning and innovation (Holm and Lorenz, 2015). We instead propose a strategy predicated on (a) democratically transforming industrial and governance practices in current enterprises, (b) incentivising new and more productive enterprises through social conditionalities and minimum standards, and (c) incentivising a dynamic, competitive and innovative enterprise model.

The promotion of human capital at the firm level has the capacity to drive productivity and firm performance. This involves inclusive and democratic practices in business governance. Particularly important is the vindication of employee collective bargaining rights. Numerous academic studies and surveys from international bodies have conclusively shown that collective bargaining boosts enterprise productivity. The OECD (2019) drawing on this work notes that collective bargaining delivers higher productivity, improving,

'. . . the quality of the employment relationship between workers and firms. It can be a useful tool for self-regulation between workers and employers and bring more stable labour relations and industrial peace, leading to a more efficient allocation of resources, greater motivation and ultimately productivity.'

The EU Commission (2020) came to similar conclusions:

'. . . collective bargaining leads to better wage conditions, which may induce employees to work more productively and companies to adapt faster and more smoothly to changed market conditions, thus fostering productivity growth.'

Collective bargaining increases capacity to solve problems in production and efficiency, produce new ideas and commercial and innovative activity, and avoid narrow management group-think. To put it another way, owners and management that deny collective bargaining are undermining enterprise efficiency and national productivity. They are a barrier to an innovative, dynamic economy. Linked to enterprise policies as discussed above, collective bargaining also provides a mechanism for searching for and activating supports for the development of productivity in firms.

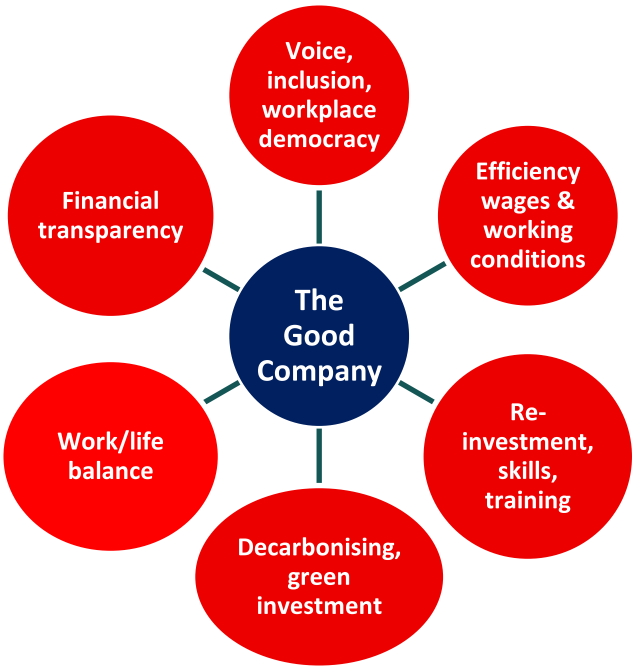
Workplace democracy can also embrace a number of other initiatives from board level employee representation in the form of worker directors, to enterprise councils co-managing the firm, to labour-managed enterprises. It is reasonable that including people with accumulated years of experience, knowledge and skills could improve business performance. In the first instance, there could be a programme of wide-scale experimentation in new democratic governance with enterprises willing to participate being publicly supported and resourced. A national centre for partnership and performance could sponsor a range of democratic initiatives – designing and assessing experimental activities. Evidence based conclusions could then inform the public debate over time.

In addition, we need to promote '*Good Companies'* and commensurately shift resources away from low-road employers. Good Companies (see Figure 3.2):

- Integrate all stakeholders into firm level decision–making (collective bargaining, flatter hierarchies, board membership, employee participation, enterprise councils, etc). This is about voice, inclusion, quality decision-making, and respect.
- Pursue efficiency wages and practice good working conditions, including work-life balance over the life course.
- Invest in skills, training (apprentices) and career progression; and in new technologies and enterprise expansion - pursuing high value-added strategies and prioritising the social utility of profits (that is, investment).
- Pursue environmentally sustainable activities (green production and sourcing, circular economy).
- Provide financial transparency.

Good Companies can be incentivised and supported through a process of social innovation, using instruments of social conditionalities and interventions that ensure that our domestic enterprise base drives productivity and coheres to social need. Such incentivising instruments could include: (a) prioritisation in public procurement contracts; (b) special grant-aiding for start-up and incumbent firms, including in-kind supports such as expertise and foreign market research and (c) de-risking investment through equity funding from the state.

Figure 3.2: The Good Company



Policy can both demand and enable the growth of 'good companies' through a number of different mechanisms. Here we simply note three. Firstly, public agencies can provide key resources – sometimes in the form of direct grants, advice and contacts but also through supports for business upgrading (e.g. R&D supports and technology diffusion) and for labour upgrading (e.g. resources for training but also to support work-life balance and care).

Second, public policy can place constraints on firms, pushing firms to comply with high standards but also imposing a floor of conditions that takes away the 'low road' to competitiveness and forces companies to pursue 'high road' productivity enhancing strategies.

Third, if firms are to be pushed down the high road, they will need supports and assistance along the way. A banking system that would provide patient finance would be a vital element in this. Moreover, the public policy system would be critical in providing 'enabling services' to firms from the local economy to export markets, as a partner in the organisational transformation process. This triangle of investment in collective resources, 'beneficial constraints' and 'enabling services' is critical to the enhanced development of good companies.

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 foster 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.

Finally, we need to consider the potential role for sectoral taskforces. Specifically, we need a '*negotiated'* strategy for the economy that promotes a competitiveness and productivity agenda. In essence, this would be 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
- The megatrends e.g. de-carbonisation, the introduction of Artificial Intelligence and other transformative technologies
- The potential for expansion into foreign markets
- Understanding and managing local and regional resources, weaknesses and strengths
- Current and potential skill shortages

Sectoral taskforces also offer the potential to link together policy developments in financing, skills and education, research and innovation, procurement, export strategies and more into coherent sets of developmental supports. Inter-firm connections and learning within sectors are relatively weakly developed in some sectors and can also be critical here in promoting 'best practice' of 'good companies' – as Curran and O'Driscoll (2023) outlined for the Armada Hotel case discussed above. At the policy level, sectoral taskforces and inter-organisational learning can be important mechanisms for more organic development of policies that support good companies in their business development and employment quality.

The Republic's 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 Northern Ireland (NI), the Departments for the Economy launched a series of sectoral action plans for six 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.

3.9 Further reflections on the future of enterprise policy

We have seen that there are significant supports for productivity and innovation already in place, particularly in the Republic in particular. In developing this existing policy infrastructure, we can think about extending it upwards, outwards and onwards.

Extending *upwards* involves improved investment in upgrading and innovation across enterprises - using public banks to drive productive investment and promote the skills of financing business development; developing research programmes that can be more easily absorbed by indigenous firms; promoting workplaces that develop employee learning and decision making and knitting these supports together through sectoral taskforces.

Developing *outwards i*nvolves extending the footprint of enterprise policy. In the Republic this involves building on the network of Local Enterprise Offices, Skillnets and similar institutions to general regional and sectoral supports for upgrading small and medium enterprises with local banks providing patient capital to support small scale investment and skills initiatives to break the "low learning trap. At the same time, complex supports for HPSU and other future major exporters need to be developed and enhanced so that the support and push for productivity improvements is across the whole economy.

Finally, policy can move *onwards*, linking enterprise and social development. Supports for developing enterprise should be linked to fair and decent work and the 'good company' – such systems of work are in any case productivity enhancing. "Mission-Oriented" innovation can be a further mechanism for linking economy and society. This does not have to take the form of dramatic initiatives but can be built into longer term initiatives (e.g. through the NDP). Efforts to tackle key societal challenges (e.g. sustainable construction or community care provision) can also promote innovation and development in private enterprises and public agencies. A focus on 'good companies' with fair and decent work will both generate a push for productivity and enable firms to meet that challenge.

SECTION 4: MORE AND BETTER JOBS

4.1 Pillar 2: More and better jobs

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. Since 2019, covering the Covid and cost-of-living crises – the Republic increased employment by 18% compared to a 3% growth in the EU. The Republic's overall employment rate exceeds EU levels while Northern Ireland (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, looking below the surface reveals many ongoing difficulties in labour market outcomes. These range from low pay, to wage inequality, to in-work poverty, to gender pay gaps, to precariousness.

Looking ahead, and notwithstanding the potential for developments in new technologies such as AI to fundamentally alter the labour market, it remains almost certain that wages will continue to be the main source of income for the vast bulk of the working age population for the foreseeable future. Wages will therefore make by far the largest significant contribution to most household's living standards and will remain the key lever to achieving better well-being outcomes

High levels of labour force participation and employment will therefore be essential to securing decent average levels of well-being both across the population and within particular cohorts. But 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. For example, data from the CSO shows that almost one in eight people (CSO, 2025a) in the Republic of Ireland with jobs were experiencing enforced deprivation in 2023. Clearly there is a job quality problem.

Presumably few would dissent from the proposition that the jobs of the present and the future need to be of good quality and capable of supporting household's well-being needs and householders' ability to participate fully in society. However, actually achieving this requires a 'high-road' approach to employment, enterprise, and labour market policy that prioritises and supports a good job agenda based on decent pay and conditions and high levels of productivity and value added. In other words, while any job might usually be thought of as better than no job, an ‘any job’ approach is far from sufficient, with ‘bad jobs’ often acting as a career trap for an individual and an excuse for businesses to focus on low costs as their pathway to competitiveness. So, while we must certainly pursue policies that are supportive of full employment, we then need to go a step further and pursue policies that support an actual good jobs agenda.

Our challenge is twofold with regard to more and better jobs. Policymakers must first avoid a reactive short-term focus and the structural mistakes that might threaten the maintenance of full-employment. Policymakers should instead focus on strategically nurturing an environment that ensures workers and businesses are positioned to flourish over the longer-term in a constantly evolving global economy. The second task is to acknowledge that full employment is not the same or even analogous with good or decent work, and in so doing to shift focus to designing a policy suite that uplifts the average quality of employment on the Island while eschewing the types of policies that privilege or incentivise bad jobs.

Some key issues and questions we need to consider include:

(1) The coming trends in the labour market. How can we identify declining and growing sectors and how should policymakers respond?
(2) The potential impediments to labour demand. What policies can protect and nurture the demand for good jobs?
(3) The major barriers to labour supply. What are these barriers and how do we unblock them?
(4) How best should we define job quality and what are the implications for policy?

4.2 An everchanging labour market

The labour market is in constant flux. The demand for jobs and particular skill needs are ever-changing. To illustrate, consider CSO data (2025b) on the changes in employment on the island of Ireland over just the one generation from 1999 to 2024. Over this period the Republic’s population rose by 44% from 3.74 million to 5.38 million. The Republic’s economy went from 1.66 million employed in the first quarter of 1999 to 2.72 million in the first quarter of 2024, an increase of over 1 million jobs, or 64%. The number of females working in the labour market came close to doubling over the period and participation rates for those aged 15 and over increased from 61% to 65.5% with a large upward shift in participation for women outweighing a smaller downward shift for men. Hours worked per week increased by 44% from 59.5 million hours to 85.4 million hours. In Northern Ireland (NISRA, 2023), the total population increased by a smaller but still substantial 14.4% bringing the total to 1.92 million. The numbers in work increased by over 30% between 1999 and 2024, and over 60% of that new employment was female (NISRA 2024). The employment increases resulted in just over 200,000 jobs and a 23% increase in total hours worked from 23 million to 29 million.

While the growth in population and total employment were dramatic there were equally significant changes in the composition of employment. In the Republic, *Industry* was the largest sector in 1999 with 325,000 in work, followed by *Wholesale, retail and vehicle repair* with 233,000, and *Agriculture, forestry and fishing* with 141,000. In Northern Ireland, Industry and Wholesale/Retail were the largest sectors with both accounting for just over 118,000 jobs, followed by *Health* with just over 100,000.

