

# Optimization of Hubei consumption coupons: Expand domestic demand, ensure employment and promote development

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**Abstract:** *There exist multiplier effect and substitution effect in consumption coupons, both of which perform differently in various commodities and residents. Since Hubei Province began to issue the consumption coupon in 2020, it has achieved remarkable results in the past three years. However, this policy is still confronted with problems such as the mismatch between the industry structure of consumption coupons and industries to be restored, the imprecise objects of consumption coupons, the imperfection of organic connection with the construction of new development pattern, and the lack of scientific evaluation of the effect of issuing consumption coupons. Therefore, suggestions of optimizing Hubei consumption coupons, building a new development pattern and promoting multi-objective coordination is put forward.*

**Keywords:** *Hubei consumption coupons; effect; problems; suggestions*

## 1. Introduction

Throughout the development history of the world, whenever a country encounters great economic downward pressure and major public crisis, the government often adopted the approach of issuing consumer coupons to deal with the economic downward pressure. In the face of the impact of the novel coronavirus epidemic and the downward pressure of the economy, since the outbreak of the epidemic in 2020, local governments have successively launched local consumption coupons, which have achieved obvious effects in stimulating consumption and stabilizing economic development. Hubei was the most seriously affected by the epidemic in 2020. In April 2020, Wuhan took the lead in launching Wuhan Consumer Coupons. Since then, various kinds of consumer coupons have been continuously introduced throughout the province, which has exerted a significant leverage effect in promoting consumption, expanding domestic demand, ensuring employment and promoting development. At present, with the changes in the national epidemic prevention and control situation, the country has further optimized the epidemic prevention and control measures. In this context, whether to continue to issue the subsequent consumption coupons and how to issue them need to be re-considered on the basis of summarizing and evaluating the earlier issuance of consumption coupons and their effects, so as to improve the accuracy of fiscal policies.

## 2. Economic analysis of the effect of issuing consumption coupons

In economics, "investment, consumption and export" are usually used as a metaphor of "troika" that could promote economic growth. In recent years, the international trade environment has deteriorated, so promoting consumption and stimulating domestic demand has become an inevitable option. Issuing consumption coupons to citizens is a very important means to promote consumption and stimulate domestic demand. Its short-term effect is obvious and has been adopted by many countries. The global spread of COVID-19 in 2020 has severely impacted the consumer market. It has become the focus of the government's work to stimulate consumption and accelerate the construction of a new development pattern dominated by domestic great circulation. In order to stimulate consumption, consumption coupons come into the public view again <sup>[1]</sup>. Therefore, since April 2020, many local governments in our country have adopted the coping policy of issuing consumption coupons to stimulate consumption, ensure people's livelihood and help the resumption of work and production <sup>[2]</sup>. Then, what kind of mechanism does the government use to issue consumption coupons to stimulate consumption, ensure people's livelihood and help the resumption of work and production? What problems may exist among them?

### ***2.1. Analysis of multiplier effect of consumption coupon***

The consumption coupons issued by the government as the main part, could stimulate the domestic demand and maintain the growth mainly through the multiplier effect. According to Keynesian multiplier principle, the increase of consumption expenditure will promote the increase of commodity supply, thus creating more jobs, increasing residents' income and further increasing consumer demand, so as to achieve a virtuous cycle of the economy and greatly promote rapid economic growth. And the higher the marginal propensity to consume, the more obvious the multiplier effect will be.

### ***2.2. Analysis of substitution effect of consumption coupon***

Consumer coupons issued by the government may also have a substitution effect. According to Friedman's persistent income hypothesis, consumption depends mainly on persistent income, and temporary income has little effect. As the consumption coupon is a temporary one-time income for residents, which is not sustainable, and Chinese residents have the habit of saving<sup>[3]</sup>, relatively some residents will replace the original cash consumption with the consumption coupon and save the cash, or postpone the original cash consumption to a later stage, so as to smooth the consumption in different periods. Thus, the actual effect of consumption coupons is greatly reduced, resulting in substitution effect<sup>[4]</sup>. Moreover, the substitution effect behaves differently among different income groups. In general, for low-income groups, although the elasticity of daily life consumption is low, their marginal propensity to consume is high, and the substitution effect is relatively small, while for high-income groups, the opposite is true.

### ***2.3. Analysis on the difference between the multiplier effect and substitution effect of consumption coupons***

The multiplier effect and substitution effect are different in different commodities and residents. Generally speaking, for commodities with low elasticity of income demand, such as daily necessities, the multiplier effect and substitution effect are small, because significant change will not happen to the consumption demand of residents regardless of whether consumption coupons are issued. However, for commodities or services with high elasticity of income demand, such as tourism, fitness, education and training, and durable goods (such as clothing, shoes and hats, etc.), the multiplier effect and substitution effect are relatively larger, because if consumption coupons are not issued, maybe this part of demand will have no chance to be generated, but once with consumption coupons, it is likely that their potential demand will be stimulated. In addition, studies have shown that the substitution effect ought to be larger when it comes to female and older residents<sup>[5]</sup>.

