

So goes consumer spending, so goes the economy.

The economy is tanking, the housing bubble has burst, and consumer spending threatens to fall through the floor. If the consumer doesn't spend, the economy will not improve.

What can be done?

In the short term, the best way to stimulate the overall economy is to boost consumer spending, even as the longer-term factors, such as those affecting the real estate and credit markets, play themselves out.

But here's the problem: At a time when consumer confidence is severely shaken, putting stimulus checks in the mail—or, as Congress and the presidential candidates prefer it, “money back into taxpayers' pockets”—has limited effect. When the government checks arrive, the first impulse of most consumers is to keep the money in their pocket, put it in the bank, or use it in other nonstimulative ways, like paying current bills, credit cards, and other outstanding debt.

In fact, research by NFO WorldGroup Inc. (now part of Taylor Nelson Sofres plc) conducted in early 2003 shows that less than 18% of the tax rebates delivered in 2001 were used to “make additional purchases.” To put that in perspective, if the government were to send \$100 billion in tax-relief checks or put cash in the pockets of consumers over the next few months, less than \$18 billion would be put to work in the economy in a meaningful way. I am sure the 2008 program wasn't much better.

In the current environment, with even more concern about falling house prices and bills to pay, the actual amount spent could be far less than that. This is hardly the best way to stimulate—and restore—business confidence in this great recession.

So how do you boost spending quickly and with maximum economic effect?

An income tax cut designed specifically to stimulate: The best way to deliver short-term stimulus is to implement a plan that combines short-term confidence building with the consumer action necessary to lift the economy. This could be done by giving consumers funds that can be used only for consumer purchasing over a short period of time.

What it looks like: The program would consist of a three-tiered, across-the-board tax cut sent to all consumers based on their income tax brackets, up to \$250,000. This would be in the form of a book of government certificate checks to be used only for a consumer discount against the purchase of certain categories of goods and services. A book of certificates would be delivered to be used over a four-month period, and all four months of certificates could be combined to be used against a large purchase, lease, or down-payment commitment. The certificates would work as cash in paying for 50% of certain purchases (such as automobiles, clothing, computers, domestic travel, home furnishings, household appliances, restaurant meals, sporting equipment, etc.). They could also be applied to subsidize 20% of the cost of supermarket and grocery store items.

Why it works better: Consumer spending is the key to short-term economic stimulation. A government program to stimulate this spending—once announced—would have an immediate positive effect on the stock market. In addition, while full use of the government certificates is unlikely, NFO WorldGroup's research indicates that the majority of consumers—57%—would use some or all of the coupons offered and only 17% were extremely unlikely to participate. An active response by manufacturers and retailers to the program—in the form of additional discounts and promotions—would enhance the program's value and increase its stimulating effect.

Easy to implement, easy to measure: The system for delivering rebate checks is already in place. The ability to administer and execute this program would require a similar level of fraud protection (e.g., driver's license number, receipt number, plus a signature on the certificate). The success of the program—and its stimulating effect—could be tracked closely based on certificate redemptions. Moreover, because the cost to the government is only what is used to drive consumer spending, the program can be extended or adjusted as needed to ensure that consumer spending continues to fuel the economic tank.

There may be no quick fix to the underlying causes of the current economic downturn. But that doesn't mean that a new approach can't deliver quick and measurable results to help boost the economy over the next few months.



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If you're in favor of stimulating the economy with government certificate checks, contact your elected officials at:
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