# “Covid Loans” for Businesses and Households to Insure Revenues and Sustain Economic Confidence

UK APPG Road Passenger Transport Industry – Recovery and Renewal

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# The Problem

- Firms and households around the world – financially sound or otherwise – have faced a major correlated economic shock that threatens economic confidence:
  - Lockdown measures, and uncertainties about future Covid responses, amplify the impacts;
  - Central bank responses, government support (mainly debt-funded) – and now vaccines – have blunted the economic impacts.
- Uncertainties/challenges (e.g. new variants, long Covid) remain – timely to consider:
  - Whether past responses were as cost-effective as they could have been; and
  - What effective economic support measures can be rolled out both sustainably and equitably – including for the next pandemic.

# Key Features of an Effective Economic Response

- Effectiveness – requires a material/proportionate level of support, and certainty it will be available as and when needed:
  - Suggests need to insure revenues …
- Sustainability – requires support to be cost-effective.
- Equity – requires transfers from our future selves as much as transfers from others (who are in the same boat) – suggests use of loans …
- Trick is to achieve all three:
  - Debt-financed wage subsidies/furlough schemes/Kurzarbeit are hard to sustain/justify, and risk – or certainty – of rolling them back undermines their effectiveness …

# Proposed "Covid Loans" to Insure Revenues

- Since April 2020, I have been advocating "covid loans" as a cost-effective alternative to wage subsidies (etc).
- Based on New Zealand data, such loans:
  – Require 14% less government debt;
  – Offer almost 2.5x more support;
  – More equitably target costs of support to support beneficiaries.

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https://doi.org/10.1080/00779954.2021.1877185

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**Vaccinating the economy against Covid-19: *ex post* revenue insurance for firms and households to sustain economic confidence and aggregate demand**

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**ABSTRACT**

The Covid-19 pandemic risks causing a major collapse in 'economic confidence' – i.e. the beliefs of firms and households that all other firms and households will maintain their economic activity – and hence in aggregate demand. Economic responses like wage subsidies may prove inadequate for sustaining confidence due to their limited scope, and because their high cost makes them unsustainable. An alternative is *ex post* revenue insurance, enabling firms and households to borrow against their own future incomes to top up current pandemic-related income shortfalls. Making such loans repayable through future tax surcharges (along the lines of existing student loans schemes) is administratively feasible, and likely to be both more effective and affordable – and inter-generationally equitable – than existing support measures. Government pre-committing to making such loans available for as long as they are necessary should maintain economic confidence and aggregate demand, minimising the pandemic's economic harms.

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# “Covid loans” – Key Features

- Government commits to making loans to both households and firms for as long as pandemic disruptions continue:
  - Loans are to make up pandemic-related revenue shortfalls – so capped at pre-pandemic revenues.
- Initially interest-free, and only repayable as and when revenues recover (via progressive tax surcharges, as for student loans):
  - “Soft” repayment is critical – makes borrowing tenable despite massive ongoing uncertainties (vs conventional loans);
  - Firms required to insure minimum proportion of employees’ wages – to avoid low-income households shouldering disproportionate share of loans;
  - Loans slated home to shareholders/estates to minimise avoidance, and drip-fed to avoid over-borrowing (especially by households).

# "Covid loans" – The "Trick"

- Intention is to reassure firms and households that all other firms and households can access an effective financial lifeline (beliefs are key):
  - "Economic confidence trick" – like Mario Draghi's famous "whatever it takes" speech;
  - If the trick works, the loans aren't actually drawn down, further enhancing their cost-effectiveness, sustainability, equity …
- A UK finance academic (Milne, Loughborough) similarly identified revenue insurance as the solution required for the kind of shock presented by Covid – his March 2020 working paper here:
  - My proposal is similarly motivated, but fleshes out what the required insurance might look like, drawing on existing "infrastructure" (e.g. student loans schemes, companies legislation, etc);
  - Many protest at the thought of extra debt, but "Covid loans" are relatively "soft" debt, and the realistic alternative is …