## **3. Hubei consumption coupons have achieved remarkable results**

Since 2022, Hubei has made overall efforts to promote epidemic prevention and control as well as economic and social development, overcome the problem of insufficient consumer demand, and introduced a series of policies. Governments at all levels of the province have provided fiscal funds of 3 billion yuan and issued a series of consumption coupons, such as "Purchase Hubei", "Visit Hubei" and "Benefit Hubei". In 2022, "Purchase Hubei" consumption coupons issued have directly boosted the sales volume of 3.481 billion yuan, with a pulling ratio of 1:4.01, effectively enhancing the confidence of residents consumption, fostering and expanding the new model of digital consumption. The Hubei Cultural tourism Coupon successively issued has injected vitality into the Hubei tourism market. By September 19, the total amount of hotel transactions available on the platform of "Hubei consumption Coupon" has nearly doubled, recovered to the pre-epidemic level. The number of nights increased by 60% compared with the same period last year, and the proportion of consumption coupon was as high as 1:15.

The people-benefiting coupons have achieved remarkable results in coping with the economic pressure, expanding domestic demand, promoting consumption, and boosting the vitality of the consumer market, which has multiplied consumers' willingness to consume and businesses' confidence in long-term operation. From January to September of 2022, the total retail sales of consumer goods in Hubei Province reached 1,508.912 billion yuan, with a year-on-year growth of 4.8%, ranking the second in China and 4.1 percentage points higher than the national average.

#### **4. The existing problems of Hubei consumption coupon**

##### ***4.1. Mismatch of the industry structure of consumer coupons and the industry to be restored***

At present, the coupons issued in Hubei include universal coupons for supermarkets, cultural travel, accommodation and catering, gas and training, etc., among which, universal coupons for supermarkets take the dominant place, while other coupons account for a small proportion. General coupons in supermarkets are mainly used for residents to buy daily necessities, and daily necessities belong to rigid consumption demand with low marginal propensity to consume and low elasticity of demand. Even without the stimulus of consumption coupons, consumer demand will not decrease much; Similarly, consumer demand will not increase much with consumption coupons. Therefore, the universal coupons, which account for a relatively large portion, may actually have a small effect in stimulating the domestic demand. On the other hand, industries of cultural tourism, accommodation and catering, training, as well as small, medium and micro clothing industries are greatly affected by the epidemic. These industries are not only flexible in demand, but also can accommodate more jobs, thus can better achieve policy goals and have more urgent demand for government support. However, such consumption coupons account for a small proportion. Therefore, the mismatch of current consumption coupon structure and demand of the industry to be recovered emerged, and the effect of guiding the industry recovery is not obvious.

##### ***4.2. The benefited objects of coupons are not targeted precisely***

There exists relatively large randomness in issuance of Hubei consumer coupons, and the majority of coupons are issued to non-directed objects. Although the issuance efficiency is considerably high, social equity and practical effects are impaired<sup>[6]</sup>. First of all, if the consumption coupon is seized by the group with higher income, the crowding-out effect (using the coupon instead of cash for the original consumption plan, and saving the cash) will occur in part or even wholly. However, the low-income group in urgent need of the consumption coupon cannot enjoy the government welfare, but it is attributed to this group, who have high marginal propensity to consume, that the effect will get better after the coupons grabbed by them. Secondly, consumer groups of different ages and levels of education have different digital consumption skills. For older consumer groups, it is almost difficult to get consumption coupons on online platforms. In addition, in remote and undeveloped rural areas, many elderly people have no concept of intelligent devices even smart phones thus have small chance to obtain consumption coupons, and even if they get consumption coupons, it is difficult to find designated places for consumption. Due to the above reasons, the actual effect of consumption coupons is affected.

##### ***4.3. Paying much attention to short-term results and failing in connecting with the construction of a new development pattern perfectly***

Accelerating the construction of a new development pattern with domestic cycle as the main body and domestic and international double cycle as the mutual promotion is a major adjustment and improvement to "14th Five-Year Plan", and to our economic development strategy and path for a longer period in the future. When many local governments, including Hubei Province, issue consumer coupons, their goals mainly focus on the promotion of short-term consumption, and they do not properly connect consumer coupons with the construction of a new development pattern<sup>[7]</sup>, which can be observed from the industry structure of consumer coupons, non-targeted objects and fund distribution of various types of coupons. For example, industries with relatively flexible demand, such as cultural tourism, catering and accommodation, sports and fitness, leisure and entertainment, clothing, shoes and hats, which are affected by the epidemic to a greater extent, have limited funds allocated for consumption coupons, while supermarket coupons for daily life consumption have more funds allocated, and the crowding-out effect is relatively obvious. Another example is the undifferentiated objects and its randomness. Although the efficiency is high, it goes slightly against social equity, and the effect of promoting consumption will be reduced.

