

What does a new Labour Government mean for Northern Ireland?

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The Labour Party's recent landslide victory in the UK general election marks a significant shift in the political landscape and a major change in policy direction. It is reasonable to say that the result has been generally welcomed by political parties in all three devolved administrations, which is unsurprising given that politics in Scotland, Wales and Northern Ireland tends to lean towards the centre left. This should help lower the temperature in any discussions between the local parties and the new Secretary of State. In addition, the new Prime Minister's experience of working in Northern Ireland undoubtedly gives him an advantage over his predecessors in terms of understanding some of the idiosyncrasies unique to society here. Furthermore, the initial mood music was positive following Sir Keir's brief visit to Northern Ireland in the days following the election result.

As welcome as this is, we have more experience than most of positive mood music. It is clearly better to get things off to a good start, but when difficult decisions must be taken, the mood can quickly change. Thus, raising the question: what lies in store for Northern Ireland following the election of a new Labour Government?

Although the new Prime Minister's strategy during the election was to say and promise as little as possible, which was difficult to argue with given the election result, the King's Speech to parliament last month has given us a greater insight into the new Government's plans. In economic terms, there was a lot of talk about growth and stability and some of the more eye-catching legislation announcements focused on the establishment of a National Wealth Fund to lever private sector funding to increase investment, streamlining planning processes for critical infrastructure and house building, a range of transport legislation including the effective nationalisation of train operators, a ban on

zero hours contracts and the creation of a publicly owned energy company to own and operate clean power projects.

Some of these measures will directly impact Northern Ireland, such as investment from the National Wealth Fund, but it is important to recognise that most policy decisions taken in Westminster will only apply to England, as responsibility for the economy, health, education and infrastructure are devolved to the regional assemblies. Therefore, the NI Executive's primary interest tends to focus on overall spending decisions so it can determine its funding envelope and prioritise spending accordingly. This will only become clear when the new government announces its budget.

It is interesting that the Scottish Government was calling for Westminster to increase spending on the NHS in England (and therefore by extension raise taxes) so Scotland would receive the associated increase in 'Barnett Consequential' funding. It did not seem to occur to anyone to suggest to the Scots that they could raise taxation themselves to fund additional health spending, if that was their priority. Without being too cynical, it is always better to leave the unpopular task of raising taxes to someone else.

Back to Northern Ireland, one potentially important piece of legislation announced was the innocuously named Product Safety and Metrology Bill, which makes it easier for the Government to align product standards with the EU and mirror changes Northern Ireland must implement through the Windsor Framework. This is part of the broader strategy to bring the UK more closely in line with the EU, for example in terms of seeking a veterinary agreement, and should reduce trade frictions between NI and GB and the UK and EU more generally.

Article first published in the Irish News on 30th July 2024

On the issue of finances, Rachel Reeves the new Chancellor has been very consistent in her position that the fiscal rules relating to both the overall debt and the annual deficits will not be broken. That means that there will be no significant increase in spending without a similarly sized increase in taxation. In addition, one of the very few pledges the Labour Party made during the election campaign was that there would be no increase in National Insurance, Income Tax and VAT – the big three tax revenue sources. Therefore, whilst taxes will almost certainly continue to increase, the additional revenue generated is likely to be relatively limited.

The Treasury audit ordered by the Chancellor when she took office, the so-called ‘blame document’, has already resulted in cuts to important infrastructure projects this year. Ironically this is the same mistake George Osborne made in 2010 and will impact longer term economic growth. However, the new Government has already responded to internal pressure to increase spending in areas such as public sector pay, but overall their limited ability to raise significant additional revenue will almost certainly rule out any spending splurge. Furthermore, if they yield to international pressure to increase defence spending, which falls outside the scope of the Barnett Formula, it could restrict additional spending in other Departments where the NI Executive would have received its Barnett share.

All things considered the new government is not a ‘get out of jail’ card for local Ministers and it was never going to be. The challenges remain and the difficult decisions, particularly around health and education reform, still must be made. It seems to me, we would rather die in a hospital three miles from home, than recover in a hospital 30 miles from home, but I have yet to hear anyone make an electoral maturity fit together like hand in glove.

To end on a positive, if the new Labour Government is successful in its ambitions to improve the planning system in England, it may provide an impetus for us to take the similar bold steps here, which really would bring a much needed economic boost.

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About UUEPC

UUEPC is an independent economic research centre focused on producing evidence-based research to inform policy development and implementation. It engages with all organisations that have an interest in enhancing the Northern Ireland economy. The UUEPC's work is relevant to government, business and the wider public with the aim of engaging those who may previously have been disengaged from economic debate.

