Limerick Chamber

Advancing business together

Proposed Policy Measures to Protect Employers and Employees from Economic Impact of COVID-19 Pandemic

23rd March 2020

The COVID-19 outbreak is an exceptional situation that requires an exceptional policy response. Although public health measures must remain an absolute priority, we should now also begin to consider the most effective policy response to support the economy during and beyond the crisis period.

Limerick Chamber called for several initial and immediate actions at the onset of this crisis, most notably:

- **Ease of access to social welfare payments for employees and the self-employed for the duration of the crisis.**
- **Government to agree with lending institutions a moratorium on commercial and personal loans (including mortgages).**
- **Government to provide a moratorium on VAT, PAYE, PRSI payments, local authority rates and water rates.**

The government has responded to these calls by implementing a range of business supports. While we welcome the Governments swift response, the measures represent what was necessary in terms of immediate action but do not go far enough.

During a normal recessionary period we might pause to consider the budgetary repercussions of excessive spending. Such budget considerations cannot be a priority on this occasion however. While the pandemic shock is expected to be transitory, the economic shock could be persistent if we fail to act swiftly. Borrowing rates for sovereigns are at historical lows and Ireland should take advantage of this. It is imperative that the COVID-19 response is funded from additional borrowing and not from previously committed public funds.

A modern economy is a complex maze of interconnected parties: employees, businesses, suppliers, consumers and banks. As such actions by individuals along any part of this chain can amplify the effect of an economic downturn. For example, many individuals whose income has not been affected by COVID-19 may choose to reduce their spending as a security measure. This further reduces demand in an already depressed economy and makes it more difficult for businesses to earn income. To combat the reduction in demand, businesses will cut costs by reducing staff numbers. In the medium term, banks will want to cut lending because of the increase in its portfolio of non-performing loans and this will limit the amount of investment in the economy. The overall result may be a significantly higher number of business closures than might be necessary with an attendant upward pressure on unemployment figures.

The Government's measures today represent an investment of less than 1% of our GDP. While significant it pales in comparison to the magnitude of the commitments that have been made in response to the pandemic by other European countries such as the UK and Germany. The fear is that without significant intervention the true cost to the country (in terms of job losses, business closures etc) will be far greater than 1% of our GDP and the ramifications could be felt for many years to come.

Immediate Measures

The Government must ensure that individuals whose employment has been adversely impacted have money to spend (not just from a welfare perspective but also to support demand). Rather than relying solely on unemployment benefits, the goal during this period must be to reinforce the connection between the employer and employee. Following the 2008 financial crisis, many European countries implemented Short Time Working Schemes (STWS) whereby a certain percentage of net income lost was supplemented by the state (see Table 1).

Table 1: Short Time Working Schemes (STWS)

Austria	55% of missing wage (6 month period)
Belgium	75% of missing wage (capped at €2,206 p.m.)
Germany	60% of missing wage; 67% if parent
Hungary	80% of gross hourly wage
Ireland	Not based on wage
Italy	80% of previous gross earnings
Luxembourg	80% of regular gross hourly wages (not exceeding 250% of minimum wage)

Source[1]

[1] *(1) European Commission (2010) Short time working arrangements in response to cyclical fluctuations. (2) Central Bank of Ireland (2018), available at: https://www.centralbank.ie/docs/default-source/publications/research-technical-papers/13rt18-short-time-work-in-the-great-recession-firm-level-evidence-from-20-eu-countries-(lydon-matha-and-millard).pdf?sfvrsn=8*

The STWS implemented by some of the countries listed in table 1 played a key role in constraining the rise in unemployment during the 2008 -2012 recession (e.g. Germany). This was largely due to the fact that these countries reformed and expanded their STWS to make it easier for both businesses and workers to avail of them. Ireland did not reform or expand its programme during the crisis and as such the scheme remained closely aligned to the job seekers benefit rate.

The existence of a STWS that is fit for purpose has proven beneficial for many countries in the past as it has served to allay panic from those whose employment has been affected. In the wake of COVID-19 the Danish Government has committed to covering 75% of the salaries of employees paid on a monthly basis that would have otherwise been made redundant/laid off, with the companies paying the remaining amount. For hourly workers, the Danish Government will cover 90% of their wages, up to €3,450. In Sweden the Government has committed to subsidising 90% of salaries for those individuals impacted by COVID-19. The UK has announced a similar scheme in response to COVID-19 where they plan to cover 80% of wages (at a maximum gross salary of €32,470). Ireland must follow suit by reforming its current scheme to align it with best practice within the EU or alternatively by introducing a new scheme entirely (e.g. Canada, Singapore and New Zealand have introduced a wage subsidy scheme in response to COVID-19).

