2020

Family Business Network Ireland: Submission to the July Stimulus Package

THE FAMILY BUSINESS NETWORK

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July 2020

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Background

The Family Business Network International is the world's leading family business organisation. FBN provides a shared-learning space for enterprising families to flourish across generations through the exchange of excellent, innovative and impactful practices. Founded in 1989 and headquartered in Lausanne, Switzerland, it is a global network of some 3,700 business owning families across 65 countries.

The Irish Chapter of the Family Business Network was founded in 2013 by leading Irish business families. It operates as an all-island organization and currently has members from across the island covering a broad variety of sectors, all crucial to supporting and driving the domestic economy.

The purpose of FBN Ireland is to promote the success and sustainability of Family Businesses in the Irish economy. It is a not for profit and non-solicitation organisation that provides a confidential forum for families to discuss and address challenges specific to family businesses. The organization also provides advice on corporate governance and business structures along with assistance on succession planning.

Setting the Context

The outbreak of Covid-19 (Coronavirus) has had an immediate and swift impact on all aspects of Irish society. The Irish people and Irish businesses responded with decisive action from social distancing to the closure of premises throughout the country. Family businesses throughout Ireland have prioritised the health and wellbeing of the public and their staff above all other considerations in their response. This support from family businesses has led to the acceleration of the national roadmap for reopening the economy.

However, the lockdown and the subsequent restrictions applied to business reopening has had a profound impact putting thousands of jobs and businesses at risk which have been embedded in our communities for generations. It is estimated that approx. 75% of Irish owned firms are Family Businesses and that these businesses contribute over 50% of Ireland's GDP and employ around half of the workforce. Protecting these businesses will be essential in safeguarding the Irish economy.

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Ireland's fiscal response to the economic fallout from Covid-19

FBN acknowledges the work of the Irish government in responding to this unprecedented crisis. Overall, the Irish Government has spent approximately 4.0% GDP (4.7%GNI*) on its fiscal response to the economic fallout from Covid-19. These supports include:

- The Temporary Wage Subsidy Scheme and the Pandemic Unemployment Payment.
- The €2bn Credit Guarantee Scheme for SMEs which provides an 80% guarantee on lending to SMEs loans between €10,000 and €1m against lower interest rates.
- Additional Business Supports such as the €10,000 restart grant for micro and small businesses based on a rates/waiver rebate from 2019, the three month commercial rates waiver for impacted businesses and the €2 billion Pandemic Stabilisation and Recovery Fund.

Table 1 compares Ireland's policy response to Covid-19 with some of our key trading partners.

Table 1: Comparison of Policy Responses to Covid-19[1]

Support	Denmark	France	Germany	Greece	Ireland	Italy	U.K.	U.S.
Government Supports as a % of 2019 GDP[2]								
(i) Immediate fiscal impulse	5.5%	4.4%	13.3%	3.1%	4% (4.7%GNI*)	3.4%	4.8%	9.1%
(ii) liquidity/guarantee	4.1%	14.2%	27.2%	2.1%	<1%GDP	32.1%	14.9%	2.6%
Business Supports								
Government Backed Loans for SMEs								
Government Business Grants								
Deferral								
Income/ Corporation Tax								
VAT								
Rent/Utilities/Local Tax								

[1] Information for this table is taken from: OECD, 2020. Coronavirus (Covid-19): SME Policy Responses https://read.oecd-ilibrary.org/view/?ref=119_119680-di6h3qgi4x&title=Covid-19_SME_Policy_Responses

[2] Bruegel. The fiscal response to the economic fallout from the coronavirus https://www.bruegel.org/publications/datasets/covid-national-dataset/#table

Social Security & Pensions								
Debt Moratorium								
Structural Policies								
Supporting Teleworking/Digitalisation								
Supporting Innovation								
Training and Redeployment								

We have highlighted to our members the supports that have been put in place and we will continue to update them as circumstances evolve. Irish family businesses are not only at the heart of our communities, they're at the frontline of this crisis from hospitality, tourism & leisure to agri-business and retail. While these supports are welcome, some of the criteria will need to be changed, while additional direct supports to businesses should be introduced. It is within this context that FBN Ireland makes its submission to the Government's July Stimulus Package.

