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SAFE Finance Blog

Are consumer cheques the right tool to fight the corona crisis?

07/01/2020

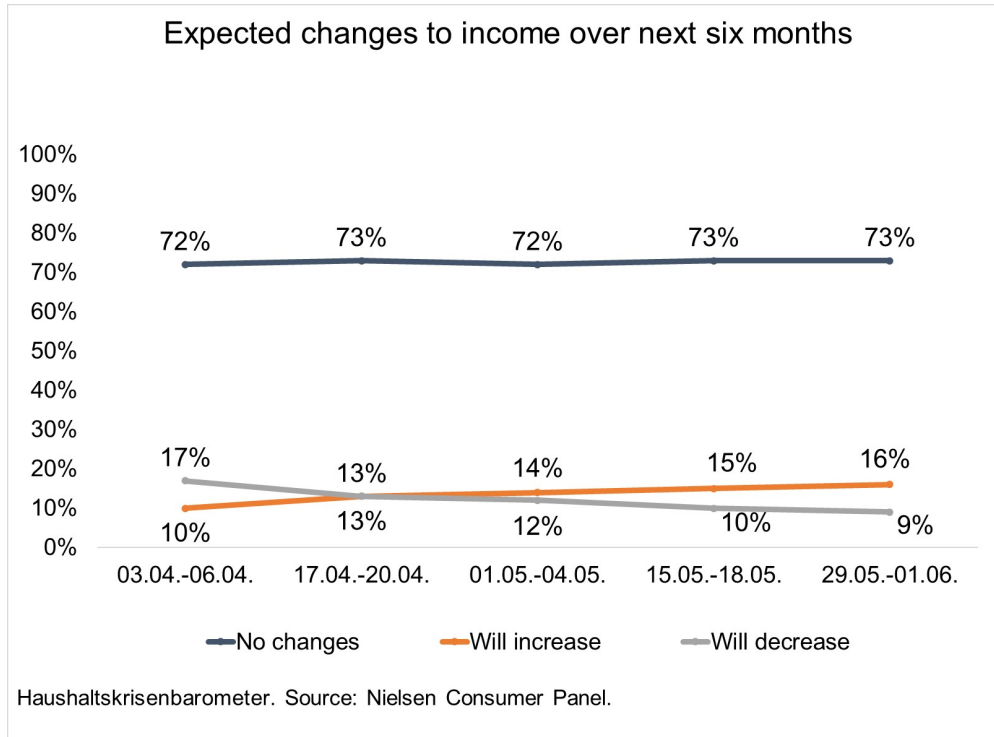
Large-scale household survey casts doubt on the effect of monetary gifts



The corona crisis represents an immense burden and a test for companies in Germany. To strengthen the economy, cushion downfalls, and literally "unleash" Germany's economic power, the German government recently decided to reduce the value added tax (VAT) and grant a child bonus. Since then, there has been a controversial debate as to whether these campaigns are appropriate for overcoming the crisis. Is "helicopter money" really the adequate measure to save the most affected industries in Germany? The **opinions of thousands of households that participat in the "Haushaltskrisenbarometer" (Household Crisis**

Barometer) provide in-depth and representative insights into the income situation, purchasing behavior, and expectations of German consumers. Thus, these assessments by households allow clarifying whether domestic consumption can be boosted at present.

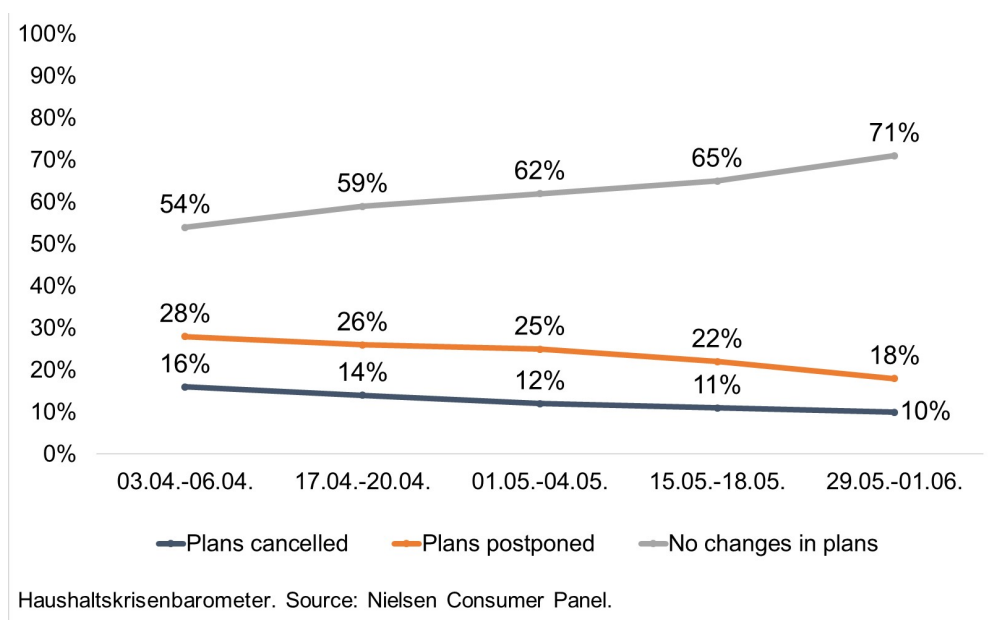
No future collapse in domestic demand can be inferred from the data on income changes and income expectations determined for the Haushaltskrisenbarometer, as the majority of the German resident population does not appear to expect to suffer financial losses at present or within the next six months. Since 81 percent of the households surveyed have not seen any change in their income situation since the start of the pandemic and 73 percent do not expect this to happen in the medium term either, doubts about the usefulness of so-called consumer cheques are initially justified (see following chart).



90 percent of households plan major purchases

The fact that almost 90 percent of the surveyed households are planning major purchases sooner or later (see chart below), i.e. have not yet completely eliminated them; and 83 percent expect to keep their job, underlines the possible ineffectiveness of such consumption stimuli, regardless of their actual necessity and impact. These findings are flanked by the fact that **no far-reaching change in savings behavior** can be observed. More than three-quarters of households stated that they had not adjusted their saving behavior significantly since the beginning of the pandemic.

Cancellation or postponement of expenditures exceeding
EUR 250



On the basis of these findings, it can be concluded that **consumer cheques do not appear necessary or appropriate to stimulate domestic demand**. It is highly unlikely that non-specific measures to stimulate domestic demand will induce households to consume much more in the current situation. The loss of VAT revenue, the funds needed for the child bonus and the uncertainty associated with these two instruments with regard to actual effects appear disproportionate. In view of the large number of existing government support measures and uncertain expectations with regard to the global economy, it is more appropriate to use financial resources as effectively and promisingly as possible.

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For a longer version, see SAFE Policy Letter No. 87 (in German only) (https://safe-frankfurt.de/fileadmin/user_upload/editor_common/Policy_Center/SAFE_Policy_Letter_87_final.pdf)


Keywords: Household Finance (https://safe-frankfurt.de/news-latest/safe-finance-blog/search-result-blog.html?tx_news_pi1%5BoverwriteDemand%5D%5Bcategories%5D=182&cHash=219248e328a909c6ab29dc8885f8dc), Consumers (<https://safe-frankfurt.de/news-latest/safe-finance-blog/tag/consumers.html>), Coronavirus

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