There should be hope at the end of the Stimulus

(as submitted to Irish Examiner)

Small and local businesses await the July Stimulus hoping this time they have been listened to. To save our economy, we need to save jobs, especially in parishes a long way from Kildare Street where the plan is being written. To save jobs we need to save businesses. Our economy is a patchwork quilt of foreign direct investment, large exporting companies and SMEs. Therefore, all sectors need to recover. But SME's have suffered losses of perhaps up to 9 billion euros – because we asked them to close, not because they all had poor business models.

Without grant aid for these huge losses, only the biggest will survive, and they will gobble up the small ones or their customers. What will be the social costs of such a 'laissez-faire', only the strongest survive, policy? How many young companies will perish on a COVID shipwreck before they can become our next business champions?

Government interventions up to now have not worked. Thousands have not yet been rehired. Worse, crippled by unpaid bills and lost revenue and facing reduced revenue and new bills, firms are giving up trading daily and letting staff go.

By contrast, in Denmark, wage subsidies accompanied by a rapid and generous compensation for losses have held unemployment rates around 5 per cent. Their economy is forecast to shrink by 3 per cent this year – 6 per cent less than our fall of 9 per cent. This is our last chance to get it right.

To succeed in reversing job losses in our small businesses, where after all 1.5 million people are engaged, three pitfalls must be avoided:

(a) Wrong measures.
(b) Wrong targets.
(c) Wrong size.

(a) Use the right tools

You cannot stimulate spending by business by offering loans they know they are too weak to pay back. Piling on debt or deferring tax bills does not restore outsiders' confidence either so trade credit dries up too. That is why interventions with mainly loan packages were destined to fail.

At SME Recovery Ireland, we recommended using zero per cent interest government guaranteed debt so that billions of outstanding bills could quickly be paid, but only where firms also know the debt can be repaid with grant aid once they prove their losses to the Revenue and pay their bills.

It might seem like precision surgery but that is how not to waste valuable firepower. It is a stimulus investment where we get more back than we spend. Some firms might still fail but having them pay their bills will save others and boost the economy. It means taxes like VAT are paid. And unburdened by legacy COVID debts, resilient entrepreneurs can move on and start new businesses.

For viable firms, working capital loans must follow to allow them adapt to new circumstances, to innovate, digitise and invest in their future. For the remaining months of difficult trading, further subsidies and changes to examinership rules will be needed so that good firms in the right sectors can survive.

info@smerecovery.ie
+353 1 524 1615
6 The Crescent
Limerick, V94 N88X

(b) Targeted to the right people

So why pick SMEs for the stimulus? In 'normal' recessionary times, government stimuli stimulate demand by putting money for spending into the pockets of many (like by increasing pensions or cutting income tax) or using tax measures to bring down the cost of items so that they are cheaper to buy. But this is no normal recession.

Extraordinary times require extraordinary measures. The uneven hits to households of this crisis require a much more targeted government response. Large sections of the population have not lost income but confidence. Household saving increased 4.5 billion euro in April and May to an all-time high of 118 billion euro. Give those savers more money and they will just keep saving until they believe that tomorrow will get better and job losses will stop.

Giving money instead to those who have lost income but will spend it – because they have to - stimulates the economy. So ambitious and targeted grants to get businesses back on their feet and using wage subsidies will get people re-employed. When businesses are confident the owners will employ, pay their outstanding bills and suppliers will give them new credit. When workers are confident, they will not lose their jobs, they will spend not save their wages.

(c) In the right scale

Laurence Boone, chief economist of the OECD has pointed out that "this is not a shock that central banks alone can address". Governments need to act too. ECB actions are ensuring cheap funding for banks, large businesses and governments. By helping governments borrow cheaply, the ECB wants to see them act with sufficient scale to shelter their economies from the worst of the storm.

So, let us not mince words. We can borrow. We should borrow. And it will take billions of fiscal stimulus to respond correctly to counteract the Central Bank's very worrying forecast of drops of nine per cent in GDP, 35 per cent in investment and 10 per cent in private consumption.

If we are penny wise and pound foolish, this recession will be a long deep one. Without growth to help pay back the COVID bills, we will be facing years of austerity. Banks and suppliers will start seizing assets, mental distress levels will shoot up and shop fronts will be boarded up in towns and villages across Ireland.

There is still time for our politicians to act so firms keep selling, people buying, jobs are recreated, and taxes keep flowing for the government to pay for public services. But remember, above all, it is not just about the economy. Many small firms deserve solidarity and our support for the social function they play in our local communities, rural and urban, not just for their profits and taxes. Think of the child carer, the rural taxi driver or the local shop or pub to understand what I mean.

In the words of Ed Honohan, Master of the High Court, investment in such social infrastructure, like CAP for farmers, is a "political goal worth breaking the rules of a free-for-all marketplace." If our politicians get this right there is real hope. July may see the most important COVID infrastructural investment for Ireland. A systemic spend where the return is measured by how it maintains social cohesion and stimulates the economy not just by an interest rate or the likelihood of getting the money back.

The politicians who write it will go down in history. Their choices will determine how that history is written. It is why politicians must write the recovery plan not bankers.

John Moran
Chair SME Recovery Ireland