However, total jobs in Industry would go on to stagnate over the subsequent 25 years, as indeed was the case in many other Western economies. This was due to various factors including changes in technology, increased productivity and automation, and especially globalisation and competition from lower cost countries. Northern Ireland lost almost 20,000 industry jobs whereas the loss in the Republic was a more modest 800. While the net loss in the Republic was comparatively modest the marginal decline must be considered in the context of the very large increases in population and in economy-wide employment. The relative employment shift away from Agriculture, forestry and fishing in the Republic was even more pronounced, with the absolute numbers falling from 141,000 to 110,000.

Industry's employment share in the Republic declined from 19.5% to 11.9% between 1999 and 2024 while Agriculture, forestry and fishing's share fell from 8.4% to 4%. Agriculture fell from the 3rd largest employment sector to the smallest of the 14 main NACE categories. In Northern Ireland, despite the larger fall in absolute jobs, Industry's share of total jobs only fell by 5.4 percentage points from 15.9% to 10.5% reflecting the slower pace of overall employment growth.

By 2024, *Health and social work* had become the largest sector by employment in the Republic with 356,000 working in the sector. This was followed by *Wholesale & retail* at 330,000 and

Industry at 324,000. Similarly, in Northern Ireland, Health has become the largest employer with 152,000 jobs, followed by Wholesale and Retail with 140,000. The numbers working in Health and Social work in the Republic increased by a remarkable 229,000 (180% increase) over the 25 years. In Northern Ireland the increase was not as dramatic, either in raw numbers or as a share of the total. Health employment increased by over 50%, but its share of total jobs increased from 13.1% to 16.1%. In the Republic, the *Education* sector and the *Professional, science and technical* sector generated 131,000 and 123,000 net new jobs respectively. Both sectors more than doubled their total employment, as indeed did the *Information and Communication* (ICT) sector. In Northern Ireland the Professional Services sector grew by 168% from 25,000 to 57,000 while ICT jobs grew 136% from just under 13,000 to over 30,000. Overall, the broad trend in employment was a shift towards knowledge based and relatively better paid jobs in the services sectors.

It should be emphasised that the employment trends were far from linear. There was significant volatility in employment over the 25 years, with a severe and prolonged retrenchment in the wake of the 2008 great financial crash and a sharp but much shorter collapse in labour demand during the Covid lockdowns. The *Construction* sector was particularly affected by the 2008 crash and the subsequent years of austerity and weak demand. Construction jobs in the Republic increased from 119,000 in 1999 to a peak of 241,000 in 2007 before plummeting to as low as 81,000 in 2013 with half of the net job losses coming in just the first two years of the crash. In Northern Ireland, Construction peaked at 81,000 jobs in 2008, before dropping to 44,000 by 2013. Construction had only partially recovered by 2024 with the Republic and Northern Ireland only at 73% and 72% of their respective peaks, although it is worth remembering that such peaks represent the height of an unsustainable boom period for the sector.

4.3 Impacts of future macro-trends

There are fundamental questions that policymakers need to consider given the ever-changing nature of the labour market. In particular, can we identify the skill sets and job types that will be demanded by the global and domestic economies in the decades to come? We obviously cannot answer this question with any certainty. Even so, we can utilise strategic foresight to identify some of the main approaching global megatrends (see discussion in Section 2). Using these insights, we can then tentatively identify broad sectors and job types that may be in greater or lesser demand in the future. Alongside side this we can also identify those areas where there may be already be existing labour shortages and areas of potential oversupply.

The major coming *demographic change* on both parts of the Island will be the rapid ageing of the population. The age shift will increase demand for skills related to healthcare and long-term care and could put downward pressure on employment in education, at least in the absence of policy reforms towards lower classroom sizes or greater provision of adult education. The *climate transition* to net zero greenhouse gas emissions will increase demand for ‘green’ jobs, for example construction jobs related to green infrastructure and housing retrofits. On the other hand, we can anticipate less demand for workers in areas such as motor vehicle repair and energy production. There may also be gradual shifts in patterns of land use and associated jobs.

Digitalisation and particularly *technological changes* such as Artificial Intelligence (AI) represent a new form of general-purpose technology (GPT). GPTs have profoundly affected labour markets in the past. The increased importance of digitalisation and AI suggests greater demand for the STEM (science, technology, engineering and mathematics) skills that can best use and exploit advanced technologies, but potentially less demand for workers in areas such as sales, accountancy, law, administration, and communications where there are risks that the technological advances may end up substituting for labour (Dept. Finance, 2024). The Department of Finance’s preliminary analysis suggests occupations amounting to 30% of employment are ‘at risk’ from AI. Females appear to be more exposed on average due to the type of occupations they tend to have, with male dominated sectors such as construction and agriculture relatively unaffected.

It is more difficult to assess the labour market implications of tariffs, *de-globalisation*, and a shift to more volatile and disruptive geopolitics. A weaker flow of Foreign Direct Investment (FDI) from the United States, were it to transpire, would imply a slower growth in demand for labour in the sectors currently dominated by multinationals such as pharmaceuticals and ICT. Goods exporters are perhaps more exposed than service exporters to the imposition of tariffs, although services are easier to relocate in the short-run. Finally, there is the potential for *policy induced shifts in demand* for certain skills. For example, there is a broad policy consensus in the Republic around the twin goals of significantly increasing housing supply and a large-scale roll-out of green infrastructure and upgrades. This policy consensus implies a high level of demand for workers with construction related skills, an area where there is already a notable undersupply of available workers in the Republic.

4.4 Mismatch, over-qualification and future skill needs

A well appreciated policy concern is workers becoming mismatched and unemployed or underemployed due to their qualifications and other skills either becoming obsolete or less in demand from employers. Less obvious is the issue of 'over-qualification' as a form of labour market mismatch. Nugent (2024a) estimates that around three in ten third level graduates in the Republic of Ireland do not require their level of qualifications, mostly in services and clerical roles. On the other hand, Information Technology (IT) graduates are among the least likely to be overqualified. The Republic's over-qualification rate is amongst the highest in the EU and represents between 10% and 15% of Irish workers. Business, administration and law graduates make up the highest share of overqualified graduates in the workforce. The UK's over-qualification rate is a little less pronounced but is still one in four third level graduates.

Increasing third level education among the population is often a policy goal in and of itself and it is one in which the Republic has been very successful. However, we can see that these achievements are not translating into good jobs for all graduates due to the mismatch between labour supply and labour demand. Nugent (2024b) finds that those from less privileged socio-economic backgrounds are much more likely to be over-qualified for their job. In other words, there is a significant class component to labour market outcomes for graduates. Over-qualification can be costly for individuals. It negatively affects workers through lower job satisfaction and is associated with lower returns to education in the form of earnings. Lower job satisfaction in turn affects firms through staff turnover and lower productivity. Over-qualification is also an inefficient waste of human capital and represents a waste of public spending to the extent that education spending is failing to translate into relevant labour market outcomes.

Over-qualification usually manifests where the domestic economy is unable to adequately utilise the human capital of the work force. This may be a particular concern for Northern Ireland, with a relatively weak and low value-added enterprise base unable to provide relevant employment for certain high skill workers, that in turn leads to either over-qualification or to flight of human capital to other economies. Mac Flynn (2017) posits that Northern Ireland is caught in 'low skills equilibrium' with a mutual causality between low skills acquisition by the workforce and low skill utilisation by firms. The suggestion is that workers have less incentive to increase their skill levels compared to other European countries and regions. A coordinated approach between government, enterprise, and the education system, including active involvement from workers, is needed to break this equilibrium.

What does the uncertainty and flux around future labour market trends mean for policymakers? An ever-changing labour market implies the policy system will need to continuously engage in research and strategic foresight about developing and future labour market trends and future skills needs. In addition, policymakers will need to combine such analysis with a willingness to evolve or change policies and structures and supports at government level, including within the education system, and those aimed at the private market.

Sufficient public and private resources will need to be allocated to adult education and skills if we are to be sufficiently agile to respond to the changing demands and possibilities of the domestic and global economies. As a priority we need to develop a supplementary model of education focused on life-long learning, with employers and workers given appropriate fiscal and other incentives and opportunities to re-skill or up-skill throughout working lives. In addition, the current undersupply of construction workers suggests the need for radical reform of apprenticeship programmes, featuring living wages coupled with other incentives such as full participation in student life. Finally, our social insurance system needs to be sufficiently generous to protect the incomes of workers that do lose jobs in order that they are properly incentivised to take the requisite time to re-skill or up-skill if needed, and to engage in a thorough job search rather than finding themselves obliged to take the first available job they can find.

4.5 Managing labour demand

Active short-and-medium-term demand management by government is fundamental to keeping an economy at close to full employment. Sustainable fiscal and monetary policies are discussed in greater depth in Section 6, but it's worth here noting their significance for sustainable employment and unemployment levels.

The main point to emphasise is that fiscal and monetary policy should consistently take a stance counter to the business cycle in order to prevent significant fluctuations or ‘booms and bust dynamics’ developing in employment and in incomes. Large fluctuations in demand lead to underutilised labour and capital during the downswing, and to deteriorating human capital levels as skill sets and confidence erode when unemployment levels rise, particularly if the downswing becomes prolonged. By maintaining countercyclical fiscal and monetary policies we can diminish the amplitude and duration of fluctuations in demand and thus protect human capital and the economy’s productive capacity.

Fiscal policy is a particularly important lever for domestic policymakers as the main elements of monetary policy are decided outside the Island in Frankfurt and London and will not necessarily align with the needs of either the Republic or Northern Ireland. As it happens, economic history shows us that the political economy of countercyclical fiscal policy is very challenging during upswings and when close to elections and this dynamic ultimately leads to more severe downturns. Recent historical examples illustrate the importance of fiscal policy as a demand management tool and the necessity of a countercyclical stance.

The Republic of Ireland engaged in highly procyclical fiscal policy during the first decade of the 21st century. A booming domestic economy, arising in part from an influx of credit from outside the country, was further stoked by extremely loose fiscal policies characterised by large inflationary tax cuts and increases in public spending in excess of sustainable growth levels. There were also failures by the European Central Bank and domestic regulators in relation to monetary and credit policies and a failure of domestic and global banking policy and financial regulation. Finally, policymakers ignored the build-up of increasingly large current account imbalances in the euro area periphery.

When the domestic construction and housing asset bubble eventually burst in the wake of the great financial crash around 2008, the Irish Government found itself unable to stimulate demand in the economy via a classic Keynesian expansion. Instead, its prior procyclical fiscal policy choices combined with a series of bank bailouts arising from a catastrophic failure of banking regulation had left the Government with unsustainably large budget deficits and surging debt levels. Income tax and VAT receipts were declining, welfare spending was rising, and bond markets were demanding higher interest rates to finance government debt. Northern Ireland was caught between these dynamics in the Republic and the significant fiscal retrenchment that was enacted by the United Kingdom (UK) government over the same period. Northern Ireland suffered from both the consequences of an unsustainable construction and property boom in the Republic and the consequences of a financial services induced crash in the UK.

As a consequence, both Governments engaged in procyclical austerity which reduced aggregate demand by means of tax increases and spending cuts, with particularly large productivity diminishing cuts to spending on infrastructure. A vicious cycle was created as job losses and declining incomes, initially from the exposed construction sector, precipitated further falls in demand which then caused further job losses in demand sensitive sectors including retail. Over 390,000 jobs were lost between 2008 and 2012, 320,000 in the Republic and 70,000 jobs in Northern Ireland. Similar depression dynamics were playing out in other European countries. The crisis caused ongoing damage to European economies in the form of the weaker productivity growth that results from lower spending on capital investment and from the deterioration in human capital as periods of unemployment or mismatched employment became prolonged and skills atrophy. Innumerable similar examples of procyclical boom and bust debt crisis dynamics are threaded throughout economic history.

