

Martin Wolf, Emmanuel Saez and Gabriel Zucman are wrong:.

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Martin Wolf [has written an article](#) in the Financial Times in which he recommends that the government should become the buyer of last resort from companies whose turnovers have crashed as a result of coronavirus. The idea appears to be based on the work of Emmanuel Saez and Gabriel Zucman, both of Berkeley in the USA. Both are, of course, best known for their work on tax abuse and I would suggest that after this venture they should stick to that arena. Their two page paper on this issue, published on 15 March [is here](#).

The suggestion made is that if a business is short of sales because of coronavirus then the government should make good the shortfall and provide the missing sales income. They say that this is appropriate because they describe the government as 'the customer of last resort'.

The suggestion is crass, in the extreme, and shows a typical economists' failure to understand the most basic facts of business operations. I can only presume the same is true of Martin Wolf, because as a matter of fact such a programme would massively, and wholly unjustifiably, benefit business and provide the most enormous boost to the owners of capital which could never be justified.

The very obvious reason for saying this is that if, as Saez and Zucman suggest, a government should buy the unsold tickets of an airline if they're not flying at present, they will then in effect be paying for the airline to provide flights which will not be taking place. The airline will get the full revenue but not fly the plane, and so the government will pay for the fuel, and pay the airport, plus the landing taxes, and so on, all of which are the airline's marginal costs incurred for putting a plane in the air. And since these costs will not be incurred there is no way that the airline should be compensated for them: to do so would just simply and unjustifiably massively enrich the airline.

What is more, if the airline was compensated for these costs, and the airport also got full compensation, as did the aviation fuel supplier, everyone would be coining it in. And that would make no sense at all.

So the idea that the government is the customer of last resort is absurd. Compensate business for those costs it must incur to keep going and which cannot be avoided such as labour costs and other, rather limited, expenses but there is no reason at all why a normal rate of return on capital need be paid, or that avoidable marginal costs be paid, or that costs like bank loan and lease repayments and rents which could and should be subject to payment holidays, should also be covered.

I rather hope that this crisis gives rise to some good ideas and sound suggestions on how compensation be provided to keep business going, but this idea fails completely to fulfil that requirement. I hope it is dead and buried as soon as possible.