

Funding the Future

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Andrew Baker, with [whom I have co-authored](#), had a [good piece in the Belfast Telegraph yesterday](#) on the lonely campaign he, I and a few others with ICTU backing have been pursuing to stop a cut in the corporation tax rate in Northern Ireland. As he put it:

The sensible reaction to last week's news that there will be no decision on the devolution of corporation tax to Northern Ireland should be one of relief. Our politicians were about to do something particularly stupid. That David Cameron's decision has effectively forced the lemmings to step away from the cliff and prevented them from jumping should be a cause of minor celebration.

He was right of course, and laid out all his reasons:

Cutting corporation tax to 12.5% was not just a huge economic risk; it was an enormous gamble with our shared political future.

Look at the data. Cutting corporation tax would have been accompanied by a significant cut to the Northern Ireland block grant.

The lowest possible figure would be a £300m per annum cut. For Stormont to recover those lost public resources, it would require an extra £2.4bn to be generated in private profits.

That translates into a £10bn expansion in the size of the Northern Ireland economy, which is currently at a size of £28bn.

That means growing by a third to break even on the budget. That is three to four times the current rate of growth of the Chinese economy.

And that's utterly implausible. The result would be:

Northern Ireland would be voluntarily increasing their austerity medicine by two to three times at a time of unprecedented public and private deleveraging.

Cutting corporation tax would, therefore, not be pain-free. But how would the pain be

shared out? There is little doubt that cutting corporation tax cut would have had a stimulatory effect. But, given the significant withdrawal of public resources that would accompany the move, any net growth in the current climate would probably be modest.

Viewed in that light, cutting corporation tax would essentially involve a redistribution of existing wealth, creating a more skewed and stagnant income distribution, further fuelling economic inequality.

The corporation tax cut proposal was the equivalent of politicians offering up the electorate a glace cherry and saying here is our economic plan.

Which is why, alongside the implausibility of the scheme working, we have opposed it. As Andrew concluded:

If Northern Ireland had an economic cake in place, it quite literally would have been the cherry on the cake. But Northern Ireland first needs to create an economic cake, consisting of improved infrastructure and targeted skills, and that requires public investment.

Corporation tax was a magic bean of an economic proposal.

We should all be thankful that the lemmings have been quietly ushered away from the edge of the cliff — at least for the time being.

But if the idea comes back to the table, we'll be waiting.