In contrast to the 2008 great financial crash, European and North American governments were able to shut down much of their economies in 2020 in order to fight the Covid19-pandemic and then bounce back quickly when the pandemic abated. The reason for the remarkable bounce-back was that governments were collectively willing and able to countercyclically deploy fiscal and monetary policy to provide trillions in supports to protect household incomes and to protect the productive capacity of business. Similarly, governments in many countries were able to dampen the income shock from the 2022 energy and cost of living crisis by deploying billions in fiscal supports. In both cases employment levels were broadly protected. The critical importance of countercyclical macroeconomic policies was manifest.

The conclusion is that any credible strategy for protecting jobs over the economic cycle is predicated on the hardwiring of stable and appropriate fiscal and monetary policy stances across the economic cycle and a willingness to take *pre-emptive* steps to correct unsustainable imbalances in the balance of payments, in the public finances, or in the extent of credit creation and private debt. The existence and preservation of high-quality employment is a vital element in underpinning this prudent fiscal stance as it provides a reliable basis for incomes and living standards and avoids dramatic surges in demand for government compensation.

To maximise employment and incomes potential we also need to maximise our access to external demand. Exports are of critical importance to small economies such as those on the Island of Ireland as the small domestic markets are not capable of generating sufficient high-value jobs on their own. Openness to free trade has been core to the Republic's economic model since the 1950s. Following decades of economic protectionism and relative failure, the Government shifted to an export-oriented industrial policy predicated on tariff reductions and ultimately to free trade, along with generous grants and tax reliefs for foreign investment and for exporters.

The Republic's subsequent transformation from having an average income per capita of less than half of Europe's best performers to becoming one of the richest countries in the world by some measures is a function of its subsequent phenomenal success in attracting US Foreign Direct Investment (FDI) in increasingly higher value-added sectors. Indeed, arguably the main causal factor underlying the 1990s Celtic Tiger was the Republic's ability to leverage its EU Single Market access to attract FDI and FDI related employment from the US. These US firms created a demand for high skilled labour in the Republic. As it happens, the Republic arguably leaned too far into its low tax model and has attracted significant criticism internationally for its 'tax games' (Ní Chasaide, 2023) wherein it effectively operated as a tax haven conduit for US multinationals. This model is unlikely to be sustainable indefinitely in the face of shifting forms of geopolitical pressure.

While we can never know the counterfactual, it seems highly unlikely the Republic would have prospered to anything like the extent that it did were it not for its free trade stance. Notwithstanding the neo-protectionism of the Trump administration, policymakers in both jurisdictions should work to ensure their economies are fully open to free trade, with the caveat that any trade agreements are fully consistent with high labour, environmental and human rights standards. However, as is obvious from our discussions elsewhere, free trade is compatible with – and indeed demands – strong policies that support both productivity and social security. Such policies generate investment in the resources needed to compete but also provide the solid foundations that will sustain the support of both domestic firms and employees.

A final point in relation to labour demand is the need for a deep and high-quality domestic enterprise base. The issue of productivity failings in the domestic sectors and potential remedies have been discussed in Section 3. Some of the more important factors influencing the quality of the domestic enterprise base include access to finance, a supportive regulatory environment, public investments in infrastructure, financial and other supports to assist exporters, a balanced tax policy based on lower rates rather than distortive tax expenditures, a willingness to accept business churn and to not protect zombie firms or low value-added sectors, and generous supports for technology diffusion, innovation and managerial up-skilling.

4.6 Maximising labour supply

In order to maximise labour supply, we need to incentivise workers through decent wages and good working conditions. Crucially, there needs to be a financial incentive to work. This has implications for the design of the tax and welfare systems, and of course for the setting of minimum and other wages. On the tax side we need to consider the size of the tax wedge, as this could potentially create an employment disincentive for employees and/or employers. The tax wedge may be particularly salient for workers with tenuous attachment to the labour market, which tends to be lower paid workers and second earners, although very high marginal rates might also generate employment disincentives, particularly for mobile high skilled workers.

As it happens, tax wedges in the Republic and in the UK (including NI) are both relatively low compared to other OECD economies (OECD, 2024b). Tax wedges as a percentage of labour cost for a single worker on the average wage in 2023 in Europe ranged from 52.7% in Belgium to 23.5% in Switzerland. The OECD median was 37.4% (mean was 34.8%) with the tax wedge at 31.3% in the UK and 35.1% in the Republic. The low rates of employer social contributions in both jurisdictions explain the relatively low tax wedges. The OECD average employer social contribution was 13.4% compared to 10.1% in the UK and 10% in the Republic. As such, prevailing tax wedges seem unlikely to be creating a notable disincentive for employers to hire workers at least when compared to other advanced economies.

Another important consideration is the marginal effective tax rate (METR) experienced by potential workers. The METR is the combined effect on a person's earnings from taxes on income and the withdrawal of welfare supports as the person's income or employment status changes. High METRs create a potential disincentive to work. Implications for policy reforms in relation to METRs in the Republic are discussed at length by the Commission on Taxation and Welfare (COTW, 2022) and in previous NERI research. One clear insight is that average effective tax rates should be kept low for low paid workers. Reforms to the welfare system are also needed.

Firstly, welfare systems should transition over time to a system of tapered working age payments based on household income rather than on employment status or any other arbitrary threshold such as age or days worked. Such a reform would help minimise employment disincentives by ensuring METRs remain low, while simultaneously protecting against income inadequacy and deprivation. Second, policymakers need to simplify welfare systems and make them more coherent by eliminating *all* cliff-edges, discontinuities and step-effects from the system. Cliff-edges generally occur where benefits are withdrawn sharply (or where taxes increase sharply) when income rises, but can also happen where benefits are withdrawn based on other eligibility criteria.

Examples of benefits with cliff-edges in the Republic include the medical card, third-level student grants, and housing and childcare supports (see Doolan and Keane, 2023). In the UK, this applied to Child benefit while Universal Credit, one of the main income support payments, has a particularly sharp taper rate of 70% once the income tax and National Insurance thresholds are reached. Finally, the entire welfare systems including the use and design of secondary benefits should be designed on a cross-departmental basis in order to ensure overall coherence.

There are a number of structural barriers to labour supply that policymakers also need to consider. Significant barriers in the Republic include lack of access to affordable childcare and the inadequacy of housing supply while both parts of the Island have notably weak employment outcomes for people experiencing a disability suggesting the existence of substantial barriers for this cohort.

The Republic's ongoing market failure in housing provision acts as a barrier to labour mobility and to better labour market matching because it prevents workers from moving to where job opportunities are located. A lack of housing supply also acts as a disincentive to FDI because it creates a barrier to bringing in employees with needed skills from outside the country. The

NERI (Healy and Goldrick-Kelly, 2017) has long argued that a decisive public intervention on the supply-side is required. Instead of temporary supply constraints derailing an otherwise functional market, we see fundamental structural issues that warrant a structural response.

The NERI (Goldrick-Kelly and Taft, 2023) has proposed the building out of a unitary cost rental network over the coming decades in order to bring about a transformative increase in supply and reduction in rents. The preferred institutional design (e.g. local authority or public enterprise body) should be based on what can be expedited in the shortest amount of time. As it happens, the market failure in housing will take years to reverse with labour shortages in the construction sector a considerable obstacle in the short-run. In addition to a major public supply side intervention, the policy focus should be on fixing the underlying medium-to-long term structural issues with provision of supply that include financing, planning, labour supply and productivity. On the other hand, policymakers should refrain from reactive and costly tax breaks that simply push up house prices and embed further distortions in the market.

The NERI has also long argued that the lack of affordable access to childcare will continue to affect the ability of workers to participate in the market unless there is significant and ongoing government intervention (e.g. Mac Flynn, 2022). Net childcare costs in the Republic in 2022 were the 2nd highest in the OECD (OECD, 2022) for a single person with two children, while Northern Ireland has seen increasingly steep increases in fees and by as much as 14% in 2023 (Employers for Childcare, 2023). The current manifestly failed childcare model is not only a barrier to participation in the labour market, particularly for women, but an unnecessary and damaging limitation on the potential of the economy. Ultimately, childcare should be treated as a universal basic service (see Section 5) with a public option gradually rolled out across the Republic of Ireland and Northern Ireland beginning with the most deprived and underserved areas. Childcare workers in the public option would become public sector employees making childcare a viable quality career path.

Of concern are the low participation rates among certain socially disadvantaged groups. For example, women in the Republic with primary education have an employment rate of less than half the overall average (CSO, 2024). Another disadvantaged group are those with disabilities. The disability gaps (i.e. the gap between the employment rate of those with disabilities and the total employment rate) are higher (NISRA, 2024) in Northern Ireland and the Republic of Ireland (Atanasova, 2023) than they are in other parts of Europe. The lack of employment opportunities effectively means that people with disabilities are driven into poverty with their human capital squandered.

Incentivising businesses to enable and encourage their workers to work from home could help improve on the weak employment rates of cohorts experiencing particular barriers to labour force participation such as those with a disability or with a caring responsibility. Greater working from home opportunities would also support more balanced regional development and ease pressure on the Dublin and Belfast housing markets. Greater flexibility around core working hour schedules would further help reduce labour market barriers for cohorts with a disability and/or caring responsibilities. The public sector could and should lead in this respect. Finally, there needs to be an expansion of labour market and community development programmes that target socially disadvantaged constituencies, with full pay for programme participants in work training, and in education and skills development.

Some degree of mismatch and structural job loss is inevitable. What matters is that we have the structures in place to enable workers to re-or-up-skill and find new and good jobs. Well-designed Active Labour Market Policies (ALMPs) whether through public training schemes or employer financed training funds are crucial to the operation of a well-functioning labour market. While employer of last resort programmes ought to be considered, particularly during times of prolonged recession, there is a concern that such programmes might become punitive over time. Lessons can be learned from the range of such programmes introduced in Europe in the wake of the great financial crash. Policy should also avoid something that has plagued many of the attempts at welfare to work schemes in the UK. Much of the evidence now suggests that while such schemes did incentivise people to return to work, in many cases it was to part-time and lower paid work (Hoynes et al, 2024). This prevented people from either progressing directly or subsequently to high-paid, full-time work which is not only more beneficial to the person in question, but also contributes to higher productivity for the economy as a whole.

One ALMP model worth examining is the Swedish Employment Security Councils (ESCs). These councils are managed by employer and employee representatives at a regional level, financed through a small employers' social insurance levy, and based on strong sectoral collective bargaining structures. 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 the vast majority of laid-off workers placed in new employment.

One reason for the programme's success is the strong pay-related unemployment benefit that can last for up to one year. This ensures that employees have the time to engage in job searches, re-training and re-skilling. It thereby reduces the incidence of over-qualification or skills mismatch whereby workers take up employment that doesn't match their skills. A second reason is that redundant employees get a personal advisor. The council staff assesses the individual's position in the labour market, places them in appropriate re-training schemes and helps them find a new job from the network of employers linked to the council. Such a coordinated approach has the ability to help successfully manage the various shocks and transitions facing the economy.

Finally, a major unknown in relation to future labour supply is the scale of net migration. Inward migration is a sign of economic success. Migrants are generally attracted to the prospect of participating in a successful economy leading to a positive feedback loop of greater prosperity which increases attractiveness further. Social and cultural factors are also important with more open and tolerant societies generally proving more successful at attracting inward migration. Inward migration has a range of benefits for the economy in particular where there are existing skill shortages. This is certainly the case in construction, healthcare and ICT to name just three sectors where the presence of migrant workers and their various skill sets contribute significantly to productivity and economic growth. Migrants also tend to be of prime working age and are therefore disproportionately likely to be contributing to income tax and disproportionately unlikely to be drawing on public services such as healthcare and long-term care. Over the medium-to-long term inward migration will improve the working age ratio and reduce pressure on the public finances from an ageing population.

4.7 Job quality

Labour market performance is not just about the amount of jobs and job opportunities. It is also about the quality of those jobs. A good economic performance from the perspective of workers is a situation where unemployment is generally low, and where employment and real hourly wages are both high. In the Republic, close to 12% of in-work households are officially categorised as living in enforced deprivation while nearly 22% of households with one person working suffer deprivation. In Northern Ireland the majority (Department for Communities, 2024) of those in relative poverty belong to households where someone works.

