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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1 The problem

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”*

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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 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.

2 The proposal

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.
3 Main benefits

Relative to proposals such as direct cash transfers to companies or having the government act as a buyer of last resort for all businesses that experience a shortfall in demand, the subsidized gift cards suggestion has four main benefits.

1. It targets support more efficiently to businesses that consumers still want to consume products from in the future, rather than to those who were high sellers in the past but may have experienced reduced demand for non-pandemic related reasons.

2. It allows for a better reallocation of employment today, when workers should efficiently be moved rapidly towards healthcare infrastructure construction, healthcare equipment manufacturing, critical food supply and delivery, and essential government services. Proposals that subsidize idle workers being kept in formal employment in their current companies, such as Kurzarbeit, do not allow for such rapid shifting of labor across industries.

3. It allows for flexible ex post control, while ensuring a steady flow of cash income to companies today. To avoid fraud, it could be granted ex post in the form of a refundable income tax credit to consumers, upon presentation of receipts and with dual reporting by consumers and businesses to avoid self-sales and other forms of fraud.

4. The rate of the subsidy can be adapted to specific industries depending on their contagion risk to the community, and the level could be revalued over time depending on the impact of rising aggregate risk-aversion on the induced demand shortfall.

4 Objections and responses

Obviously, the proposal has many limitations.

- Part of the subsidy might be capitalized in the form of higher prices by businesses. While this is not a crucial concern given the massive fall in demand, since business markups generally tend to decrease when firms face lower demand, the subsidy should still be temporary and well targeted.

- Potential bankruptcies may still make the gift cards valueless later. A form of government guarantee, combined with making gift card buyers priority creditors in the event of a bankruptcy filing, would solve most of that concern.
• Affected industries will be a moving target as containment measures evolve in the next days or weeks. The subsidy should be thought of as a flexible tool to gradually target an expanding scope of industries most hardly hit by liquidity concerns, while encouraging the delay of actual consumption more in industries requiring larger gatherings and posing greater contagion risk.

In spite of its potential limitations, this proposal constitutes an additional, market-based 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.