

## Urgency of Effective Financial Support Measures to Reduce COVID19 Transmission and its Economic Impacts

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On 3 April I released a proposal advocating "low cost" generalised insurance of business and household incomes.<sup>1</sup> 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). 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.

While New Zealand has effectively contained community transmission of COVID19, there is a risk of further outbreaks and lockdowns if border control measures prove ineffective. Other jurisdictions reveal just how disruptive ongoing community transmission can be, with Victoria in Australia having to confront the possibility that its second lockdown may need to be extended if citizens do not more seriously comply with official public health measures to limit transmission of the virus. Large parts of the US are in a similar position.

This points to an additional rationale for my loans scheme proposal. In short, absent effective economic support measures that households and firms can rely on to see them through possibly ongoing lockdowns of unknown duration, they will necessarily be making difficult trade-offs. Specifically, between maintaining financial viability on the one hand, and testing for illness, self-isolating when sick, and limiting exposure to clients, colleagues and the general public (all of which risk financial sacrifices arising or being imposed) on the other.

Indeed, there is an obvious "public bad" characteristic of a pandemic, meaning individuals may be tempted to risk spreading COVID19 much more than society would wish them to. This points to the coordination benefit of my proposed scheme, in that if everybody knows that

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<sup>1</sup> See [www.cognitus.co.nz](http://www.cognitus.co.nz). For more detailed descriptions of my proposal, see (e.g.) slides from presentations made to the [Grattan Institute](#), [Rotary Auckland](#), or the [Law & Economics Association of New Zealand](#).

everybody else has access to an effective financial lifeline, then everybody can trust that everybody else has reduced need to take excessive public health risks just to remain financially viable.

That then increases individuals' private incentive to also "play by the rules", since they can have greater confidence that their private compliance won't just be undone by everyone else's non-compliance. In turn that reduces everyone's expected duration and expected frequency of lockdowns, reducing declines in economic confidence, and thereby reducing the need for firms or households to access loans of the sort I proposed (making them even more affordable).

Is my proposal special in these regards? I think it is in terms of the coordination benefits it creates - i.e. the fact that a more affordable and effective scheme than diminishing wage subsidies means more people can be helped more and for longer, giving everyone confidence that everyone else is going to be OK, and hence they will be too.

However, in principle the trade-offs and public bad coordination problems cited above could be resolved by some other proposal that assures firms and households they will remain financially viable, in which case the question would be whether it does so better than my proposal. I am still looking for such a better alternative.

For policymakers to be signalling a reduction in available support measures – e.g. a shrinking availability of wage subsidies, as recently announced in both New Zealand and Australia – at a time of heightened transmission and risk of extending or repeating lockdowns seems counterproductive. This will force firms and households to make more unpalatable choices about remaining financially viable despite raising the risk of perpetuating the virus' transmission. Ultimately that will increase both the social and economic costs of the pandemic.