The OECD (2025) notes that higher job quality… '
improves productivity and innovation. Quality jobs also reduce inequality, and foster social cohesion…. countries must therefore prioritise job quality as well as increasing overall employment.'
The OECD point to the importance of measures such as minimum wages, trade unions and collective bargaining. NESC (2024) points to research demonstrating benefits for employees, employers and the wider economy and society, with better work having the potential to deepen economic resilience and tackle persistent labour market challenges.

Geary and Wilson (2021) argue that job quality is a complex and multi-faceted concept. Job quality goes beyond pay or even satisfaction with one job. They see it as a combination of two forms of indicator. The first are economic indicators such as pay and other benefits. Second are non-economic indicators such as job security and prospects, skill acquisition and training, autonomy of work and work intensity, access to trade union support, and work-life balance including length of working hours and weeks, work life flexibility and work life spill-over. Geary and Wilson (2023a) estimate that precarious, low-paid jobs (14.9%) and demanding, highly controlled, precarious jobs (12.1%) together amount to more than one in four jobs in the Republic of Ireland. Precarious low-paid jobs are more apparent among females; young workers; those without a third-level qualification; workers in elementary, care, leisure and sales and customer service roles; and those employed in small firms.

What can be done about 'bad' jobs? Geary and Wilson (2023b) note that:
'*one broad occupational category – care and service work – is associated with precarious, low-paid employment and this work is highly feminised. For this to change requires government, employers and unions to work together to increase pay levels and the quality of jobs in this broad professional category. This, too, is ever more important with Ireland's ageing population which will require an increase in the number of care workers.'*
Geary and Wilson argue that the current model (gendered, peripheral) of care work is no longer sustainable and that change will require centering care work as valued work and central to the productive and sustainable performance of an economy. Care work needs to be appropriately recognised and rewarded as part of a new eco-social contract (Murphy, 2024). A public care

option characterised by good pay, working conditions and career prospects should be a central starting component of the needed reform.

Wage adequacy is of course central to any notion of a good job. Governments therefore have the power to actively promote job quality by raising the minimum wage to the level of the living wage (LWTG, 2024) as determined by a minimum essential standard of living 'basket of goods' approach. In practice, this means going beyond the 60% of median wage target originally set as a target by the Republic's government for 2026 (since extended to 2029) and misleadingly described as a living wage. Raising the minimum wage to 65% of the median wage would help ensure that it becomes a genuine living wage. Of course, a singular focus on low pay is in itself insufficient. In Northern Ireland, the UK National Living Wage which is currently set at 65% of average UK earnings, is actually closer to 75% of the Northern Ireland average hourly earnings. Minimum wages and living wages are important tools for relieving pay pressures at the lower end of the earnings distribution, but in order to achieve greater progress in wages, we must go further.

Beyond pay, other measures such as hours worked have to be considered before low-pay can effectively be eliminated. Bogus self-employment, zero-hour contracts, temporary contracts and underemployment can all contribute to high levels of precariousness. Precariousness takes different contractual forms, so there is no single policy initiative that can address the range of precariousness activities. An important reform would be to introduce a presumption of an employer-employee relationship in all contracts with the burden of proof that any particular contract does not entail such a relationship lying with the employer.

The costs of poor job quality include worse health and well-being outcomes. These costs are mainly borne by the worker but also affect their family, employer and society more generally. Greater resources for workers can help mitigate such problems including by giving workers themselves greater agency and control over the conduct of their work along with better skills training. Worker rights such as sick pay, maternity leave and flexible working are all important, as is proper regulatory oversight of minimum decent standards in work.

4.8 Workplace democracy

Fundamental to improving job quality is the extension of workplace democracy – in particular through collective bargaining and trade union presence. In Northern Ireland the Minister for the Economy brought forward the Good Jobs and Employment Bill in 2025 which is intended to broaden collective employment relations and embed good quality employment. The bill's aim is to modernise laws and regulations across four areas; (A) terms of employment; (B) pay and benefits; (C) voice and representation; and (D) work-life balance.

The Government in the Republic should engage in a similar process and expedite the legislative and other measures necessary to meaningfully further the goals of the EU directive on adequate minimum wages or AMWD (EU, 2022). The AMWD's two main goals are (1) to improve the adequacy of minimum wages and (2) to promote collective bargaining on wages. The AMWD requires member states to facilitate the exercise of the rights of workers to collective bargaining and to safeguard workers and trade unions from interference and negative consequences from employers. Possible examples of supporting measures could include (A) less restrictive criteria for establishing sectoral agreements and extension mechanisms, (B) protection against victimisation of workers that exercise their rights to collective bargaining or union membership, and (C) a right of trade union access to the workplace.

Collective bargaining provides the work force with an important bulwark against bad jobs. Indeed, collective bargaining is synonymous with what we might consider the 'high road' approach to the economy (McDonnell, 2021a). The inclusive high-road approach to growth focuses on raising productivity to increase living standards (for employers and employees), whereas the low road approach focuses on driving down costs in order to boost competitiveness. The low-road's 'race to the bottom' approach can certainly be consistent with low average unemployment rates, but, if so, will have been achieved based on lower wages and lower disposable income for workers, along with greater market inequality and reduced well-being.

A sectoral collective bargaining approach avoids the low-road trap because it becomes much more difficult for individual bad employers to pursue a strategy of driving down pay to enhance their competitiveness. Instead, firms must improve their productivity if they wish to gain a competitive edge. The efficient 'good' company (discussed in Section 3) will invest in productivity, bargain over 'efficiency' wages, avoid precariousness, address gender pay-gaps, eliminate excessive hours, and create pathways to career development. Furthermore, this can link to the sectoral taskforces discussed above in mobilising the resources to support firms in meeting this productivity challenge.

Trade unions are an important element of the high-road policy package. Where there is worker voice and a constructive relationship with employers, better working conditions can be exchanged for higher productivity. The governments of the Nordic countries recognise trade unions and employers as key stakeholders in the management of the economy. Common wages are set for particular types of work. In a competitive globalised market, this will advantage high value-added activities and more productive firms, and will disadvantage low value-added activities. As such, firms and workers have an incentive to take steps to increase productivity, to support occupational retraining and up-skilling, and to support funding for productivity enhancing spending on education and research and development (R&D). Over the long run, a high skill and high wage equilibrium took hold in the Nordic economies as their comparative advantage gradually shifted over time towards higher value activities and better jobs.

The European Commission (2020) notes that countries with high collective bargaining coverage tend to display a lower share of low wage workers, lower wage inequality and higher wages than others. To illustrate, the Republic and Northern Ireland have gender pay gaps of nearly 18% and 16% (NISRA, 2024b) respectively in the private sector while the collectively bargained public sector have much lower rates. This difference illustrates the successful trade union focus on policies of wage compression and more equal wage distributions. Similarly, the OECD (2019) has pointed to the contribution that collective bargaining and employee voice can make to employment growth, labour market inclusiveness, lower inequality, and better job quality. The OECD's research suggests that the Irish and UK systems of collective bargaining will tend to produce inferior economic performance compared to the organised decentralised systems in place in countries like Austria, Denmark, Finland, Germany, the Netherlands, Norway and Sweden.

SECTION 5: ECONOMIC SECURITY

5.1 Pillar 3: Economic security throughout people's lives

No model of economic development is worthwhile if it fails to provide economic security for people. This gives a number of challenges. How do we ensure economic security throughout people's lives? How do we reduce economic inequality and ensure social cohesion? How do we minimise poverty and deprivation? How do we attain a high level of economic well-being for all? Key levers for economic security include, but are not limited to:

(1) A strong labour market;
(2) Wage and labour market policies that promote good jobs 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 have already discussed how all modern economies are constantly in flux and can change for many reasons. The crucial point is that 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 therefore 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. 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. What we want is economic disruption and progress 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.

We are revisiting a long-standing debate here – twenty years ago the National Economic and Social Council proposed a 'developmental welfare state' model where income supports, universal services and activist measures interacted to support and develop people, households and communities across their life courses (NESC, 2005). This promise (in the Republic at least) was never fully realised but can now be revisited for a different era.

As it happens, our current economic and social model is failing too many people. Consider material deprivation. Some 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 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 2024, fully 15.7% of people were experiencing enforced deprivation in the Republic of Ireland (CSO, 2025a). 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. Northern Ireland had an absolute poverty rate of 17% (Department for Communities, 2024) in 2023-24 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%, or more than one in five. In contrast, the over 65s are the least vulnerable group at 10.7%. Exactly half that of children. Child poverty and deprivation are not just a moral consideration (though they certainly are that. Child poverty also causes a real drag on long-run economic performance because it undermines the potential for human capital development of the future adult and, therefore, diminishes their productive capacity and future life chances.

As discussed in Section 4, 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%, 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%) 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%). Lone parents (45.6%) and renters (36.5%) are other notably vulnerable groups. Women are marginally more likely than men to experience deprivation. Overall, we can see that our economic system and policies are failing large swathes of the population.

5.2 Market income inequality, trade unions and minimum wages

The 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, (ECLAC, 2025; Wilkinson and Pickett, 2009) 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 (2010) and OECD (2015) research finds that higher levels of inequality are associated with slower rates of growth and are a sign of economic inefficiency. The IMF's 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. It seems that policies that reduce inequality should be understood as playing a vital role in sustaining long-run growth and in sustaining the macro-stability of the economic system itself.

One of the most important policy levers relevant to inequality that is 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 increase the share of income in the economy that goes to labour. Why does the labour share matter?

Wealth inequality tends to be much higher in any given population than income inequality. Wealth itself accumulates further wealth over time which causes it to become increasingly concentrated within the population. As wealth becomes concentrated it means that capital income also becomes concentrated within the population. Therefore, policies that lead to a greater share of income going to labour rather than capital will tend to ameliorate wealth concentration as well as 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 and the capital share in many countries over recent decades has coincided with a decline in union density. 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. Weaker labour power has the opposite effect. Alex Bryson estimates that union wage premiums are meaningful and statistically significant while Farber et al (2021) estimate that the union wage premium amounted to 10 % to 20 % in the United States in the 20th century. Frank Walsh (2013) estimates a union wage premium of 8-10 % in the Republic of Ireland. Using cross-country data for European and North American economies Darvas et al (2023) 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, union presence and collective bargaining more generally tend to help ensure that the labour share is itself more evenly distributed between workers, whether in a firm or in a sector. In most cases, the median or ‘middle’ worker will earn less than the mean wage within a firm, sector or economy. This happens because there tends to be greater compression of incomes at the bottom of a wage distribution than at the top of a wage distribution. In general, a minority of high paid workers at the top tend to skew the mean upwards. Thus, workers acting collectively and democratically 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, where there is no trade union, more skilled workers acting individually will be able to leverage their more marketable skill sets into higher wages. However, 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 also helps reduce gender pay inequalities. Research from the IMF (2015) identifies 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 1970s 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 (2015) find that the decline in union density in the UK is responsible for a 9.3 percentage point decline in the labour share. It would appear that any government interested in reducing market inequalities should therefore emphasise policies that increase collective bargaining coverage in the economy. This insight underpins the European Union's recent Adequate Minimum Wage Directive.

Minimum wages represent a second tool to help mitigate market inequality. Dave Belman and Paul Wolfson (2014) found based on their comprehensive 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 was that the minimum wage should reach two-thirds of median earnings for those aged 21 and over by 2024. The UK Low Pay commission (2024) analysis is that this will not significantly risk employment prospects. The government in the Republic of Ireland had committed to a 60% of median earnings target by 2026 but subsequently extended the deadline by three years under pressure from employer lobbying campaigns.

Ultimately, while wage minima are certainly helpful tools, it is collective bargaining, and 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.