Making the Case for a Wide-Ranging Stimulus Package:

The Family Business Network of Ireland is recommending that the Irish Government implement a wide-ranging stimulus package through its July Programme and Budget 2021. The economy effectively came to an unprecedented halt in March and although we are slowly exiting the lockdown through our national roadmap, the post-Covid economy will be very different to what we had experienced before. Ongoing restrictions and depressed consumer confidence mean that the Government has no choice but to play an unprecedented role in spurring economic growth. Professor Stephen Kinsella of the University of Limerick suggests that "Stimulus measures should be significant, up to 10% of modified Gross National Income, or some €20 billion, including measures announced to date"[3].

Five key factors should be taken into account when considering the economic response:

1. There must be significant Government expenditure over the next 3 years.
2. Scaling back Government Intervention too soon will jeopardise the recovery and cost the exchequer more in the medium to long term.
3. The current market environment coupled with EU policy interventions allows for significant borrowing for the recovery.

[3] https://www.oireachtas.ie/en/debates/debate/special_committee_on_covid-19_response/2020-06-16/4/

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4. There should be no need for fiscal adjustments after the recovery phase as the economy grows, revenues increase - the Debt to GDP/GNI* will fall.
5. There is a distinction between stimulus measures to spur economic growth and increases in current expenditure. Current expenditure increases will have to be paid for by current revenue/increases in taxation.

The Irish Fiscal Advisory Council (IFAC) has identified three broad phases for the Irish economy over the next couple of years mainly:

(1) The Immediate Crisis.

(2) The Recovery Period.

(3) The New Normal or “steady state”.

During the crisis it was not only appropriate but essential for the normal functioning of our society and to ensure cooperation from the populous that the Government implement income supports such as the Temporary Wage Supplement Scheme and the Pandemic Unemployment Payments. These are temporary measures that shored up livelihoods throughout the country.

As we move to the ‘Recovery Period’, the economy will be significantly below capacity with ongoing health restrictions and depressed consumer confidence. As businesses start to open up and employees return to work, the Government response must be sustained to shore up business and give confidence to consumers. In this phase, the Government should maintain the Temporary Wage Supplement Scheme to protect employment levels, in addition the Government should provide direct grant aid to businesses that have been forced to adjust to the new normal. Liquidity supports should also be expanded. The details of these initiatives are outlined below.

As the economy prepares to stabilise and enters the ‘New Normal’ it is imperative that the Government does not summarily remove grant in aid to businesses but instead phases out supports with good notice and in consultation with employer groups such as the FBN. The Government should avoid a rush to reduce the national debt, the deficit will fall as the economy grows, employment rises, automatic stabilises readjust and grants are phased out. The current market allows for the Government to borrow to meet the needs of the economy, this is as opposed to increases in permanent current expenditure (Public Sector Pay, Welfare Increases etc) that will have to be paid for by permanent tax revenues.

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Facilitating Borrowing for the Stimulus

The previous economic crisis should not be used as a model as to how the current crisis should be addressed. During the last crisis, Ireland was effectively locked out of the bond markets as investors lost confidence in Ireland's ability to honour its debts. There was also a far more conservative approach adopted by the ECB and less direct intervention from the EU. On this occasion, Ireland is currently borrowing at close to 0% interest in the debt markets. The ECB is proactively facilitating this. In addition, the EU created the European Pandemic Crisis Support package which allows EU member states to borrow up to 2% of their 2019 GDP with a maximum average maturity of 10 years. Based on our 2019 GDP Ireland could borrow close to €7bn.

Recommendations:

Maintain the Temporary Wage Supplement Scheme:

The introduction of the Wage Subsidy Scheme has allowed thousands of employers to keep tens of thousands of employees on their books who otherwise would have been laid off or made redundant. Family businesses are committed to their employees and, when they can retain their workforce, they will make every effort to do so. Even as the economy opens up, with current restrictions in place businesses that would otherwise be viable are unable to meet the necessary margins to maintain the current level of their workforce. According to 55% of FBN members who answered our Covid-19 Business Survey, an immediate withdrawal of the scheme would impact their ability to maintain the current level of their workforce. It is therefore essential that the Government does not summarily withdraw the Temporary Wage Subsidy Scheme but instead gradually tapers-down this enabling scheme until the economy stabilises. Furthermore, income supports may have to be maintained for a sustained period for the most impacted sectors.

