

Giving money to citizens will not fix economy, researchers find

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Governments should hold off on giving their citizens money until after the lockdown is over, finds new insights by the University of Cologne.

In an attempt to counteract an economic crash, governments in Hong Kong and the US are giving their citizens equivalent to 1,200 euros to help stimulate their economies. However, Dr Michael Thoene, CEO of FiFo Institute for Public Economics at the University of Cologne, says that governments should not expect quick results from this.

“There is no point in passing money to consumers when they are not allowed to go shopping, or are very unlikely to book a holiday. People may be shopping online, but the idea of everything flowing into online shopping is not the point of an economic recovery,” says Dr Thoene.

He suggests that governments should wait until restrictions on everyday life and economies can be eased before implementing such measures.

Dr Thoene adds that in the meantime, governments are better off combating the supply shortage and channelling more money directly into industries, small freelancers and tradespeople who seriously need it.

“Governments need to think about the smaller companies in the most affected industries. For example, it’s not just the airlines that are struggling, but also the airport bakery and the shops. These companies can find themselves very quickly in existential distress and will need liquidity and relief to keep them afloat during this crisis,” says Dr Thoene.

Big companies may also be struggling, but they have employee compensation schemes, ability to borrow money and generally very good communication, whereas other smaller companies do not therefore are less likely to survive this crisis.

These insights come from the discussion paper: The difficulty of investing sustainably in the future. And how it can be done. – featuring a postscript about investments in the future in times of the corona pandemic.

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