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Call for savings scheme to future-proof economy

Encourage investment now, urges Ibec chief

John Walsh Ireland Business Editor

A new SSIA-type savings scheme should be introduced by the Irish government to help to take the froth out of the economy, the head of Ibec has said.

"We need to look at measures such as a Special Saving Incentive Account scheme to encourage those households benefiting from the fastest growing sectors to save more in the good times," Danny McCoy, the chief executive of Ireland's main employers' representative group said.

Charlie McCreevy, the former finance minister, launched an SSIA scheme in 2001 in an attempt to subdue surging consumer spending. The government pledged to make a contribution to every euro saved.

Mr McCoy said a similar strategy was needed now. He told Ibec's business leaders conference in Dublin yesterday that Ireland's economy was experiencing three distinct business cycles.

The first involves a new generation of intangible, intensive, globally traded companies. "These firms are the disruptors in the world economy — they dominate the stock markets and increasingly dominate our lives in the form of smartphones and tablets etc," he said.

"They are growing at a rate that is independent of most global economic trends and their presence here is turning Ireland into a frontier economy."

The second business cycle refers to the experiences of multinationals and indigenous exporters. "It is dominated by demand from the world but particularly the EU, with the spectres of a slowing European economy and, of course, Brexit."

Then there is the domestic business cycle. "Retail, construction and domestic services, and it is marked by employment, wages and interest rates facing our households."

The challenge for policymakers is that these cycles are growing at different speeds with the first one far outpacing the second two, Mr McCoy said.

Because the government no longer controls monetary policy it makes the task of ensuring the economy does not overheat more complicated, he added.

One of the criticisms of the SSIA scheme was that when the accounts matured in 2005, there was a glut of money released into the economy which contributed to the crash in 2008.

"Further incentives could also be built into these schemes to encourage a future staggered withdrawal of these savings or even to provide a bridge to pension provision," Mr McCoy said.

"Without flexibility in monetary policy and the limited impact of fiscal policy measures in this new Irish economic model, we must be much more innovative in our policy solutions."

Since 2014, the government has collected €14 billion more in corporate taxes than it had expected. Mr McCoy said these windfall revenues should be hived off into a rainy day fund. "These proceeds need to be ringfenced to provide funds for long-term capital needs. Not ringfenced for future current spending but dedicated for long-term capital needs already apparent.

"This would ensure that if, and when, Ireland arrives at the next downturn, we have the resources already invested in critical infrastructure even when budgetary arithmetic is difficult. Our current investment problems, such as a lack of housing, transport congestion and under-funding in higher education, are directly related to the reduction in investment during the recession and the decade that followed. Do we want to make the same mistake again?"

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LUCY RAY/ANL/REX/SHUTTERSTOCK

Danny McCoy, right, chief executive of Ibec, with Andrew Marr, the BBC journalist, and Siobhán Masterson, Ibec's head of corporate affairs, at the Dublin conference