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Appraisal of Government's Latest COVID19 Business Support Measures – Widespread Intensive Care Needed, Not Selective and Piecemeal Treatments

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On 3 April I released a proposal advocating "low cost" generalised insurance of business and household incomes.[1] I argued that keeping the economy afloat during New Zealand's COVID19 response required a generalised loan scheme similar to the student loans scheme, to be repaid by borrowers via future tax surcharges on their own income. Effectively borrowers could borrow against their own future post-covid incomes (not those of future generations), interest-free.

Importantly, loans would be available to both businesses and households, recognising that neither sector can weather the COVID19 economic storm unless the other does too. Critically, loans would be proportionate to each business' or household's own pre-covid income. Effectively, loans that are relatively "low cost" for the taxpayer, future generations and borrowers would be used to supplement income gaps occurring now, enabling businesses and households to "keep the economic party going".[2] It would do so by enabling them to keep up with all manner of outgoings – mortgages, lease payments, wages, insurances, rates, etc – without having to try to negotiate bespoke arrangements with suppliers (or signalling to their providers by attempting to do so that they might be bad credits).

Twelve days later the government has released its latest round of business support measures. These measures come nowhere near providing the level of support I had proposed, and relate only to businesses and not households. They are targeted (affecting only certain businesses), when all businesses have faced an unprecedented "correlated shock" that turns even good businesses – likewise households – into struggling (or worse) businesses. They are piecemeal, in that they relate to things like tax or lease payment relief. If businesses have to

[1] See www.cognitus.co.nz.

[2] My proposal provided that any business loans would be the liability of shareholders, so businesses could not be liquidated to avoid repaying them (and so already-failing businesses would not be tempted to use them to gamble themselves back into health).

wonder whether the measures apply to them, or how they will make things better even if they do, then they are not effective measures.

The correlated shock to businesses and households presented by COVID19 is akin to a major physical trauma. The patients are bleeding out – in some sectors (e.g. tourism), they have arguably bled out already. What is needed is immediate and proactive intensive care – application of a tourniquet to stem the bleeding, and replacement of vital fluids (plasma) to keep the patients alive. For those sectors that have already bled out, life support and resuscitation could be their only hope. Selective and piecemeal treatments, rolled out slowly and reactively, are simply inadequate to restore – let alone maintain – confidence among both businesses and households that their intimately inter-dependent economic momentum can be maintained.

I continue to call for support measures that are “high, wide and handsome”. Now is not the time to quibble about how best to target support, or about one size fits all caps on the levels of support. The economic shock is correlated and systemic, not idiosyncratic, meaning we should be more concerned about saving the many good businesses from going bad, and less about saving a few already bad businesses from failing.

By committing to generalised support measures, good businesses (and households) need not fear becoming regarded as “bad” risks with their banks, landlords, and other suppliers (e.g. utilities). They also need not engage in piecemeal negotiations with each of their suppliers, with the cost and uncertainty over outcomes that entails. By committing to fulsome support measures that are proportionate to each business’ or household’s circumstances, support will make a meaningful difference rather than only scratch the surface. By focusing on revenue lines and not individual cost items (mortgage, rent, etc), the support measures take away any need to wonder how non-targeted cost items will be dealt with (e.g. what about rates, or insurances?).

However, I also continue to call for support measures that are “low cost”. My proposed student loans-type scheme fits that bill. Instead of current taxpayers reaching into future taxpayers’ pockets – save for the implicit interest subsidy in the loans being interest free – they will be reaching into their own (future) pockets. Importantly this allows individual businesses and consumers to self-select into taking out loans – why take one out unless you are happy to pay higher future taxes?

Ideally a package such as that in my proposal would have been signalled at the outset of the economic crisis, to avoid business failures and redundancies taking hold. It is not too late to do so, at least to limit the further exponential contagion of failures and layoffs.