



**Submission to Dept Public
Expenditure and Reform**

**Investment in
Infrastructure:
Projects & Funding**

Irish Congress of Trade Unions

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There is little point in urging people to spend money in a deep recession. The savings rate is historically high at 12% and it symbolises the fear and lack of confidence in the economy in the public mind. This is the “paradox of thrift” where those with money save furiously in times of great uncertainty. Only the state can lead the way out of this recession. And it must do so, acting judiciously to maximise the return, even in a small open economy.

For more than three years, many prominent people in government and in business have pinned their hope on exports doing the “heavy lifting”. Exports are doing well, but the growth rate is still negative, measured by the metric which matters, GNP. In fact, is it at a record low of -4.3% in Q1, 2011. Domestic demand has fallen by a staggering 25% in just three years. Much of this collapse has been in investment.

It is time for the penny to drop with those who mean well, but find it hard to face the harsh reality. Exports will not be sufficient to replace the collapse in domestic demand. The state must lead by building on its *Jobs Initiative*, with a massive three or five year Investment Programme. It is not time for weak initiatives.

There is capital available, as Congress will spell out in this short submission in spite of ten year Irish government bonds yielding a staggering 12.08%. It must be now clear that “*the markets*” do not believe that Ireland can get out of the deep hole that the banks led us into, without radical action. The government can and must lead us out of this deep recession. This is Congress’ outline of a radical investment programme which should inspire sufficient confidence to boost private investment.

It should be noted that all major prestigious projects – Lansdowne Road Stadium, the National Conference Centre, Grand Canal Theatre etc, have been completed and there are none now in the pipeline. While we are not advocating investment for the sake of prestige, a major public-led investment of imagination and of economic and social benefit to citizens does boost confidence.

Projects Which Should Now Run

Every €1 million euro invested in infrastructure can create between 8 and 12 direct jobs. Congress suggests that a range of high value and labour intensive projects like water conservation, at least one major public transport investment, more investment in large indigenous state companies and energy retrofitting programmes should now be rolled out.

1. **A State-of-the-Art Water & Waste Network** within the New Era State Holding Company. It would cost €4.2 billion. Efficient use of water will create considerable long-term environmental savings and will have the capacity to create over 30,000 jobs during delivery stage and up to 12,000 permanent jobs.
2. **Retrofit our Energy Inefficient Buildings** could help create an €8 billion industry. It is estimated that the number of energy inefficient homes at approximately 700,000. Not only is this work labour-intensive, it has considerable downstream benefit (materials manufacturers/suppliers, transport of materials, etc.).
3. **Undertake two major public transport projects in Dublin.** At a very minimum there should be at least one. Thus in line with the DTA programme, the one to roll-out now is clearly the Luas line linking the Red and Green lines and extending to Broombridge via Grangegorman. This project must be started immediately. Congress would like to see Metro North built sooner, and while it

argued that finance is constrained, we suggest here many imaginative ways in which a great deal of finance can be raised. Postponing capital investment is simply pushing up costs in the longer term and reducing potential economic growth. Waiting until economic recovery begins will be the wrong long term decision when the project is right and adds value.

4. **Invest in Education for a good return.** The Higher Education Authority¹ estimates that third level institutions will require €4 billion investment to accommodate the surge in student numbers - new buildings, facilities, refurbishment, etc.). Congress favours investing heavily in DIT's Grangegorman Campus co-owned with the HSE. This major project is ready to go and would help to maximise the retention of skilled construction jobs and give a boost to education and health faculties. Congress welcomes the Government plan for 40 new schools which are to be built but we also argue that no prefabs should exist in Irish schools within two years. Such investment programmes in schools is labour intensive and benefits children.

5. Assistance to SMEs

Our 2011 Pre-Budget Submission contained proposals for supporting the working capital of companies. While these are not capital investment programmes per se, overall they can add up to more than a large state led infrastructural programme. Thus they should be considered here. These are our ideas:-

A State Credit Guarantee Scheme. Since the global crisis commenced this has been the most widely adopted measure across OECD countries. We believe this idea is under active consideration. Targets specified for lending by the banks are unlikely to be effective without sanctions.

¹ <http://www.irishtimes.com/newspaper/frontpage/2010/0428/1224269223516.html>

Under this proposal the state would provide a credit guarantee up to a certain portion of a loan, which in turn an SME could use to get short or medium term financing from any of the main banks. The scheme would be operated through DETI.

Citizen's Investment in Innovation – Enterprise Ireland currently participates in venture capital and seed funding worth up to €600m intended for high potential start up business and for existing business engaging in expansion. With significant retrenchment in the global venture capital industry and a retreat to more conservative investment positions, there is a need to harness other sources of funding to support business activities in this country.

The National Pension Reserve Fund already participates in these funds as part of its ongoing investment activities, but in order to attract additional investment, it is proposed that a Government backed **Innovation Fund** would be established to attract individual deposit savers into investing in these venture and seed capital funds. This investment programme could be managed by Enterprise Ireland and would not necessarily be limited to resident persons here, but should be also open to foreign investors.