Direct Grants for Businesses:

Irish family-run businesses are innovative and robust by their nature and, where they can quickly adapt to changing circumstances, they will. The Family Business Network acknowledges the introduction of the Government's 'Restart Grant' which offers a grant equivalent to the rates bill of your business in 2019, with a minimum payment of €2,000 and a maximum payment of €10,000. FBN believes this grant is too narrow in its scope and too limited in its application. The Government should look to some of the models outlined below as preferable for businesses.

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Support[4]	**Measure**	**Recipient**	**Details**
U.K.			
Government Business Grants	Small businesses in England that already pay little or no business rates are eligible for a one-off coronavirus grant of up to £3000. One-off cash grants between £10,000-£25,000 are available for business with a property used for retail, hospitality or leisure	Businesses in retail, hospitality and leisure sectors.	Businesses with a property with rateable value of (i) less than £15,000: receive grant of £10,000 and (ii) between £15,000-£51,000: receive grant of £25,000
Germany			
Government Business Grants	Direct grant	Small businesses in all sectors, including self-employed individuals and members of the liberal professions with up to 10 employees.	Direct grants (one time payments) to companies with max. 10 employees of €15,000 and with max. 5 employees. of €9,000
Denmark			

[4] The following sources were used for the analysis of Covid-19 business supports throughout this report:
1. IMF Policy Tracker. https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#I
2. OECD, 2020. Coronavirus (Covid-19): SME Policy Responses https://read.oecd-ilibrary.org/view/?ref=119_119680-di6h3qgi4x&title=Covid-19_SME_Policy_Responses
3. Mayer Brown, 2020. Comparison of Covid-19 Economic Support Mechanisms https://www.mayerbrown.com/-/media/files/perspectives-events/publications/2020/04/comparisoneucovid19-economicsupportmeasures.pdf

Government Business Grants	Direct grant	All businesses registered in Denmark	Companies that lost 40% in turnover from 9 March to 8 June 2020, compared to a reference period, were eligible. Max. compensation of €8m per company

Get Businesses Hiring

Given the unprecedented challenge facing family businesses and SMEs throughout the country, sustaining jobs must be the Government's priority once this crisis has abated. As part of the 2011 Jobs Initiative, the Government temporarily reduced the lower rate of employer PRSI to 4.25% to incentivise recruitment of new employees. FBN Ireland recommends that the Government temporarily reduces the lower rate of employer PRSI. In addition, a temporary grant along the lines of Jobs Plus initiative should be considered. Under this scheme employers would receive a remuneration grant for employing people who had been considered long term unemployed. This scheme could be restructured to take into the current crisis. Its purpose would be to incentivise businesses to hire people who have been made unemployed due to Covid-19.

Maintaining Liquidity:

Liquidity is the lifeblood of small businesses. The Government needs to commit to unlimited liquidity assistance to businesses that are in need. This can be done by introducing a '100% loan guarantee scheme'. The UK has delivered one million loans, totalling €32bn, to businesses through its 100% Government-backed loan scheme. Furthermore, Switzerland's liquidity scheme resulted in 100,000 zero or low interest loans totalling €15bn being distributed to SMEs in less than three weeks. Countries that have lower guarantee rates have been characterised by poor take-up and slow approval times.

Supports for the Hospitality and Tourism Sector

The tourism and hospitality sector has been decimated by the Covid-19 outbreak. This was a sector that was enjoying record growth a few months ago and, more than other sectors, delivered benefits for every part of our island. The foundations of this sector are solid and therefore once normality resumes it has the potential to rebound quickly if the correct measures are taken to support these job-intensive sectors.

- Given the scale of the current crisis Ireland should look at a minimum to replicate the UK's decision to reduce VAT for the hospitality sector to 5%.

- The Government should introduce a 'Top Up' Voucher scheme for 'Staycationers'. Under such a scheme the Government would match up to €200 per adult a purchase of a staycation voucher for a time limited period.

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