5.3 Tax reform and redistribution

The design, scale and progressivity of the tax system have profound implications for inequality and for the envelope of public spending. The Republic and the UK both collect less revenue (see ICTU, 2020) as a share of economic output than is the norm for Western European countries. This is an important point because it suggests there may be scope to expand the revenue base without causing damage to the economy. As it happens, the European Union's most competitive economies (IMD, 2025) 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, in general but not always, tend to disproportionately affect lower income households. Tax expenditures, colloquially known as tax breaks, will disproportionately benefit more affluent households. Taxes on capital stocks and especially property appear to be the taxes most aligned with economic growth (e.g. O'Connor et al, 2016). Examples of such growth friendly taxes include inheritance taxes, property taxes, site value taxes and land taxes.

There are essentially three major taxes in the vast majority of European countries. They are (A) income tax, (B) VAT and (C) 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 somewhat higher than average implicit or effective tax rate on consumption (McDonnell, 2021b). 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. Even so, 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. For example, 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 (McDonnell and Collins, Forthcoming). Indeed, wealth and capital more generally are treated much more favourably by the tax system than is labour income. This suggests there is scope to shift the composition of the tax base towards higher taxes on capital in both the Republic and in the UK. Notably, the Republic's Commission on Taxation and Welfare (2022) concluded that future tax design should give particular focus to increasing taxes on wealth and capital income.

There are certainly many other strategies beyond fiscal policy 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. Reducing the share of income going to capital can also help slow down the concentration of wealth over time. However, meaningful inroads into reducing wealth inequality can only be achieved by reforming tax policy so that there is greater taxation of capital assets and wealth more generally, including that of land and property and on net wealth, but especially of intergenerational transfers whether in the form of inheritances or gifts.

5.4 Unemployment insurance

Economic security means protecting 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 will depend on protecting workers against these shocks via a system of income replacements and active labour market programmes that provide people with the requisite 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 and the vagaries of the market.

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.

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 long-term 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 the scale of downward spiral of economic decline experienced after the great financial crash in 2008. This is particularly salient to the Republic of Ireland and the UK, including NI, because both economies operate particularly threadbare social security systems by European standards (Mac Flynn, 2024).

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 (Mac Flynn, 2021). 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 (McDonnell, 2021b).

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% 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. Mac Flynn (2021) calculates the OECD average replacement rate prior to the pandemic at 58% for those on two thirds of the average wage and 51% for those on the average wage. Twelve OECD countries had replacement rates of 70% or higher for those on two thirds of average wages with five having rates of 70% or higher for those earning on the average wage.

Temporary schemes introduced in the UK during the pandemic saw replacement rates surge to 72% for those on the average wage and 83% for those on two thirds of the average. The Republic, while not as generous, introduced similar temporary schemes. The Irish government introduced a new pay-related unemployment benefit which came into effect in 2025. The payment is set at 60% 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 lead to relatively low replacement rates by European standards. It is nonetheless a welcome first-step reform and one that should be replicated in the UK.

5.5 Universal basic services

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 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.

So, 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 potentially include healthcare, education, housing, transport, libraries, public parks, waste collection, cultural goods, 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 practical importance of market-based income and social transfers.

Anna Coote and Andrew Percy (2020) have argued 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 will 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 would also be 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.

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.

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 in a range of areas, 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. The Nordic 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 the inevitable deadweight and inefficiency when public services are used on people that do not need them. Even so, 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.

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.

5.6 Welfare – 'The backstop'

As a last resort 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 or other work. These groups are particularly prone to experiencing deprivation and poverty. In essence, deprivation, poverty, and the inability to meet basic needs simply reflect a mismatch between incomes 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 profound implications for individuals and households. What is needed is an on-going and 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, (2022) the ESRI, (see Kennedy, 2001), the Commission on Taxation and welfare (COTW), the Pensions Commission (2021) 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 or MESL (see Budgeting.ie, 2025). 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.

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 addressing 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 COTW 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 in a number of steps from a 100% support for the lowest income households, and eventually reach 0% at a higher income level. 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 (Roantree and Doorley, 2023).

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 (2023) have put together a list of these cliff edges and distortions in the Republic of Ireland. In the longer term, these distortions, and their analogues in the UK, should be replaced by more streamlined welfare systems benchmarked against income adequacy. Finally, 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.

SECTION 6: ECONOMIC RESILIENCE

6.1 Pillar 4: A resilient economic and social model

All too often the gains in living standards and economic security of the vast bulk of the population are hit exceptionally hard by economic crises – and these crises have come to the Island of Ireland more regularly than for most countries. Any coherent model of economic development should incorporate issues of economic resilience including socio-economic and environmental stability and adaptive capacity. In an uncertain world we need our economies and societies to be 'anti-fragile' (Taleb, 2012) that is to say, capable of thriving and flourishing even while under external or internal stress. Economic resilience is an essential foundation for a sustainable high productivity economy. It is also something that has proven lacking in both the Republic and in Northern Ireland through a series of crises.

Relevant issues for resilience include:

(1) The foreseeable global megatrends and why we need to change in order to successfully meet these challenges (discussed in Section 2);

(2) The design and identification of a set of principles and ingredients that can underpin a dynamic economy (discussed in Section 3);

(3) The need to design and hardwire a countercyclical but agile fiscal policy that reconciles sufficiency, efficiency, equity and sustainability;

(4) The need to create structures and institutions that embed price stability in order to protect real wages and competitiveness and restrain damaging cost of living spirals;

(5) The need to 'green' our overall package of policies in order to reverse climate degradation and biodiversity loss in the necessary timeframe and consistent with just transition principles, and finally;

(6) The need to enhance democracy and public 'buy-in' to policies via increased local consultation, agency and empowerment, including greater subsidiarity of policies that affect people in specific regions and localities.

In this section we consider the issues of resilience and stability across four key stability dimensions. These are A) fiscal stability, B) price and monetary stability, C) environmental stability and D) political stability

6.2 Fiscal policy

Failure to properly manage the public finances has led to prolonged periods of austerity, high unemployment, and economic malaise in both jurisdictions on the Island of Ireland. The Republic of Ireland and the UK have been plagued by procyclical and unsustainable fiscal policies that have perhaps been the largest source of economic volatility over the last half century with notable and prolonged crises in the 1970s and 1980s. More recently the Great Financial Crash at the end of the 2000s precipitated severe recessions which were amplified by governments withdrawing money from the economy through tax rises and public spending cuts in what became known as 'austerity'. While austerity policies lengthened and deepened the downturns it was prior fiscal mistakes that had constrained governments' ability to respond countercyclically with fiscal supports. The fiscal mismanagement was so severe in the Republic that economic sovereignty was de-facto temporarily ceded to a troika of international institutional lenders. The UK's experience under the Truss premiership in 2022 illustrates that fiscal policy continues to have real constraints and not just for small countries. The UK's public finances remain fragile. Even headline surpluses can be illusory and there are legitimate concerns that current fiscal policy in the Republic is being insufficiently prudent with potentially transitory and fragile corporation tax revenues being used to balance the books.

Fiscal stability needs to be embedded and hardwired into the economic model. Yet great care is needed in the design of any fiscal rules so that other goals are not sacrificed. Most importantly, we need to clearly define the goals our fiscal rules and frameworks are actually attempting to achieve and on that basis design a structure that can reconcile these multiple goals. More goals inevitably mean more complex rules. For example, how should fiscal rules interact with major economic transition costs such as the net zero greenhouse gas adjustment? What are the appropriate protocols around the use of 'once-off' supports, and what should trigger these types of supports? At what point do once-off supports stop being once-off? How should we treat unexpected tax windfalls? Ultimately, we want to ensure that our policies are sustainable but without impeding necessary investments in the long-term health of the economy. Common sense guidelines might include:

(A) *Operating meaningful current spending surpluses in the good and in the normal times, which then enable countercyclical current spending deficits* either during a recession, as a response to clearly temporary shocks, or to unexpected but time bound spending pressures.

Over the medium-term, a government's *current* spending should be completely financed through taxation and not through debt;

(B) *Applying a golden rule for investment that ensures sufficient and consistent allocation of resources to public capital spending across the economic cycle*. Net borrowing over the economic cycle should only be for infrastructure projects that add to the economy's productive capacity. The appropriate scale of public capital spending depends on a number of factors including the size and age of the existing capital stock; the possible need for infrastructure catch-up; capacity constraints and pressures; population growth and change, and the economy's growth potential. While a golden rule implies scope for a certain amount of borrowing as a percentage of GNI* (Republic) or GDP (UK) the precise level of borrowing would ideally be set somewhat below the economy's medium-term potential growth rate. Additional capital spending may be desirable but, if pursued, should be sourced from running surpluses of government revenue in excess of current spending;

(C) *Quarantining potentially transitory revenues so that they are not available for use either to fund day-to-day spending or to finance tax cuts*. All transitory revenues, for example the current excess corporation tax receipts in the Republic, should be allocated either to long-term savings funds or to funding vehicles to protect future countercyclical investments in infrastructure. A welcome first step is the decision of the Republic's government to put some of its potentially transitory corporation tax revenues towards a *Future Ireland Fund* (FIF) designed to part-fund longer-term expenditure pressures and an *Infrastructure, Climate and Nature Fund* (ICNF) designed to deal with the procyclicality of capital spending and the need to fund green infrastructure. Even so, the government's plans do not go far enough. *All* of the potentially transitory receipts should be allocated to the long-term funds. Other revenue sources may also prove transitory. For example, carbon taxes and other green taxes will decline over time to the extent that governments are successful in reducing the economy's carbon emissions. 'Temporary' receipts of this nature should not be used to finance ongoing current expenditure or tax cuts elsewhere but instead should be allocated to finance temporary transition costs such as spending on green infrastructure. There is significant scope to address key challenges, even while maintaining this fiscal prudence and economic resilience.

(D) *Starting an ongoing and mature debate about expenditure needs, fiscal sustainability, intergenerational equity and revenue sufficiency into the 2030s and beyond.* Multi-annual and transparent fiscal planning needs to be a priority with the government's fiscal projections shown up to 10 years in advance. It is too simplistic to say taxes will need to go up. We also need to focus on tax design and on the design and effectiveness of public spending. The Republic's Commission on Taxation and Welfare (COTW, 2022) made 116 policy recommendations designed to ensure fiscal sustainability over the longer-term in the Republic. A similar commission should be established in the UK to address future expenditure and revenue needs. While governments understandably shy away from such discussions, they are critical to developing the public trust that is needed to underpin fiscal sustainability – in particular as a protection for households and communities.

The COTW's recommendations and overall approach was framed through five design principles. These were sustainability, reciprocity, adequacy, equity and efficiency. The COTW's key message was that the Republic faces major fiscal sustainability challenges due to population ageing, the climate transition, and various other factors. The COTW found that, over time, the overall level of taxation as a share of national income (GNI*) will have to *materially* increase. A similar conclusion would presumably apply just as much to the UK. The challenge is to move away from a low-spend fiscal strategy without sacrificing fiscal sustainability or spending efficiency.

Perhaps the COTW's most notable finding in terms of the optimal design of the tax system is that the use of tax expenditures (colloquially known as tax breaks) should only be deployed in extremis. They argued that tax expenditures are generally non-transparent, economically distortive, regressive, and invariably characterised by high levels of deadweight. They further argued that such a narrowing of the tax base could only be justified where there was a clear and structural market failure and where the proposed tax break had passed full ex ante economic and social evaluations of likely impacts. Gradually eliminating or capping most tax breaks over the medium-term would create significant scope to generate billions in additional revenue per annum.

In general, the most growth friendly taxes are taxes on capital stocks (wealth) and property, and in particular those on immovable property and land. Such taxes therefore offer the most promising 'low hanging fruit' for increasing government revenue in a manner consistent with growth and equity goals, albeit the political challenges are considerable. As it happens, the COTW identified significant scope for introducing new taxes on capital and wealth and increasing certain existing taxes on capital and wealth. They proposed various reforms to increase yields from taxes on gifts and inheritance, from taxes on capital gains and from taxes on property. They also proposed the introduction of a site value tax as a form of land tax. All of these proposals have significant merit.

