SIPTU

Investing for Jobs and Growth

September 2011

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1. The austerity programme imposed over the last four years has taken €20.6bn out of the economy. The plan is only working to the degree that it is doing what it was designed to do i.e. recover losses incurred as a result of reckless lending by major continental banks during the bubble years. It is not working by reference to any other criteria. We are almost certainly approaching a tipping point both socially and economically beyond which we will be irretrievably condemned to years of stagnation and mass unemployment and emigration, or worse. The Government must seek to minimise the extent of retrenchment and outline a plan which offers hope and begins to rebuild confidence. Any further deficit reduction must be offset by an imaginative, innovative, investment programme.

2. All projections envisage anaemic levels of domestic growth over the medium term – if indeed there is to be any at all. Without investment, there will be no growth with any real impact on employment or demand. Gross fixed capital investment has fallen from its bubble peak of €46bn in 2007 to less than €19bn this year. The private sector has withdrawn. In normal circumstances, it would fall to the State to step in to shore up demand. Unless it can be self - financing, this is not possible in the context of the EU/ECB/IMF "Troika" Agreement.

3. An imaginative way must be found to leverage investment into the economy to generate jobs and begin rebuilding confidence. The residue of the National Pension Reserve Fund (€5.3bn as of July, 2011) should serve as the first element. Private pension funds must also play a critical role in addressing the investment deficit. Prior to recent market contraction, their combined assets were estimated at €78bn (Source: Irish Association of Pension Funds).

4. The Trade Union Movement supports the Government's jobs initiative, but is opposed to the pension levy, for reasons which are documented elsewhere. It is projected to raise €1.9bn over a four year period. This is based on a levy of 0.6% per annum which would become 2.4% of the value of each fund. If pension funds could be persuaded to increase the proportion of their assets invested in the domestic economy by 5% (i.e. more than double the value of the levy), it would generate upwards of €4bn.

5. In addition to addressing short-term job generation and consumer confidence issues, there is a requirement to re-focus scarce resources to facilitate

medium term expansion in sectors of the economy which have a capacity to grow and enhance national productivity. Despite above EU average levels of public construction and civil engineering during the building boom, there still remains an infrastructural deficit which must be remedied if the Irish economy is to optimise opportunities for growth. Infrastructure assets are long lived and serve as the backbone for the provision of essential products and services that underpin the economic growth of any country.

Examples present in the energy sector (electricity transmission network), utilities (water generation and distribution system) and in the transport sector (roads and rail). Construction Industry Council estimates suggest an employment return of the order of 10,000 jobs (direct and indirect) per €1bn invested in selected infrastructural development. It is widely accepted that, on average, every person taken off the live register results in direct savings to the Exchequer of somewhere in the region of €13,000. Moreover, the cost to the State of every new claimant is estimated to be about €20,000 including the loss of revenue accruing from income tax, PRSI, etc. (Source: Parliamentary Question 4769/09, 10th February 2009)

6. The great majority of Defined Benefit Pension Funds are insolvent by reference to the current funding standard. Currently, there are more than 550,000 people in membership of these schemes. A major crisis is in the offing unless the issue is addressed. Apart from the enormous social consequences of the loss of retirement savings for so many people, the economic implications would be equally horrendous. The levy would not represent the difference between solvency and insolvency for most schemes. However, it does greatly exacerbate an already serious and deteriorating situation. There is a better, fairer way to utilise the potential of private pension funds in rejuvenating growth. A number of co-ordinated steps should be taken to encourage them to significantly increase their levels of investment in the domestic economy. This would entail creating instruments which offer reasonable security and prospects for return which are in balance with trustee obligations to members in the context of investment spreads.

7. Funds which increase their current level of investment by 5% of their asset value in the domestic economy in selected job generating economic activities should be exempted from the levy. This should be conditional on investment in Government approved activities. Such approval would be contingent on meeting criteria extending over progressive resource reallocation (i.e. into sectors contributing to growth potential), and job generation. The project range would have to be sufficiently extensive to assimilate more than €4bn of investment over a two year timeframe. It is likely that this would involve infrastructural development as well as venture capital for the establishment of

new enterprises in the manufacturing and service industries and the expansion of existing capacity.

8. Infrastructural/Utilities development presents the best prospect for immediate return in terms of job generation while simultaneously enhancing medium to longer term sectoral growth and productivity. Funding via conventional Government bonds is not viable as this would add to total Government borrowing. Another mechanism must be found. Project bonds issued by public utilities companies (e.g. the proposed new water network company "Irish Water" as envisaged in the Programme for Government and the energy providers such as the ESB and An Bord Gais) would be appropriate. These would be secured by the actual physical and commercial asset base of the relevant companies.

9. The Trade Union Movement does not favour the privatisation of state assets (for reasons that have been outlined extensively elsewhere). However, the agreement with the Troika negotiated by the previous Government envisages extensive disposals. The Programme for Government limits proposed divestments to a value of "up to €2bn in sales of non-strategic state assets". It also commits to the creation of a holding company to manage the State's holdings in the Semi-States and to co-ordinate investment in key priority areas. The ICTU policy (2005) envisaging the establishment of such an entity is not incompatible with the Programme for Government. The Congress document also allowed for the possibility of the sale of a minority stake in the holding company, precisely to facilitate passive investment by pension funds.

10. Parallel with this, a new venture capital fund (or funds) could be established. Enterprise Ireland currently participates in venture capital and seed-funding worth €600m which is intended for high potential start-ups and for existing businesses engaged in expansion. A new initiative would be required on a bigger scale. The proposed Strategic Investment Bank, to which the Programme for Government is also committed, would seem the ideal conduit. The key is to develop viable investment opportunities for pension funds, contingent on compliance with the strategic objective of ensuring the most productive deployment of capital and investing in those projects with strong job generating potential.

11. The regulations governing the calculation of the "funding standard" for Defined Benefit Funds would require amendment. The Trustees would have to be able to calculate their liabilities in the event of wind-up on the basis of some kind of generally accepted objective rate of return for infrastructure/utilities or venture capital funds as the case may be. This

should not prove an insurmountable problem given the example of the proposed “Sovereign Annuity Bond”.

12. The facility for exemption from the levy should be provided for in the Finance Bill 2012. The Troika agreement would have to be renegotiated to facilitate the utilisation of the proceeds of any sale of a minority stake in the State Holding Company for investment in the domestic economy as distinct from debt reduction. There are a number of points to be made in this respect. While economists differ on the multiplier effect of major investment programmes, there is no dispute as to the fact that they enhance economic growth. Growth would facilitate a deficit reduction and debt repayment in an ultimately more positive way. Moreover, it is increasingly possible that the cost of bank re-capitalisation will be less than earlier envisaged and this dynamic would be further enhanced by a massive programme of job generation.

13. Given the constraints imposed by the Troika agreement on Ireland’s public finances any shortfall arising from the non-payment of the pension levy would have to be made good by compensating revenue raising efforts to fund the Government’s jobs initiative. It would entail “cash on the table” alternatives. This could be addressed by introducing a moderate, temporary “Solidarity Levy” on an escalating scale on incomes in excess of €100,000 per annum.

14. The approach outlined here would produce a number of positive results e.g.:

    I. Generation of between 60,000 and 80,000 jobs (based on Construction Industry Council estimates)
    II. Enhance economic growth
    III. Alleviate the impact of the process of deficit reduction
    IV. Provide a confidence boosting stimulus
    V. Alleviate the pressure on pension fund solvency (by enabling them to retain the value of their 5% investment on their balance sheets)

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