

Watch out for coronavirus quantitative easing - the ess...

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I can't be alone in thinking coronavirus is now the biggest short term problem facing our economy: stock markets in the USA and UK continued their downturns yesterday. The reality that this virus could trigger a major economic crisis is beginning to dawn on markets.

And let's state the one thing we all know in that case, which is that markets will have no available response mechanism to this crisis. Those markets might crash, but their capacity for correcting such issues is so close to being non-existent that we might as well assume it irrelevant. The whole point of supposed capital markets - and the institutions that are supposedly governed by them - is that there is claimed to be no safety net. And that will be true in this case.

As a result there will, of course, be only one agency able to handle this crisis, and that will be government.

We should not underestimate the scale of the crisis. Just imagine for a moment that UK schools were required to close for two months and as a result parents had to stay at home to look after children. The economic implications are staggering, from the deep micro to macro levels. Significant parts of the economy will grind to a halt. Businesses will fail. Households will go bankrupt. The knock on effects are at present incalculable.

Unless, that is, government intervenes with emergency funding. That is, payments to those who have to quarantine.

And how will those be funded? The answer appears to be glaringly obvious. I strongly suspect that sometime soon you will hear of something I have not yet heard mentioned. That is coronavirus QE. Call it CQE for short.

How would this work? Simply by the government issuing debt to fund a deficit used to support those unable to work due to quarantine being required for them or their families and then having the Bank of England buy it back. That will effectively cancel the debt. But new money will have been created to be injected straight into the

economy. As a result money will be kept flowing into the economy. Otherwise the simple lack of money will be crippling, whatever the virus itself might do.

We can hope coronavirus can be contained before matters reach this stage. If not CQE will be essential in saving us from collapse, and in keeping households solvent.