On the other hand, the COTW noted potential competitiveness concerns regarding the impacts of higher labour taxes and the potentially regressive impact of most possible consumption tax increases. Their main proposed increases in labour taxes were in relation to self-employed social insurance rates and the removal of various existing social insurance exemptions. The main proposed increases in consumption taxes related to the elimination of fossil fuel subsidies and to increases in other green taxes such as those on carbon and congestion. Overall, the Fiscal Council (see Casey, 2022) has estimated that the Commission's proposals would cumulatively bring in over €14 billion annually in additional receipts in the Republic.

Budget sustainability is also an issue for Northern Ireland which has faced several budgetary crises over the years post-2010. However, there cannot be any real discussion of budget sustainability without a parallel discussion of fiscal sustainability. Fiscal sustainability captures a much wider measure of how various policies by all levels of government contribute to the stability of the public finances. It is not possible to divorce the budgetary decisions of an NI Executive from the budgetary decisions of the UK government. The contours of UK budgetary decisions determine the level of autonomy any devolved Executive has in determining its own budgetary decisions. While it is reasonable for the UK government to expect the NI Executive to commit to sustainable budgetary decisions, the same argument also applies in reverse. Fiscal sustainability is therefore a joint venture between both the UK government and the NI Executive and should be treated as such.

The scale of the long-term challenges in the Republic and in the UK is such that more than increases in the smaller yielding tax heads will be required. In practice this means changes will need to be considered for one or more of the four big tax heads. These are income tax, social insurance, corporation tax, and VAT. There is unlikely to be much ongoing scope for further sustainable rises in corporation tax receipts in the Republic given their already large existing size relative to GNI*, although there may be some scope in the UK. VAT increases would be regressive although some reforms are feasible, particularly in relation to raising certain reduced rates. Social insurance increases may be more politically achievable than increases to income tax to the extent that levels in the Republic and in the UK are relatively low relative to other European countries and that increases could be explicitly linked to expansions in the social wage. Indeed, the low level or 'under-taxation' of employer social insurance is of such scale that it effectively amounts to the 'elephant in the room' (McDonnell and Mac Flynn, 2023) explaining the Irish and UK revenue gaps relative to Western European averages.

The UK government has begun to address this issue by lowering the threshold and raising the rate of employer contributions. In the Republic, 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.

6.3 Competitiveness and price stability

Our second stability dimension relates to the need to protect and develop structures and institutions that embed price stability within the economy. This is necessary in order to protect competitiveness, real wages, and employment and to prevent or restrain damaging cost of living spirals. Monetary policy is of course central to price stability but it is also worth discussing some additional policy levers.

First of all, we need to consider the promotion of competitiveness including the tackling of monopolies, market and regulatory failures, and business costs. Competitiveness is inherently a relative concept. In the long-run it is productivity that matters for sustainable well-being improvements, albeit increases in prices will ultimately erode employment and economic activity if they become decoupled from productivity increases. So, the core focus of a competitiveness agenda should be to raise productivity growth, a position endorsed by the Draghi Report (2024) on EU competitiveness. Policies for productivity growth have been discussed in Section 3.

Second, we need to consider the appropriate set of macro-prudential rules and principles that will help prevent boom and bust cycles or price spirals developing in key sectors of the economy such as banking, energy and housing that might potentially erode or worsen competitiveness on the Island. The Republic in particular has seen a long-term trend of rising living costs with these high costs imposing unnecessary burdens on households and enterprise. Prices in the Republic are the highest in the EU bar Denmark.

The Republic has notably high costs for housing, utilities and childcare. High housing costs are ultimately a function of inadequate housing supply though demand side subsidies and favourable tax treatment are also putting upward pressure on prices. Over the medium-term policymakers both North and South should focus on creating unitary housing systems (see Goldrick-Kelly and Taft, (2023) and ICTU, (2023)) with much more significant roles for the state in the direct provision of public housing. Similarly, de-commodifying childcare via a public sector option at free or below market rates will be necessary to satisfactorily resolve the twin problems of cost and availability in that sector. Reducing high energy costs will require a major expansion of renewable energy production on the Island (see Goldrick-Kelly, Forthcoming).

Notwithstanding these challenges the National Competitiveness and Productivity Council (NCPC) notes that the Republic ranks highly (4th out of 67) in the IMD World competitiveness rankings (IMD, 2025) and best in the Euro area, albeit with a ranking of just 38th for basic infrastructure, 40th for entrepreneurial fear of failure, 46th for prices (cost of living) and 56th for relatively high consumption tax rates. Some caution is required as the Republic's overall ranking is very likely skewed upwards by the presence of highly productive US multinationals. With regard to infrastructure the IMD notes weaknesses in water infrastructure, the road and rail network, and especially energy infrastructure. In addition, businesses in rural areas experience constraints that impede their competitiveness. For example, ESRI research (Dempsey and Hoy, 2024) shows that while high speed broadband coverage is almost universal in urban areas in the Republic, there are still significant gaps in rural areas.

The IMD ranked the UK just 29th in 2023 and 28th in 2024, declines in ranking from 18th in 2021. Basic infrastructure ranked just 38th in 2023 and 44th in 2024. The UK also ranked poorly in 2023 with regard to prices (63rd), tax policy (42nd) and management practices (38th). More positively, the UK ranks highly in terms of university education (2nd), scientific infrastructure (9th) and access to financial services (5th).

Despite its overall high ranking there are a number of areas where the Republic's cost base is likely to be impeding the enterprise base and its competitiveness. One of the most important of these is the cost of energy. Electricity prices for non-household consumers (companies) were significantly higher than the EU average in 2023 and the 3rd highest in the EU (see NCPC, 2024 and Goldrick-Kelly forthcoming). The NCPC argues that underinvestment in energy infrastructure including in the grid and storage capacity is undermining Irish competitiveness. Small market size, peripheral geographical position and geographically diffuse and low-density population are additional factors that may be contributing to the high costs. On the other hand, both economies on the Island may have a comparative advantage in the production of offshore wind energy. A massive programme of investment in renewable energy supply and grid upgrades should be a priority for both economies. This should include large-scale direct state intervention and investment through the ESB and support for private financing if necessary.

Other areas where businesses in the Republic are at a competitive disadvantage include access to and cost of capital, and legal and insurance costs. With regard to access to capital, policymakers in the Republic should strongly push for the creation of the pan-EU Savings and Investment Union to improve competition in the supply of available funding for Irish companies. This would also greatly benefit the EU economy, allow EU companies to more easily scale-up and compete on a more even playing field with US companies and assist with the green and digital transitions. Legal and insurance costs are also often cited (e.g. NCPC, 2024) as a competitive disadvantage for Irish businesses. A strategy for removing anti-competitive practices and structures in the economy should be a priority, with concrete steps taken to regulate and put downward pressure on legal and insurance costs. As noted, other areas of market failure that push upward pressure on wages and business costs are childcare and housing.

The second aspect of price stability is the need for macro-prudential policies that prevent boom bust cycles and price spirals developing. A preventative approach is key to embedding price stability just as it is key to preventing fiscal crises. There are numerous examples of such dynamics forming historically. We can use the Great Financial Crash (GFC) as an illustrative example in order to identify the type of policies that can help prevent boom bust dynamics. The GFC was essentially caused by widespread failures in financial regulation and supervision as well as failures in corporate governance at numerous systemically important financial institutions. The period leading up to 2007-08 was characterised by deregulation, excessive borrowing and risk taking, and a lack of transparency. In the Republic, the crisis was exacerbated by procyclical fiscal policy and a swathe of housing related tax breaks and easy credit that combined to inflate a massive housing bubble which left banks critically exposed.

Design flaws in the architecture of European Monetary Union (EMU) would subsequently make euro area countries the epicentres of sovereign debt crises. Destabilising credit flows and the build-up of regional current account and credit and debt imbalances within the currency union had been allowed to expand unchecked prior to the crisis and there were no mechanisms in place to stop the crisis spiralling out of control. Notable design flaws included the absence of a centrally run banking union, the absence of a fiscal mechanism (e.g. Eurobonds) to soften asymmetric shocks, and the absence of a lender of last resort to sovereign borrowers. The euro crisis was ultimately to drag on for a number of years until the European Central Bank resolved to 'do whatever it takes', thereby becoming, at least implicitly, a lender of last resort.

In contrast, the Bank of England acts as a de-facto lender of last resort in the UK and has been able to respond quickly to combat shocks to the UK economy. A recent example was its ability to restore financial stability following the Truss tax cuts and subsequent market instability in 2022. The main lesson for price stability is that a *preventative* regulatory approach is necessary with strict risk-based macro-prudential regulations (e.g. see CBI, 2014) in place to stop an unsustainable rise in credit before it happens and to safeguard financial stability. In addition, the Republic should actively seek to push to remedy the aforementioned design flaws within the EMU so that crisis backstops are in place when preventative regulation fails.

As a final point its worth considering how best we can link prices such as real wages to sustainable productivity gains and the potential role collective bargaining could play in achieving this. A system of collectively bargained agreements and strategic dialogue and negotiation can de facto create an anchor for price stability and competitiveness in the economy. In this context, the importance of managing business costs and prices needs to be set against the need for sustainable improvements in living standards, which itself depends on positive real wage growth. Only a negotiated and strategic medium-term approach can consistently reconcile these two goals.

A broad set of reforms and strategies for managing price stability might include the following:

(1) *Adopting 'supply-side' measures*: in many sectors, low supply is a significant driver of higher prices. For example, the Republic'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 itself 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 described in Section 5.

(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 section 6.4 below).

(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) *Savings and investment union:* limited access to capital puts enterprises in the Republic at a competitive disadvantage. The average interest rate to business in the Republic is one of the highest in the Eurozone. We need to complete the pan-EU savings and investment union in order to improve competition in the supply of funding for Irish companies.

6.4 Protecting the environment

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 old adage has it 'there are no jobs on a dead planet'.

The climate and ecological emergencies include historically rapid climate changes driven by human produced greenhouse gas emissions, disruption in natural chemical cycles, waste production and the permanent loss of many species of plants and animals. Addressing these emergencies requires an all of economy and an all of society response. The Republic and Northern Ireland are already amongst the highest emitters of greenhouse gases in Europe.

NESC (2023b) have argued that the starting point for the transition to a climate-resilient, biodiversity-rich and climate-neutral economy is a vision that all stakeholders can agree to work collectively towards.

Large-scale green investment in energy, transport, and housing will be required. Much of this will need to be state driven. The Irish Fiscal Advisory Council (Casey and Carroll, 2023) estimate that government supports in the Republic will cost between 0.6% and 1.1% of GNI* per annum out to 2030 and between 0.4% and 0.7% between 2031 and 2050. We can assume broadly similar figures for the UK. The Irish Fiscal council have also pointed out that a successful carbon transition necessarily implies a reduction in tax receipts from fuel and energy use (e.g. carbon tax) and motor tax that could amount to 1.6% of GNI* per annum in the long-run. On the other hand, missing its EU-agreed targets would cost the Republic hundreds of millions or even billions in fines per annum. Additional costs arising from more extreme weather are also likely.

The Republic's Climate Change Advisory Council (CCAC, 2024) has made a range of recommendations including the cessation 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, financial supports to address business and household affordability issues, and a more integrated approach to policy development and integration. They also make sector specific recommendations for electricity production, energy and waste, transport, the built environment, and agriculture and land use.

A key element of the transition relates to energy systems on the island. Plans to reduce emissions are largely centred on the movement of energy from fossil fuel use – such as your petrol car or gas-powered heating system – to an expanded and greened electricity system. In light of these needs, policy should focus on two key areas to ensure coherence: 1) continued expansion of renewable energy sources within the existing generation system and 2) inducements to reduce energy demand across the economy. The first of these should entail support for private renewable generators but the state must also itself take an explicit and significant role in new generation including offshore wind. The energy transition is too important to be left solely to market conditions.

