How to prevent economic crisis in time of disaster: consumer insurance bonds

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Abstract

In time of disasters consumers tend to spend less money on leisure, luxury and long lasting goods. This often leads to further market deterioration. In order to treat this problem, we propose a new insurance system, which provides support of economic branches in crisis by their customers. It creates a possibility of moving money fast from areas of excess to areas of shortage, blocking the crisis in early stage, before the waves of instability spread over the entire economy. This instrument can greatly stabilize the economy in whole and reduce its vulnerability to disasters and sharp changes in the external world.

In time of disasters people tend to behave frugally, spending less money on leisure and luxury. This is perfectly understandable: one would like to have more savings in case the situation will worsen even more. In paradoxical way, this behavior leads to further market deterioration. What can we do in order to resolve this dilemma? Is it possible at all? Below I attempt to provide a constructive answer to this question. The short answer is:

In time of a crisis we ought to support the people, who served us in good times

The detailed answer follows...

In normal time, by purchasing various goods or services, we encourage certain production and employment level in certain branches of economics. It would be fair to establish consumer support of the same branches and consequently, the support of their workers, during crisis time as well. This can be done by means of the proposed below bond system.

Let me explain the idea on an example. Buying a flight ticket, we encourage certain production level of the air transportation industry. I would propose, that the consumer, simultaneously with the purchase of a ticket, would sign an insurance bond for the price proportional to the ticket price. In time of crisis people fly less and do not spend as much money on tickets. Government has a right to declare a state of crisis in the aircraft industry, giving it the right to receive a certain part of cost of insurance bonds in its possession, raising the money from the former consumer. In exchange, the consumer receives shares of the airline company of the equal amount.

As the airline also is a consumer of the goods and services of other companies, for example, in fuel or airplane construction industry, it can spend part of the money received from bonds for the payment of insurance bonds of these suppliers, receiving in exchange their shares.

This creates a new cushion mechanism of economic crisis, which allows to preserve workers income, and leads at the same time to redistribution of the property rights. A great advantage of this approach over the traditional methods of crisis management, is the ability to move money fast from the area of excess to the area of shortage, blocking the crisis at early stage, before the waves of instability spread over entire economics.

One can see this system as a mass insurance of producers by their customers. The analysis of the proposed mechanism and development of its details require further research. For example, in order to accelerate the payments of insurance bonds to a company, the State Bank can immediately provide the payments in exchange of the bonds, putting the debt on the consumer' name. This debt could be repaid by the consumer automatically over time, in the form of a temporary tax, or by his own insurance bonds. In order to avoid support of obsolete branches of economy, it is reasonable to limit action of a bond by some period of time (for example, 3 - 5 years).

Another interesting question is, whether the decision about the insurance payments have to be done by some person in power (for example, Head of Central Bank), or it can be performed automatically using some predefined condition: say, percent of repayment would be some predetermined function of total production decline in the given economic branch. What should be this function, which prevents "overcompensation" effects?

A company may not be interested in use of these funds (because it pays for them by part of its shares), preferring instead to fire some workers. This action would increase burden on society, and the company should discouraged from such actions in time of temporary crisis, by requirement of significant compensations to fired workers. I.e. the proposed kind of insurance should in some way substitute other insurances, including the social one.

References

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