Restructuring Company Debt. Throughout this economic crisis, a recurring problem amongst so many troubled companies with trade union members has been the crippling indebtedness that many companies have. While turnover in a large number of sectors has dipped considerably, in general many viable companies have adapted operations to generate an operating profit. However, excessive gearing has ensured that this profit is quickly wiped out by interest owing on loans outstanding. Companies who can demonstrate their potential commercial viability should be facilitated in restructuring and renegotiating part of their existing debt.

Remove Planning Obstacles

Finally the current planning process appears to be more an obstacle to employment and economic recovery, rather than a facilitator. A major problem facing Government in seeking to put in place a programme of major capital works is the lengthy and highly litigious planning process that is required. Congress is strongly of the view that the recent changes to the process where strategic infrastructure is involved, which was a genuine attempt to speed up the process, has, in fact, lengthened it. If Government decides to proceed with a number of capital projects and where planning permission is not already in place, a planning process modelled on that used for Thornton Hall, where permission to proceed is granted by the Oireachtas should be put in place as part of the Government's Emergency Response to the economic crisis.

Sources of Funding

1. €2bn a year should be taken for investment from the National Pension Reserve Fund until the €5.3bn remaining is invested in jobs in Ireland. Congress had suggested €2bn a year for three years when the fund totalled €25bn, but it has since been "spent" on the banks. It is imperative that the rest of our Pension Fund is used wisely and the sooner it is invested in the real economy of Ireland, the better.
2. Provide amending legislation to provide for investment in the Solidarity Bonds by Pension schemes as called for by Congress, IBEC, IAPF etc.
3. Increase the public interest in the Solidarity Bond (an idea originated by Congress) and hypothecate the investment into designated projects and market it as such – good value savings and patriotic domestic lending to Ireland, in a time of crisis.
4. Establish the New Era State Holding Company which would attract pension funds, which in turn can be invested in the state owned companies and also into much needed public

infrastructure. The New Era SHC can be a major source of finance for state companies. State enterprises are amongst the leading Irish indigenous firms, especially now that all the indigenous banks have collapsed. The collapse of these six leading indigenous firms has diminished our pool of good firms of size and must give pause to even the most ideological-minded privateer.

5. Multinational companies could help Ireland and themselves by deferring the repatriation of some of their profits for a period and to set up an investment fund, on a commercial basis, to invest in new or existing Irish based enterprises and infrastructure. Several such companies would set up this fund, amounting to billions and it would make a significant contribution towards economic renewal and development (see “corporate contribution” below) outside G&SP.
6. Increase other taxes as set out in Appendix I of Congress Budget 2011 submission which gives a menu of taxes totalling around €2bn in one year.

The €2bn of NPRF funds can be invested annually and such projects can be financed “off balance sheet”, adhering to Eurostat criteria. To take a practical example; if it was decided to rehabilitate the water infrastructure using NPRF funds, the way to execute it would be to set up a PPP agency and transfer water assets to it. NPRF funds could then be used to leverage private investment, provided the means to remunerate the investment was built into the structure and provided the private sector covered the risk associated with its own investment. Congress has taken advice on this proposal and we are satisfied that it is viable and will not offend Eurostat criteria.

And More Ways of Raising Capital

Get Irish Pension Funds Investing in Ireland

The potential to augment NPRF investment from other pension funds could be explored using some or all of the following approaches:

7. Start auto-enrolment in the state pension fund immediately. This will give substantial flows of funds to the Exchequer.
8. Encourage PRSAs to invest in the state pension scheme. If 20% is invested in it over the next year, it would provide around €1 billion.
9. Provide amending legislation to provide for investment in Solidarity Bonds by pension schemes (as called for by Congress, IBEC, IAPF etc.) Hypothecate the Solidarity Bonds ie link each to a specific capital project in which people can invest their savings.
10. Establish the New Era State Holding Company which would attract pension funds into investing in these companies and into much needed public infrastructure.
11. Do not privatise state companies but expand them, through the New Era SHC, using Irish pension funds. Ireland has an entrepreneurial deficit after the collapse of our top three private firms AIB, BOI and Anglo (by market cap) and all the other banks too. As we said above, the state firms are amongst the largest and most important indigenous firms. To sell any off is ideological, especially now in a deep recession. Ireland, as some say, is not Greece. We do not have to privatise productive enterprises because the private sector banks imploded, destroying all their own value also endangering the sovereign state itself. This was due to the lack of prudential common business sense of their over-paid directors and executives.

Other Sources of Potential Investment Income

Nearly €32 billion in profits is repatriated every year by TNCs. This accounts for the wide gap between GDP and GNP which is a unique Irish phenomenon.

12. Multinational companies could help Ireland and themselves by deferring the repatriation of some of their profits for a period and to set up an investment fund, on a commercial basis, to invest in new or existing Irish based enterprises and infrastructure. Several such companies could set up this fund, amounting to billions and it would make a significant contribution towards economic renewal. Our dependence on FDI might make Government reticent to broach this possibility but the Irish-American Chamber of Commerce should be invited to consider it on the basis that they have some stake in the country.