In addition, policy must adhere to just transition principles (United Nations, 2016) and ensure correct policy sequencing with an emphasis on carrots over sticks where possible. Key aspects of a just transition include 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, and addressing affordability barriers for low income households and small businesses. Policymakers will also need to properly value and pay for natural capital including the provision of green assets and services. Mercier (2021) identifies 11 lessons from just transition case studies. These emphasise the need for social dialogue and supporting institutional structures, preparation, skills audits and state investment. Ní Lochlainn (2020) points out that the capacity to bear the brunt of the transition will be unequal in Northern Ireland. She points out that a just transition will not happen by accident and that it will require significant action by the state, from consulting with workers and communities, to directly supporting those displaced and ensuring that the skills system is fit for purpose.

As an example of addressing affordability, energy prices could be ‘reshaped’ to favour low-income groups during the transition to a renewable energy regime. With a system of energy block tariffs, a set number of kilowatts of energy could be provided at below market rates to all households with higher volumetric tariffs set above that threshold. This could significantly reduce energy poverty, incentivise decarbonisation by better off groups, and shift energy costs from low-income to high-income households. Other policies for addressing affordability include generous subsidies for public transport use alongside substantial nationwide expansions of public transport services, very significant up-front subsidies for housing retrofits and electric vehicles, and a programme of state investment to retrofit the entire social housing stock. All of these measures will bear significant fiscal costs. However, using the state to fund the transition would socialise the cost in the most equitable way through progressive taxation and in so doing protect vulnerable households. Having such policies in place should neuter concerns about highly effective but regressive green measures such as increases in the carbon tax or the abolition of fuel subsidies.

As part of the green transition we should seek to construct an eco-social welfare state (see Murphy, 2024). Aspects of this are described elsewhere in the paper and include greater income supports, universal basic services and facilitative childcare arrangements. Such changes, alongside measures to reduce energy and material demand, can reconcile ecological goals to general social welfare. The development of such an economy can also begin to redress regional imbalances.

Finally, environmental policy is not just about greenhouse gas emissions. Greater funding is needed to reverse the deterioration in biodiversity and to support the restoration of ecosystems. In the Republic, the CCAC has sensibly proposed that the government's new Infrastructure, Climate and Nature Fund should be deployed to protect and restore carbon-rich habitats on land and sea. Both jurisdictions will have to address the environmentally problematic area of agriculture dominated by animal farming. This sector is a leading source of greenhouse gas emissions (EPA, 2024) as well as chemical runoff on the island (Attorp, 2022) with outsized impacts on climate, as well as on our water quality and land-use. At the same time, the sector is a major source of employment, and farmers play a key role in society. Governments will need to set aside substantial recurrent funding to provide farmers and other land owners with incentives to focus on more sustainable forms of agriculture, on nature restoration efforts to rebuild lost natural assets which can absorb carbon, and on the protection of biodiversity and other eco-services.

6.5 Political economy and solidarity

Political economy is the fourth sustainability dimension. Policies need to have the support of the people and workers need to feel they have a meaningful say in how they are governed and that their voice matters. People also need to feel they have dignity, recognition and esteem at work. The reality is that if a policy does not have public support and acceptance then it will be continuously vulnerable to being reversed. Communication, dialogue and policy sequencing are all essential to good and sustainable policymaking.

Policy should not become disconnected from the ordinary citizen. Sandel (2022) talks about diminishing communal solidarity and a growing sense that people feel they are losing control of their lives. The dominance of the neoliberal worldview and its policies in Western countries over the last half century has delivered enormous rewards for some but has also left many other people and communities behind. Alienation and frustration have fomented a populist right-wing backlash in many countries. High housing and other living costs, weakly resourced public services and career and wage stagnation are all potential vectors of discontent. Yet the actual application of far-right populism to policy would simply further undermine the resilience and stability of communities and societies. Easy and reactionary answers are not the solution to complex problems. Instead, we need a better and more progressive way and a better and more inclusive economic model.

A truly resilient 21st century economic model and its underpinning policies have to be founded on 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, community, and local decision making in ways that can provide an enhanced voice for communities and for workers. Our overly centralised political model is a barrier in this regard. We need to strengthen local democracy and decision making with greater subsidiarity of decisions that affect local economies. There needs to be a renewed emphasis on community services such as housing, parks, public transport, healthcare and libraries and a renewed emphasis on life-long skills and meaningful quality economic opportunities for all. Greater fiscal powers and agency at local levels have to be part of this conversation. While these issues go well beyond the scope of this discussion paper they will need to be addressed if we are to successfully design a truly resilient and inclusive economic model for the 21st century.

SECTION 7: BRINGING IT ALL TOGETHER

7.1 Propositions and proposals

The new economic model that we are proposing is best understood as a framework rather than a list of proposals per se. Even so, it is worth collecting the main proposals discussed earlier in a single place (see Table 7.1). Some of the proposals are repetitive due to their overlapping nature across the four pillars. Our intent in future papers is to flesh out some of these individual proposals into more focused pieces of analysis and accompanying recommendations. Clearly such an ambitious and wide-ranging set of policies is not achievable in the short-run and in any event the appropriate policy make-up will inevitably change as evidence, circumstance and events change. Instead these proposals should be understood as an attempt to guide a medium-to-long-term project.

Table 7.1 Selected propositions and proposals

No.	Proposal
	No going back
1.1	The 'low road' model of domestic economic development based on competitiveness through cost reduction, low pay and precariousness should be replaced by a 'high road' model of development based on generating productive well-paid jobs.
1.2	The reframed economy should be consistent with the UN Sustainable Development Goals and based on principles of inclusive growth, environmental sustainability, and universal basic services.
	High level principles
2.1	The primary economic goal should be sustainable (across all dimensions) and inclusive growth which is capable of delivering lasting improvements in living standards for everyone.
2.2	Economies are not self-regulating. Left unattended they will tend towards boom, bust, and left behind regions. A laissez faire approach to economic transitions will not protect workers, sectors and even regions from falling behind. An activist 'mission' approach is needed.
2.3	We must avoid short-termism and focus instead on medium-to-long term outcomes.
2.4	Policy should be countercyclical so that countercyclical triggers and capacities are always available when needed.
2.5	Policy must be agile, willing and able to evolve as context and evidence changes, and it must be sustainable across all relevant dimensions.
2.6	Policy should adhere to just transition principles to avoid creating actual or perceived winners and loser dynamics. In the case of the green transition this means transition income and

	infrastructure supports, appropriate re-skilling and regional development strategies based on quality jobs.
2.7	The experiences of previous eras of technological change suggest that investments in lifelong adult education and in strong social safety nets will be the crucial interventions.
2.8	A focus on 'protecting what we have' is a developmental trap. Economic change cannot be wished away and a successful economy is one that can embrace, manage and benefit from change.
2.9	Sustainable growth hinges on the production, diffusion and application of new ideas or knowledge throughout the economy which causes average productivity to rise. This understanding should form the basis of a high-road growth policy.
	Pillar 1: Productivity – The Lever of Riches
3.1	A flourishing society based on sustainable growth and development is a function of dynamism and productive and innovative capacities at national, organisational and individual levels and influencing these should be the focus of growth policy. Productivity based growth is also the only form of growth compatible with environmental objectives.
3.2	Economic change needs to be managed with appropriate transition supports but we cannot and should not seek to prevent it.
3.3	The most successful small European economies historically combined the growth of exporters with key investments in and institutional supports for domestic innovation, workforce development, financial system development and social capabilities.
3.4	Discussion and policy around the productive economy must take account of externalities imposed on workers and the rest of society including costs on environmental and social 'reproduction' such as resource pressure, biodiversity loss and unpaid care work. The goal is to construct a high road path to organisational and economy-wide productivity where 'good' firms generate low levels of costs for the broader society and are enabled to do this by supportive institutions.
3.5	The most important investment for long-run growth is in people and their knowledge, skills, experiences, competences and creativity. Human capital development is a life-long process and public spending on education at all levels from pre-school to adulthood should be gradually increased in order to reach the levels of spending in peer high-income countries in Western Europe.
3.6	Poverty and deprivation can have damaging and lasting effects on people and their development. Child poverty creates an often-insurmountable life-long barrier that prevents individuals fully participating and flourishing in the economy and society more general. Family and childcare supports and in-kind public health services should be treated as pro-

	growth policies to the extent they decrease the risk and severity of child poverty and help inculcate the formation of human capital.
3.7	Investing in learning in early childhood particularly for disadvantaged children is likely to bring greater returns than at any other stage of life. Early learning and positive learning experiences make it easier to go learning throughout life. Additional resources for education should prioritise early years learning and on disadvantaged families where the risk of not developing to individual potential is highest.
3.8	Investment in infrastructure is an important component of long-run economic development and lack of investment will hinder future productivity growth. Public investment should be maintained at around the economy's rate of growth as a percentage of output (GNI* or GDP) and this should be consistent throughout the economic cycle.
3.9	Support for private investment should come primarily through ensuring access to finance at a reasonable cost. The establishment of a savings and investment union would improve financing options for Irish business and should be a priority for Euro area governments.
3.10	The establishment of independent state or regional investment banks (SIBs) should be established to address market failures in terms of access to finance for high potential start-ups. Special purpose vehicles can be established in SIBs to focus on specialised areas such as renewable energy or housing, or to focus on specific regional areas.
3.11	The Republic and the UK spend much less per capita on R&D than do other high-income European countries. Public spending on R&D in support of research institutions and universities should be doubled over the short-to-medium term along with additional patient long-term finance supports for private R&D from SIBs, generous subsidies for private research, and the building out of greater science-industry links.
3.12	Enhancing our innovative capacity means establishing attractive career paths for STEM workers and for other researchers to PhD level and beyond, as well as fiscal supports for ICT adoption across the economy, and financial and other supports that encourage the life-long re-or-up-skilling of workers and managers more generally.
3.13	Governments should take a more activist role in building out innovative capacity including through state entrepreneurship (the entrepreneurial state) via equity stakes in high potential start-ups.
3.14	Not all forms of enterprise support are appropriate. These include tax reliefs that subsidise and preferentially promote low value-added business activities (e.g. reduced VAT rates) or failing business models (e.g. protecting zombie firms), and/or impede meritocracy and intergenerational equality of opportunity (e.g. CAT reliefs for agriculture and business). Such policies carry fiscal and other opportunity costs and are likely to be counterproductive and produce slower growth in the long-run as they inhibit the process of economic change.

3.15	More appropriate forms of enterprise support include safety nets for entrepreneurship and risk-taking including via social insurance reforms and lenient bankruptcy laws.
3.16	Governments should also seek to encourage inward migration in order to bring in a flow of new skills, new ideas and new perspectives into the economy.
3.17	Governments should also promote mechanisms to support horizontal innovation within organisations by encouraging a greater degree of employee voice and autonomy, more active learning by doing, and better communication of internal expertise.
3.18	We need to promote 'good companies' and shift resources away from low-road employers. Good companies can be incentivised and supported using a range of instruments, for example (a) prioritisation in public procurement contracts; (b) special grant-aiding, and (c) de-risking of investment with equity funding.
3.19	Supports for export-oriented firms should be extended to include companies that are competing with imports, for example in the energy sector.
	Pillar 2: More and better jobs
4.1	The 'any job' approach to employment should be abandoned in favour of a 'good job' approach. This implies, for example, eliminating preferential supports for low value-added and poor job quality sectors and instead prioritising sectors and employers that adopt 'good company' principles.
4.2	Minimising labour market mismatch whether through under-or-over-qualification needs to be prioritised. Policymakers will need to engage in an ongoing research programme of strategic foresight about future labour market trends and future skill needs with a willingness to evolve policies at government level, including within the education system, and those aimed at the private market.
4.3	Some degree of mismatch and structural job loss is inevitable. We will need to develop supplementary models of education focused on life-long learning, with employers and workers given appropriate fiscal and other incentives and opportunities to up-skill or re-skill throughout their working lives. Well-designed Active Labour Market Policies (ALMPs) are essential and the Swedish model of Employment Security Councils (ESCs) provides an example of a best practice ALMP.
4.4	Greater public and private resources will need to be allocated to adult education and skills so that labour supply can respond to the changing demands of the domestic and global economies.
4.5	The social insurance system needs to protect the incomes of workers that do lose jobs in order that they are incentivised to take the needed time to re-skill or up-skill and do not instead find themselves obliged to take the first available job they find.

