Inferring through news—whether the policy of issuing shopping vouchers is successful

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I. Introduction

1. Background

Recently, the collapse of Lehman Brothers Holdings Inc caused the global pace of prosperity growth to get slower. By virtue of relying on export trade, the domestic economy in Taiwan was failed. Economists predict that this financial meltdown may cause the worst record of economy in Taiwan’s history. Therefore, in November, 2008, in order to stimulate Taiwan’s economy, while Japan is taken as a model, the Executive Yuan decided to provide shopping vouchers.

2. Policy

To stimulate economy, the R.O.C. government decides to issue revitalization coupons (also called shopping vouchers). The date to issue was on January 18th, 2009.

Shopping vouchers can be received by people who have Taiwanese citizenship or people who get married to Taiwanese. They are issued in three sheets of paper valued for 600 dollars and six sheets of paper valued 3000 dollars. People can use shopping vouchers to get anything wanted but can not ask the remaining sum back. That is, if a person wants to buy a 190-valued thing by paying a 200-valued shopping voucher, he or she can’t ask $10 in change to be given.

3. Motivation

About three months ago, the government announced the policy of issuing shopping vouchers on January 18th, 2009. Because of the curiosity about this policy, I did some research on this topic. This research is to help people to learn why the government chose to issue shopping vouchers before Chinese New Year, and if this policy will be successful.

II. Thesis

1. Theories lie behind shopping vouchers

A. GDP

GDP means Gross Domestic Product. The amount that people produce is equal to income.
Scholars form a formula from a supposition which indicates that all the business transaction proceeds domestically.

\[ Income = Y = C + I + G = AE = Expenditure \]

In this formula, C means Consumption; I means Investment; G means Government; AE also presents the amount of predicted consumption. In order to discuss in an easy way, we suppose that I+G is a stationary price, and then we can infer that C=Ca+KY. Ca means autonomic spending, and K means a constant which must be more little than 1, because there is no one who would want to spend NT $120 dollars while NT $100 dollars earned only. Stimulating the increase of autonomic-spending is to stimulate the growth of economy. There are two kinds of consumption – autonomic-spending and induced consumption. The autonomic spending has nothing to do with income. The induced consumption means that there are some factors attracting you to buy more and more.

B. Simple Keynesians Model

The Great Depression gusted the U.S.A in 1929. The surviving of the economy attributed to a theory proclaimed by Keynes. The theory indicates that the most efficient way to redeem the declining tendency of economy is to encourage people to consume and the government to disburse. Behind the surviving of the U.S.A. is this amazing model. Here is the explaining chart.

\[ Income = Y = C + I + G = AE = Expenditure \]
Supposing that I+G=500, and K=0.8, and Ca=100, so expenditure = AE = C + I + G = 100 + 0.8Y = 500 = 600 + 0.8Y. The 45° line in this picture shows the ideal income and expenditure in a perfect situation. We can assume that Line 1 shows the economy before issuing shopping vouchers, and Line 2 shows the situation after. As a saying goes,” As a man sows, so he shall reap.” What you produce affects what you spend. Point P is set to locate on Y = 500, which corresponds to AE = 750. Apparently, the government gets a loss because the amount of income isn’t enough to balance with the need of spending. The income and the expenditure would make ends meet while reaching E1. In order to raise both, the government issues shopping vouchers to stimulate the circulation of money and fertilize economy. As what Line 2 shows, the balance point, E, is much higher than E1. That means economy would be rescued by raising GDP.

As we infer from the Simple Keynesians Model, C = Ca + 0.8Y. Ca is indicated to autonomic spending, and K means a constant which must be less than 1, but it is now supposed to be 0.8.

C. Autonomic spending

The government decides to benefit people by issuing shopping vouchers because issuing real money is like increasing people’s income; that is, people may choose to save the given rather than spending it. As a result, the measures cannot stimulate the increasing of autonomic-spending, and $3,600-valued shopping vouchers for everyone would be better than giving cash. There has been a thought deep in Taiwanese’s mind - “spending the entire windfall as soon as possible.” To catch people’s mentality and the right method, therefore, the government could soon make the rise of E1 to E in the picture in page 3 – reaching the goal of reviving the economy in a short period of time.

Issuing shopping vouchers can not only save the declining economy but also providing jobs. Laborers could take this opportunity to get survived by printing the large amount of shopping vouchers. As a result, if people would finally feel relieved to buy things as usual again, then this policy will be a successful one.