A shortcoming of the scheme implemented by both Denmark and UK is that it does not offer support for the self-employed (freelancers, contractors and sole traders) whose businesses have been decimated by the COVID-19 crisis. In Ireland, 14% percent of individuals in employment are self-employed.[2] It is imperative that Government provide support for these individuals that is commensurate with the provision for employees covered under any reformed STWS. The Netherlands have established a compensation scheme (€1,500 per month for three months) for self-employed individuals that have had to close their business.

Recommendations

In light of the above, Limerick Chamber recommends that the following measures are introduced to support employees and ensure cashflow for businesses in the coming months.

- **Implementation of a "COVID-19 Employee Protection Scheme" similar to the Danish business support model, where the Irish state will cover 70-80% of an employees salary (to a maximum gross salary of €40,000) or 90% of hourly wage where the employee is part-time.**
- **Align the COVID-19 Emergency Pandemic Scheme with this new scheme so that employees who have already been laid off can receive the same entitlement as those who are likely to be laid off in the coming weeks (the operation of the scheme should be under auspices of the Revenue Commissioners).**
- **Align the treatment of employed and self employed individuals whereby self employed people receive 70-80% of monthly income (as per their last filed tax return, subject to the same overall €40,000 annual cap). This would support Government policy in recent years to address inequalities (both real and perceived) between employed and self employed individuals.**
- **In tandem with the above measures the Government should encourage the redistribution of skilled workers (who are part of the scheme above and not working) to public sector entities that require increased resources during the crisis period. This could include the creation of a database where individuals can create skills profiles that allow them to be easily evaluated and recruited for temporary support roles.**
- **Similar to the UK an SME business Rates discount scheme should be introduced whereby a 100% discount will be applied to all retail, hospitality and leisure businesses for a period of one year.**
- **A full waiver on water charges (including standing charges) for businesses that have temporarily closed for the duration of the closure and for a period of three months following reopening.**
- **Extension of the Micro Finance Ireland COVID-19 interest free business loan to all SMEs.**

[2] CSO Labour Market Survey Q4 2019

- **Reduction in Tourism and Hospitality VAT for a period of two years.**
- **A waiver of bank fees and charges for businesses that are temporarily closed.**
- **The introduction of a Retail and Hospitality Voucher Scheme whereby every household in the state is given a set amount (e.g. €250 or more) to spend in local Irish businesses when the crisis is over (the voucher should be issued in three monthly installment and should not be redeemable online). Amount subject to review, the net catalytic impact of introduction of vouchers should be targeted at €1 billion (at least).**

Medium to Long Term Measures

The European Commission have temporarily eased budgetary rules to allow countries to run larger deficits. Although useful in the short term for individual countries who need to increase their fiscal response, it will not be enough for those countries that already have elevated debt. If each country is left to its own devices regarding how it responds to COVID-19 then there is a risk that past mistakes will repeat themselves as the markets will once again begin to doubt the solvency of some countries much like what occurred during the eurozone crisis of 2010.

To avoid this the ECB will have to intervene and the most effective way to do this is by issuing a Eurobond (i.e. common debt). This would send a powerful signal that, much like the approach to countering the COVID-19 pandemic itself, the strongest European countries stand behind the weakest when faced by a common threat.

Policy response in the post crisis period will be equally important. It is imperative that the Government is not tempted to implement austerity measures in a misguided effort to reduce the increased deficit that is an inevitable consequence of this pandemic. The Government must keep the economy moving by delivering on the capital commitments made as part of Project Ireland 2040. In addition, a number of supports will be necessary in the longer term to help retrain people whose jobs have been irrevocably lost. These supports should align with the Government's Future Jobs Programme to ensure that workers are well equipped to adapt to the needs of our evolving economy.

If there is any benefit to be had at the end of all this then let it be that a light has been shone on the inadequacies of our economic structures, both in Ireland and the EU, to respond to significant symmetric shocks. We can learn from this period of uncertainty and implement the necessary precautionary measures to protect our citizens and businesses from future shocks. One such measure could be the creation of a State owned business continuity insurer that would indemnify businesses, both corporate and self-employed, against a defined percentage of losses caused by a public health crisis.[3] It is a complex system that would take time to implement but it could just be the safety net we need for future pandemics.

[3] *https://www.irishtimes.com/opinion/we-should-cocoon-business-to-stop-people-losing-their-jobs-1.4207817*