4.6	Active demand management is crucial. Fiscal and monetary policy should consistently operate counter to the business cycle so as to prevent significant fluctuations or 'boom and bust dynamics' in employment and in incomes.
4.7	Small economies need to remain as open to external demand and external investment (FDI) as possible. Openness to free trade has been fundamental to the success of the Republic's economy and free trade without barriers (consistent with SDG obligations) should continue to be the policy position regardless of whether trade barriers are raised by trading partners.
4.8	Policymakers should ensure that the proper enabling conditions are in place to assist the domestic enterprise base to prosper including access to finance, public investments in productive infrastructure, financial and other supports to assist exporters, a balanced non-distortive tax system, willingness to accept business churn and not protect zombie firms or low value added sectors, and generous supports for technology diffusion.
4.9	The tax and welfare system need to avoid creating disincentives to work. In particular, marginal effective tax rates (METRs) need to be kept low for low pay workers. Welfare systems should transition to income tapered working supports. This would minimise METRs while simultaneously protecting households. In addition, all cliff edges, discontinuities and step-effects should be eliminated from the welfare system. This has implications for the design of the medical card, third level grants as well as for other supports.
4.10	The housing crisis is creating barriers to domestic labour supply and to inward FDI. A decisive public intervention on the supply-side is required moving towards the development of a unitary cost rental model over the medium-to-long term. Additional policy focus should be on fixing the medium-to-long term structural issues with supply. These include financing, planning and planning laws, insufficient numbers of incentives to become construction workers, and weak productivity. The suite of reactive and costly tax breaks that push up house prices and embed further distortions should be abandoned.
4.11	The current manifestly failed childcare model is a barrier to participation in the labour market, particularly for women. Childcare needs to be made a universal basic service with a public option gradually rolled out beginning with the most deprived areas where access is most difficult. Care work more generally needs to be appropriately rewarded and recognised as part of a new eco-social contract.
4.12	Policy should incentivise employers to enable and encourage their workers to work from home and provide greater flexibility around core hours. This could help improve weak employment outcomes for certain cohorts, notably people experiencing disability or with caring responsibilities. Greater working from home opportunities would also support more balanced regional development and reduce pressure on urban housing markets.

4.13	There needs to be an expansion in funding for community development projects and other labour market programmes targeting socially disadvantaged communities, with full pay for programme participants in work training or education and skills development.
4.14	Much greater attention needs to be given to job quality. This includes wage adequacy but also other factors such as job security and prospects, skill acquisition and training, autonomy of work and work intensity, access to trade union support, and work-life balance including length of working hours and weeks, work life flexibility and work life spill-over.
4.15	Wage adequacy is central to any notion of a good job. The minimum wage should be set high enough to ensure minimum wage workers have a living wage as determined by the Living Wage Technical Group's minimum essential standard of living or 65% of the median wage, whichever is higher.
4.16	Beyond pay, other measures such as hours worked have to be considered before low-pay can effectively be eliminated. An important reform to combat precariousness and bogus self-employment is a presumption of an employer-employee relationship in all contracts with the burden of proof that any particular contract does not entail such a relationship lying with the employer.
4.17	Greater resources for workers can mitigate poor job quality. Worker rights such as sick pay, maternity leave and flexible working are all important as is proper regulatory oversight of minimum decent standards in work including in relation to pay, hours, and workload.
4.18	Workplace democracy is fundamental to job quality – in particular through collective bargaining and trade union presence. Legislative and other measures necessary to meaningfully realise the goals of the EU's directive on adequate minimum wages should be expedited. Examples of important reforms include less restrictive criteria for establishing sectoral agreements and extension mechanisms, protection against victimisation of workers that exercise their rights to collective bargaining or union membership, and a right of trade union access to the workplace.
	Pillar 3: Economic security
5.1	Collective bargaining should be made the norm across all sectors of the economy while barriers to joining trade unions should be eliminated in order to combat the long-term threats of declining labour share and rising income inequality.
5.2	Government 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 (ageing demographics, green and digital transitions etc) and to fund increased spending in pre-existing underfunded areas of public spending.
5.3	Government revenue raising measures should particularly focus on increasing taxes on capital including taxes on inheritances, on capital gains, on land, on property and on net wealth.

5.4	The use of tax expenditures (tax reliefs) should be severely curtailed. Such measures tend to be regressive and non-transparent. They also tend to distort economic activity and many exert a significant fiscal cost. Over the medium-term most tax expenditures should be wound down
5.5	Pay-related social insurance should be expanded in order to better ensure adequate incomes and that high net replacement rates are provided for all workers that lose their jobs.
5.6	Employer social contributions (the social wage) should be increased gradually over time in order to fund the expansion of social insurance benefits.
5.7	There needs to be an expansion of heavily subsidised universal basic services in order to ameliorate the negative practical impacts arising from income inequality and inadequacy. In the first instance this should include the creation of a public option in childcare with carers becoming public servants.
5.8	The cost of using public services should be gradually reduced over time to zero on the basis that public services are merit goods and their provision should be based on need rather than ability to pay. This includes healthcare, education and public transport.
5.9	All welfare rates whether for children, for pensioners, or for those of working age should be set on the basis of income adequacy benchmarking in order to combat deprivation and protect vulnerable households' incomes from falling too far behind the rest of society.
5.10	All social transfers should have a tapering component with the percentage value of the support declining gradually as non-welfare income increases. This is to protect low income households while simultaneously ensuring low marginal effective tax rates and a strong incentive to work.
5.11	A 2nd tier of tapered child income support should be introduced in order to eliminate child poverty.
5.12	The overall welfare systems should be reformed in order to systematically remove all cliff edges, step-effects, and other distortions from the system.
5.13	The welfare systems should be declined holistically on cross-departmental basis to ensure coherence, appropriate data gathering and analysis.
	Pillar 4: Economic Resilience
6.1	Fiscal stability needs to be hardwired into the economic model. Fiscal policy should always be countercyclical, ideally with surpluses in good economic times to enable countercyclical deficits in the bad times. Over the medium-term a government's current spending should be completely financed through current taxation.
6.2	Any once-off or potentially transitory receipts should be quarantined so that they are not available for use either to fund day-to-day spending or to finance tax cuts.
6.3	Policymakers should apply a golden rule for investment that ensures sufficient and consistent allocation of resources to public capital spending across the economic cycle.

6.4	Mature debates are needed about expenditure needs, fiscal sustainability, intergenerational equity and revenue sufficiency. The broad thrust of the recommendations (with some caveats) from the Republic's Commission on Taxation and Welfare should be adopted and a similar commission established in the UK and separately in Northern Ireland.
6.5	Raising additional revenue should initially focus on higher taxes on capital stocks (wealth) and property and on eliminating tax expenditures, while the 'elephant in the room' of low employer insurance rates will need to be addressed over the medium-term.
6.6	We need to embed price stability in the economy. This includes dealing with high prices and market failures in electricity, childcare, housing, the cost of capital, legal services and insurance. These high costs undermine competitiveness. There should be state interventions to diagnose and then resolve each of these failures.
6.7	Macro-prudential regulatory policies that prevent boom and bust cycles and price spirals from developing must be retained. In particular, a preventative regulatory approach is needed to stop unsustainable rises in credit or in asset prices before they take hold.
6.8	Design flaws in the architecture of European Monetary Union (EMU) still need to be fixed as they remain a source of significant instability. These include the absence of a centrally run banking union, the absence of a fiscal mechanism to soften asymmetric shocks, and the absence of a lender of last resort to sovereign borrowers. The Irish government should lobby at European level to get these design flaws remedied.
6.9	Addressing the climate and ecological emergencies will require an all of economy and an all of society response. Much higher levels of green public investment in energy, in transport and in housing retrofits is needed, along with appropriate fiscal (subsidies, carbon taxes) and other incentives for business and consumers to make the green transition. Expanding and greening the electricity system should be an immediate priority.
6.10	The green transition must be a 'just transition' with meaningful public consultation, income protection for lost jobs, and job creation and skills development for the regions and workers affected.
6.11	The green transition should, wherever possible, emphasise carrots over sticks, while acknowledging that policies such as carbon taxes and the abolition of fuel subsidies are effective and necessary. Generous subsidies to address affordability barriers will be needed so that low income households and small businesses can make the green transition. Examples include reshaped energy tariffs and subsidies for public transport and state investment in the social housing stock
6.12	Substantial recurring funding will be needed to provide farmers and other land owners with incentives to focus on more sustainable and less environmentally destructive forms of agriculture and on nature-friendly land-use.

6.13	Policies need to have the support of the people if they are to be sustainable. Communication, dialogue and policy sequencing are all important. The policy process itself must be reformed in order that there is meaningful stakeholder consultation, and meaningful regional, local and community involvement in relevant decision-making.

SECTION 8: CONCLUDING THOUGHTS

8.1 Serious challenges need a serious response

The world is changing fast. This change includes the workings of the global economy from technological change to job security to tariffs and patterns of trade. Our understanding of sustainable planetary boundaries is also changing as is our understanding of the ingredients of individual well-being from worker rights to basic services to living incomes. The economic models and policies developed for the 20th century will have to be revamped to reflect these and other changes. We cannot wish away the looming megatrends from climate catastrophe, ageing demographics, shifting patterns of trade and geopolitics, and ongoing technological disruption. Standing still is not an option and will merely lead to stagnation and falling behind. Instead, we will need policies that make us 'anti-fragile' in the sense of being agile and poised to flourish and benefit from change no matter what trends or shock happen externally.

The correct response is to first take a step back to pause to fully understand the implications of these and other less foreseeable changes and what they might mean for growth, inequality, the environment, and individual autonomy and well-being. We then need to define our economic goals and come up with a serious strategy for how those goals can be successfully realised amidst the tumult and uncertainty of the changing world.

We have chosen to define the goal as inclusive and sustainable growth leading to continuous improvements in well-being for all individuals and groups. Our key goals are to build a sustainable, prosperous and inclusive economy; to avoid the booms and busts which have caused huge pain and to protect people from the ups and downs of the international economy while recognising that engagement is critical.

The strategy we have outlined for achieving this goal is rooted in a set of complementary policy proposals tied to four interlocking pillars A) productivity and the good company; B) more and better jobs; C) economic security, and D) economic resilience. The fundamental support for broad and egalitarian flourishing is the mutual reinforcement between good quality employment and excellent and broad social services. These in turn consistently boost productivity as such skills and security are the foundations of entrepreneurship and innovation and are the conditions of the economic 'high road'. They also dovetail well with the developmental supports of enterprise policy and the 'good company' is key to the 'flourishing economy'. Finally, all these together provide a basis for ensuring fiscal stability as they create a broad-based economic foundation. This provides the basis for the patient development of society over time while fiscal stability in turn protects our social model from international turbulence.

This working paper draws on and expands the ICTU's 'No Going Back' document from the early days of the pandemic in 2020. It is intended as a modest contribution to what we hope will become a wider societal debate about our collective goals and strategies for the 21st century economy. The paper is necessarily very high-level in nature given the sheer breadth of the proposals advanced. Our intention is to develop many of these proposals more concretely in the months and years to come.

Finally, we look forward to engaging with the thoughts and criticisms of other stakeholders on the Island of Ireland in the months and years ahead and we look forward to seeing their own ideas and proposals for sailing through the storms to come.

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[i] For the original use of the measure see Barry, F., and Bergin, A. (2017). "Business" William (Bill) Roche, Philip J O'Connell, Andrea Prothero (Ed.), Austerity and Recovery

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