2. The similar policy proclaimed in Japan before and now and other countries

A. Japan

a. Before

In 1999, Japan suffered so-called “bubble economy”. In order to stimulate the consumption and concern about the minorities, the government decided to provide “shopping vouchers”.

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However, according to the information, only 32% of the shopping vouchers were used to spending, while 68% were all saved in the banks. To the government’s disappointment, many people shopped by using only shopping vouchers instead of the real money; adding insult to injury, people even exchanged their shopping vouchers with businessmen. As a result, issuing shopping vouchers in Japan is regarded as a policy of wasting resources.

b. Now

Recently, the government of Japan decides to issue shopping vouchers again because of the global financial meltdown. According to the above information, the effect of shopping vouchers before doesn’t seem good. The economy growth didn’t rise until 2006. This time, the only difference from the policy proclaimed before is the value of shopping vouchers. Actually, according to news announced in Japan, there are 71% of people consider that this policy has no effect on stimulating economy. The key to success for Japan to fight back the declining economy this time is whether the same policy of issuing shopping vouchers is effective. Here are the comparison of the policies proclaimed by Taiwan and Japan.

<table>
<thead>
<tr>
<th>Term</th>
<th>Taiwan</th>
<th>Japan(1999)</th>
<th>Japan(2009)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Term</td>
<td>revitalization coupons</td>
<td>municipal shopping coupons</td>
<td>fixed amount cash handout</td>
</tr>
<tr>
<td>value</td>
<td>3,600-valued shopping vouchers</td>
<td>¥ 20,000 dollars(= $6,600 dollars)</td>
<td>¥ 12,000 dollars(= $4,200 dollars)</td>
</tr>
<tr>
<td>The way to use</td>
<td>Can be used to buy goods but to be saved and get changes</td>
<td>Can be used to buy anything just as usual</td>
<td>Can be used to buy anything just as usual</td>
</tr>
<tr>
<td>budget</td>
<td>$ 82,900,000,000 dollars</td>
<td>¥ 619,400,000,000 dollars</td>
<td>¥2,000,000,000,000 dollars</td>
</tr>
</tbody>
</table>

To see through the failure Japan made before objectively, without ruling a demand” YOU CANNOT SAVE IT” is obviously the biggest flaw. Such a policy established from Japan reminds Taiwan that giving money would only be ineffective to target the goal. Issuing shopping vouchers in the form of paper currency instead of real money could keep people from saving it up but expensing tangibly effectively. In addition, vouchers could effectively force people to buy more things than they planned to. All in all, issuing real money only may not be a good way to enhance people’s confidence about economy, because the same mindset of saving money would arise again.

All in all, it’s wise that Taiwan chose to issue such kind of shopping vouchers.
B. Other countries

To stabilize citizen’s basic life, the government in South Korea, Brazil and Thailand are going to issue cash to the low-income families and minorities.

What we can infer from these policies is that these countries issue bankroll to people is imitating Taiwan’s policy because the benefits brought by shopping vouchers are easy to be seen. It’s reasonable to guess that both Japan and South Korea issue cash is because they want to save the economy in their country as affectively as Taiwan. As a result, it’s sure that shopping vouchers does do good to Taiwan’s economy so that other countries would want to take Taiwan as a model.

3. What have shopping vouchers done?

A. Activities

To stimulate the economy effectively, many cities and counties offer many big prizes such as notebooks and cars to attract people to get lotteries by using shopping vouchers to make purchases. It really works. The government of Tai Chung city has been attracted 400,000 sheets of lotteries by the prizes of a million-valued car and a ten-million-valued villa. It has attracted at least over NT $ 1,700,000,000 dollars. The government of Chia Yi City estimates that the activity of drawing a lottery would make double 123.88 economy benefits than before. As to the government of Hsin-Chu City, 1,000 notebooks taken as prizes attract not only local people but also others living in other places. By the first start or drawing a lottery, the total amount has been over NT $ 600,000,000 dollars.

To face the difficult situation and the unknown future, many enterprises imitate the idea of issuing shopping vouchers to issue welfare vouchers, which can be used to see an art show or have a checkup to benefit their employees. The shopping vouchers surely drive a trend that reminds people treating each other better that before.

It goes without saying that many discount ideas going with shopping vouchers are released by shops.

