Boosting consumption tomorrow but spending today
A public-private proposal to support business liquidity, labor hoarding, and public health
for the duration of the coronavirus outbreak

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Consumption of person-to-person services, transportation, and many other forms of economic activity are likely to suffer substantially from the fallout of the coronavirus contagion, and the required public health measures to limit or cancel gatherings large and small. While such a reduction in current consumption is necessary to ensure a reduction in new infected cases, the associated lower spending may lead to massive labor demand falls, critical reductions in cash-on-hand for businesses, and possibly bankruptcies as workers and firms fail to meet financial or recurring obligations.

Many public policies, such as Germany’s Kurzarbeit (partial unemployment), bridge loans to small and medium businesses, or paid sick leave, can help in these circumstances. On the macroeconomic front, policies seek to advance two main goals:

- support businesses and workers at a time when they face substantial demand shortfalls but still need to meet their financial and recurring expenses obligations
- ensuring a speedy recovery of consumer spending and investment once the outbreak fades, to avoid hysteresis effects and more lasting damage

Thus, macroeconomic policy generally hopes to encourage a credible shifting of consumption from today to tomorrow, while providing liquidity to workers and businesses today. Note that a usual but misguided tool to support a shifting of expenditure over time would be to raise interest rates through monetary policy, in order to encourage saving; however, such an “expenditure-switching” tool would massively reduce, and not improve, liquidity available to businesses and their financiers, while risking a fall in asset prices and negative wealth effects that could create lasting damage and

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worsen the recession. It is therefore not appropriate, and monetary policy lowering rates and increasing liquidity is instead the preferred course of action today, followed rapidly by the Federal Reserve, the European Central Bank, and the Bank of England.

An alternative fiscal policy could support expenditure and liquidity today while encouraging consumption tomorrow. To encourage inter-temporal substitution in consumption, but support spending in current times, governments could implement a temporary but large subsidy on verified gift cards for affected businesses in the hospitality, retail, person-to-person and entertainment industries, among many others. Consumers could purchase, on a verified public or private platform, gift cards for restaurants, theaters, or travel. The government would subsidize these gift cards at a given flat rate (which could be industry-specific if required by public health measures). Businesses would thus keep receiving liquid spending today, but would only be required to provide the service when the coronavirus outbreak subsides.

There are two main reasons why it would help if the government subsidizes these gift cards, rather than businesses simply offering them and consumers buying them on a voluntary basis, as they have already started to do.

1. Such a subsidy to the inter-temporal switching of consumption would be "Pigouvian": it effectively encourages delaying consumption to a later period, thus helping consumers internalize the externality of their consumption today on the contagion risk they pose to the community. While more restrictive containment measures, including curfews and closures, will also play a role, such a subsidy would be a complement, and support spending today rather than excess savings by consumers.

2. The subsidy would also compensate risk-averse consumers for the risk that the business faces bankruptcy between today and the end of the outbreak, in which case their gift cards would lose value. Additional legal protections (e.g. a priority treatment of these subsidized cards as liabilities in any bankruptcy process) could also help in this regard.

Obviously, the proposal has many limitations. Part of the subsidy might be capitalized in the form of higher prices by businesses, potential bankruptcies may still make the gift cards valueless later, and affected industries will be a moving target as containment measures evolve in the next days or weeks. Nonetheless, it constitutes an additional, market-based incentive form of government support to socially useful substitution of consumption from today to tomorrow while avoiding the scars associated with rapidly declining business liquidity today.