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# Submission to the Royal Commission of Inquiry into COVID-19 Lessons Learned – Phase 2

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## Preparing for Future Pandemics: Why "Covid Loans" Must Be Part of New Zealand's Economic Toolkit

As Principal Economist at Cognitus Economic Insight, Adjunct Associate Professor at Griffith University, and Lay Member of New Zealand's High Court for Commerce Act matters, I submit this proposal to inform and shape Phase 2 of the Royal Commission's Inquiry into COVID-19. Drawing on my peer-reviewed research and economic experience, this submission advocates the preparation – ahead of any future pandemic (or other systemic economic crisis) – for implementing a superior economic support measure to those used in the pandemic: **Covid Loans**.

Covid Loans are government-backed, low-cost, income-contingent loans – drawing on key features and infrastructure of New Zealand's student loan scheme – designed to support household and business confidence (hence, aggregate demand and employment) through major systemic economic shocks. Compared with wage subsidies, they are more cost-effective, equitable, and notably less inflationary. Their absence during the pandemic was a critical missed opportunity. Their absence from future planning would be a policy failure.

## Key Takeaways for the Royal Commission

- **Covid Loans are expected to be 14% less fiscally costly, over 2.5x more effective, and significantly more equitable** than the wage subsidies and business cash flow loans used during COVID-19.[1]
- The proposal was developed in early 2020, peer-reviewed in 2021, and praised by international economists including Prof. David Blanchflower (Dartmouth College, and former Bank of England Monetary Policy Committee member) and Dr. John McDermott (former RBNZ Chief Economist).
- New Zealand's failure to act on this policy despite early advocacy reflects a major gap in readiness for economic emergencies.
- Covid Loans would significantly **mitigate inflationary impacts** by making recipients—not taxpayers—accountable for repayment, unlike untargeted wage subsidies.
- The **IRD already has infrastructure** in place (via the student loan system) to administer Covid Loans with minimal lead time.

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[1] Meade, R., 2021, "Vaccinating the economy against Covid-19: ex post revenue insurance for firms and households to sustain economic confidence and aggregate demand", *New Zealand Economic Papers*, https://www.tandfonline.com/doi/full/10.1080/00779954.2021.1877185.

## Why Wage Subsidies Fall Short

While politically and administratively expedient, cash grants like wage subsidies:

- Superficially protect jobs, but only for low-wage employees, and do not fundamentally support businesses' operating viability (which is essential to maintain employment).
- Are blunt instruments that favour easy implementation over cost, effectiveness and equity.
- Impose fiscal burden across generations – an equity issue.
- Fuel inflation through deficit-funded stimulus with no targeted repayment mechanism.

In contrast, Covid Loans are:

- **Targeted**: Based on revenue shortfalls relative to households' and businesses' own pre-pandemic levels, not one-size-fits-all subsidies.
- **Accountable**: Borrowers commit to repay when their economic circumstances allow.
- **Scalable**: Adaptable to businesses, sole traders, and households.
- **Incentive-compatible**: Individuals self-select the support they need – limiting overuse.

## The Missed Opportunity – and Why It Matters Now

Covid Loans were first proposed in April 2020. Despite being provided to Government officials, the proposal was not meaningfully considered until 2022 (and then only after sustained public advocacy by Central Auckland business advocacy group, Heart of the City). By that point the data required to implement them were less timely, and the urgent need for them during Auckland's 2021 lockdown had already failed to have been met.

By ignoring this tool, New Zealand defaulted to costlier, less effective responses. The result? Unnecessary government debt levels, inflation and rising interest rates, and long-tail economic scarring (including until now) – especially in Auckland, where lockdowns hit hardest.

The policy failure is not that Covid Loans were too late to implement, but that they were never prepared for. **That was a costly failure that should not be repeated.**

## How Covid Loans Work

**Eligibility**: Non-major firms and households with pandemic-induced revenue loss.

**Mechanism**:

- Government offers loans based on revenue shortfalls relative to households' and businesses' own pre-pandemic revenues.
- Interest-free during downturns – repayments via future income tax surcharges, as and when borrowers revenues have recovered (in contrast to "hard" loans, with fixed repayment dates and profiles).

- To prevent avoidance – business loans tied to shareholders (not just firms), and individuals' loans are a debt of their estate.

**Why They're Effective**:

- Revenue-based loans enable households' lifetime consumption to be smoothed during crises – avoiding a collapse in aggregate demand.
- This in turn supports business confidence and hence employment.
- Committing to Covid Loans early in a pandemic supports household and business confidence, thus maintaining economic activity and limiting the need for loans to be drawn down (i.e. the availability of such loans reduces the need for actual economic support).
- Avoids moral hazards (businesses and households must consider future repayment obligations before drawing down loans) while filling credit market gaps (banks unable to lend against future personal income in secure way).

**Administrative Feasibility**:

- IRD has existing infrastructure via the student loan scheme, and information on pre-pandemic revenues.
- Loans can be distributed monthly with income shortfall verification.
- Existing companies and tax legislation features can be used to facilitate and ensure business-level repayment.

## International Endorsement/Interest

Covid Loans have been discussed in international forums and endorsed by global thought leaders:

"What we need are smart people coming up with new ideas like the Richard Meade idea …"
– Prof. David Blanchflower, Dartmouth College / former member of Bank of England Monetary Policy Committee

"This is very clever and would be an incredibly useful policy tool for the government."
– Dr. John McDermott, former RBNZ Chief Economist

My interview on the topic with former Scottish First Minister Alex Salmond on RT UK, and presentation of my proposal to a UK Parliamentary Committee, underscore the international interest in this innovation.

## Royal Commission Recommendations Requested

To ensure New Zealand is better prepared for future pandemics or economic crises, I submit that the Royal Commission should recommend that:

1. **Covid Loans be developed and provided for** as a core economic resilience tool.

2. **Treasury be directed to produce a Covid Loans implementation framework** using IRD infrastructure.
3. **Relevant government agencies put processes and capacity in place for early-stage economic policy innovation during crises**—not after the window of opportunity has passed.

## Conclusion

New Zealand cannot afford to repeat the policy mistakes of the past. Covid Loans are a New Zealand-born solution with global relevance – more cost-effective and equitable, and less inflationary, than existing measures – and ready to implement. Their absence in our past pandemic response is a failure of preparedness and responsiveness. Their absence from future readiness plans would be a costly missed opportunity.

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