B. The problems

So far, there are still few people who protest against the existence of shopping vouchers because of the thinking that issuing shopping vouchers will not help save the unemployment rate and the declining tendency of the consumption. The government might suffer a big
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impact by the capitalized cost of printing large amount of shopping vouchers and so on, if some people announce that they won’t use shopping vouchers by having a riot, or people buy foreign goods instead of domestic products. In addition, many people As a result, issuing shopping vouchers doesn’t stimulate autonomous consumption but give so much to many people to do nothing.

Now we know that the key point for the shopping vouchers to be successful is to stimulate autonomous consumption. However, there is a big problem. For instance, before a man got shopping vouchers, he spent NT$5,000 dollars a month. After he got shopping vouchers, he spent NT 5,000 dollars and his 3,600-valued shopping vouchers last month. But, he may spend only NT 1,400 dollars the following month. In other words, he still spent the same amount of money as usual. Shopping vouchers may be ineffective because people use shopping vouchers to buy things they were planning to spend real money to get.

Here’s another problem. Some people is said to print fake shopping vouchers to buy stuff. It hurts not only the rate of economy growth, but also people’s rights and interests. In addition to this kind of harm, the cost of printing is also a big expense. As a result, the MasterCard International Organization suggests that the government should issue electronic shopping vouchers to assure the cost, safety and efficiency.

C. The government says

According to the observation of the Ministry of Interior, people show their thinking ardently of the policy of issuing shopping vouchers. This is because people care about shopping vouchers so much that the GDP may increase. A simple survey offered by the ING Group shows that 75% of the people think that shopping vouchers work; 16% think that issuing shopping vouchers does some obvious good to the economy; the rest consider that shopping vouchers only help a little bit. However, many factories and stores look on the bright side for the interior requirement policy such as issuing vouchers. The Bank of Taiwan indicates that the effect brought by issuing shopping vouchers is much better than expecting. For example, shopping vouchers benefit the retail business directly. Though the shopping vouchers didn’t do good to the rate of the retail business in February, in the turnover in January of the retail business, 154/3,001 of the profit comes from shopping vouchers. Another example is that the rate of buying 3C products grows by 20% instead of declining because of shopping vouchers. What’s more, some activities such as sales promotion with shopping vouchers held by counties or cities did help Taiwan’s economy. The Directorate-General of Budget announces that GDP will be -2.97% this year. The Executive Yuan claims that it resulted in the collapse of exportation. This kind of big change of data has never been seen in history.
According to the table below, it is said that -2.97% is just a rosy value predicted by Taiwan themselves. A senior economist even warns that Taiwanese would live in a suffering life for about five years.

Here is some information that financial organizations predict what the rate of economy growth in Taiwan would be.

<table>
<thead>
<tr>
<th>The organization</th>
<th>The organization predicts the rate of economy growth in Taiwan would be</th>
</tr>
</thead>
<tbody>
<tr>
<td>Citibank, N.A.</td>
<td>-11%</td>
</tr>
<tr>
<td>BNP Paribas</td>
<td>-6.6%</td>
</tr>
<tr>
<td>The Economist</td>
<td>-9%</td>
</tr>
<tr>
<td>CS</td>
<td>-7.2%</td>
</tr>
<tr>
<td>Goldman Sachs</td>
<td>-6.5%</td>
</tr>
<tr>
<td>Morgan Stanley</td>
<td>-6%</td>
</tr>
</tbody>
</table>

One of the leaders of the Taiwan Institute of Economic Research indicates that it is estimated that the stock market is now in the rising tendency. The fast situation for economy to turn around may be in August, 2009.

The shopping vouchers surely bring popularity from December, 2008 to January, 2009, but become a little bit fruitless in February. The analyst of economy suggests that investors should wait and see for the moment.

Though some negative information indicates that the effect of shopping vouchers’ has come to a temporary end, the government claims that thanks to the other investment plans such as issuing shopping vouchers, otherwise the rate of economy growth might be -5.74%. The leader of the Executive Yuan looks on the future positively. Recently his anticipation has been come true.

**III. Conclusion**

Taiwan’s economy has been through an arduous time since the financial meltdown happened in September, 2008. Though it was in an opposing agitation, the government decided to rise the Consumer Mood Index by issuing the only hope-shopping vouchers. As to my opinion, shopping vouchers really do good to Taiwan’s economy. Without shopping vouchers’ help, not only the economy growth would decline more seriously than predicted but the business would be worse. In addition, though this policy is arraigned for doing nothing on
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unemployment rate and being a temporary tactic, it do raise the factories and stores’ confidence on future up. After the two-month saving economy war, we can say with certainty that this policy- issuing shopping vouchers, which do good more than damage is successful.

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