##### ***4.4. The lack of scientific assessment of the effectiveness of coupons***

As a fiscal policy, its effectiveness needs to be evaluated as a basis for whether the policy should be continued or adjusted. At present, the effect of the issuance of consumer coupons in Hubei Province is mostly assessed from the perspective of the comparison between circumstances before and after the

issuance, or from the perspective of increment, and most of them appear in the form of news reports. This kind of assessment is lacking in scientificity, professionalism, or authoritativeness. The consumption changes before and after the issuance of consumption coupons in a region cannot be simply and directly regarded as the stimulus effect of consumption coupons<sup>[8]</sup>. The evaluation conclusions of the effect of the issuance of consumption coupons in the whole country or other regions can be used as reference for Hubei Province. However, there is certain particularity in the situation of each region, and the experience or lessons of other places may not be completely suitable for the actual situation of Hubei Province. Therefore it is necessary to conduct in-depth research and scientific evaluation on the effect of issuing consumer coupons in Hubei Province.

## **5. Optimize consumption coupons in Hubei Province, promote multi-objective coordination, and build a new development pattern**

### ***5.1. Scientifically establish the policy objectives of consumption coupons***

The most immediate goal and effect of consumer coupons is to stimulate consumption, expand domestic demand, and then form a virtuous circle: domestic demand leads to production, which in turn increases employment, promotes development, increases income, and stimulates more consumption. Therefore, as a public policy, the issuance of consumer coupons should not only focus on the direct effects of consumer coupons, but also pay more attention to the goals of ensuring employment and promoting development. After the goals are determined, it is necessary to think about how to maximize the coordination of these goals and improve the issuing mechanism of consumer coupons.

### ***5.2. Issuance of consumer coupons should be continued but moderately reduced in scale***

The issuance of consumer coupons should not only maintain its sustainability and stability, but also consider financial resources and act according to its capability. The influence on government's expenditure on social security or investment by issuance of consumer coupons should not be allowed. At the same time, the driving effect of consumption coupons has both short-term and long-term effects, and is also in line with residents' expectations (continuous issuance of consumption coupons within a certain period of time will increase residents' employment, economic development and income). If it stops abruptly, its long-term effects will be difficult to sustain. Second, if it changes people's expectations, consumer confidence and income expectations that have been built up with great efforts will suddenly decline. However, given the financial resources of Hubei Province, as well as the improvement of the distribution mechanism, it can be moderately reduced in scale.

### ***5.3. Precisely match the structure and types of consumer coupons with the industries that need to be restored***

It is confirmed by academic research that the effect of directed issuance of consumer coupon is obviously better than that of non-directed issuance. Micro, small and medium-sized enterprises are the most affected by the epidemic, and they hold a relatively large number of jobs. In particular, small and micro service enterprises are more representative and typical. Therefore, it is suggested to increase the proportion of targeted consumption coupons for industries of catering, accommodation, cultural tourism, training, as well as small and micro enterprises and merchants of clothing production and sales under the circumstances of appropriately reducing the overall scale<sup>[9]</sup>. It can also include other industries encouraged by the government for special consideration, such as furniture and home appliances industries encouraged by individual local governments. Appropriate compression of universal daily supermarket shopping malls general consumption coupons could be allowed. At the same time, it is proposed to abolish the fuel coupon for ordinary households and replace it with a diesel coupon to support rural production.

### ***5.4. Big data is used to accurately locate delivery objects***

The issuance of consumption coupons should pursue not only efficiency, but also fairness and effect. Middle and high income groups not only have the advantage of obtaining consumption coupons, but also have a certain degree of crowding-out effect. For these groups, consumption coupons are optional. If they are repeatedly grabbed by these groups, it will not only go against the social equity, but also idealization level of the effect could be reduced. Therefore, big data technology it is suggested to be

adopted. First, through the method of identity authentication, set a one-year limit for the middle and high income groups, and reduce the scale of such random consumption coupons. Secondly, it should accurately target industries and groups in need of support, issue consumer coupons to low-income groups and groups and industries in need of special care, and moderately expand the issuance scale of targeted groups<sup>[6]</sup>, because such groups have small crowding-out effect and high marginal propensity to consume, and helping these groups can also have the effect of social assistance. Third, the combination of online and offline. For older and special groups that need to be attended to in remote areas, villages or towns, offline issuance of consumption coupons can be adopted.

### 5.5. To encourage the research on the effect of issuing consumer coupons in Hubei Province

It is suggested that the research should be entrusted in the form of scientific research projects, and three different entrusted research groups should be back-to-back (without knowing each other is entrusted, preventing "collusion") to carry out the same research content. The research contents include but are not limited to: the stimulus effect of different types of consumption coupons, the consumption effect of different issued objects, the employment protection and driving effect of different industries, and the effect of helping the poor. After the research, the research results and conclusions will be compared. If there is a big difference or disagreement, it will be analyzed and discussed, and finally a unified, scientific and credible conclusion and suggestion will be formed for the reference of provincial Party Committee and provincial government in decision-making.

## 6. Conclusion

Through the analysis of the effect and existing problems of Hubei consumption coupon, the following conclusions are drawn: (1) The issuance of Hubei consumption coupon has achieved remarkable results, but the evaluation of its effectiveness is falsely high; (2) The substitution effect of the issuance of consumer coupons in Hubei Province is greater than the multiplier effect, which restricts its performance. (3) Further optimization of the issuance of consumption coupons in Hubei is necessary, so as to better play the effect of "expanding domestic demand, maintaining employment and promoting development".

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