

An economic plan to beat the impact of coronavirus

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I suggested that [interest rate cuts would not address the economic consequences](#) of the coronavirus before the markets issued their quite emphatic agreement yesterday evening. In that case this post is not an 'I told you so', but rather more a reflection on what really needs to be done to manage the economic consequences of this potential epidemic.

I stress that I am accepting the publicly available evidence on the potential health risks of an epidemic. I am not an epidemiologist. I will accept the current view that at periods over the next six months many, if not most, people UK will get this virus and that at any point in time up to 20% of the working population will be off sick, self-isolating, or caring for members of their family. In addition, and not much is being said about this, maybe 1% of the UK population will die, which doubles the UK average death rate.

The economic consequences of this are, of course, almost staggering in their scale. For the time being thoughts about growth and investment, which so often dominate discussion on this issue, are almost irrelevant. At a time when so much economic disruption is likely the only issue of concern is whether, or not, economic survival for all participants in the economy is possible. That, in turn, comes down to something which is all too often forgotten by government, which is the availability of cash flow. To be blunt, when the chips are down, the only thing that matters is following the money.

There isn't the scope in one blog to consider all the consequences of the cash flow risk that this epidemic will create. Some generic, and particular risks can, however, be identified. I will group them under the broad headings of individuals, businesses and government.

Individuals

Ignoring, for a moment, the health risks that this epidemic brings to us all, the economic risks should be fairly apparent. For many that risk comes from a simple lack an income: that there is a widespread risk to many people resulting from inadequate sick pay has already been highlighted on this blog, and elsewhere. In some ways this is

the greatest risk of all because unless it is tackled the actual epidemic will be worse.

The fact that this risk exists does, however, also indicate the crisis that we face because of cuts in our social safety net, and the economic risk that arises from the massive inequality in the distribution of wealth in this country. When more than half the households in the UK have savings of less than a few hundred pounds their resilience in a crisis of the type that we are facing is marginal, at best. They simply do not have the means to weather this storm. And, more particularly, many of those households will have considerable outstanding debt which has to be serviced, and they will be unable to do that. The risk that there will be considerable financial stress for those in this situation, both now and in the future as a consequence of failed credit ratings, is enormous, with staggering social consequences.

It should also be recognised that for generation rent, the risks from non-payment are very high, and the chance that rent defaults over this period will increase is significant. Again, the vulnerability of our social model will be cruelly exposed, with the word cruel being used in a very particular and literal way.

And the risk of debt failure does not end with those in the most marginal situations. Many apparently more resilient households, based at least upon income, are actually dependent upon regular cash flow to meet their obligations. Mortgage rates may be low, but for many households mortgage obligations are proportionately high, as are the obligations to make payment on other loans, including the staggering number of car leases in this country. Again, the risks of default are very high with very long term social consequences unless systems are adapted to allow for the stresses that are going to arise, inevitably. In a country built on debt, where credit status is key to financial viability, a very large number of people are going to see their well-being severely damaged by this epidemic unless action is taken to help them now.

What might that action be? The obvious actions are that:

- a) The government will need to declare rent holidays;
- b) Mortgage payments must be permitted to be deferred without penalty, simply by extending terms;
- c) Lease and other loan obligations must again be subject to loan repayment holidays by the extension of terms;
- d) Credit ratings agencies must not be permitted to consider defaults in this period in their future credit ratings.

It is important to note that the only real cost within this is to landlords: I am afraid to say that they are going to have to take a hit as a consequence of this epidemic, and that they above all others can afford to do so.

Businesses

The risk to businesses from this epidemic is little different in some ways to that faced by individuals: the problem will be their cash flow. The loss of profitability and

investment opportunity will be things to consider later: what will matter now is their ability to collect what is owing to them and to make the payments that they have to settle on a timely basis. Both are threatened by a lack of staff. They are even more threatened by a lack of demand, as well as an inability to meet demand when staff are off, as well as an inability to secure the supplies that they need to meet their contractual obligations. Put all these factors together and the cash flow risk to many businesses in the UK is substantial, and candidly, many may not survive. Excepting funeral directors, where there is already a lack of supply in most parts of the UK, few sectors can be looking at the crisis to come with any degree of equanimity, whilst those linked to social activities must be particularly concerned. If things are as bad as the government predicts these businesses are going to face a very tough time.

It can, of course, be said that those businesses that face a crisis are what the right wing like to call zombie enterprises. Alternatively, it will be argued by some that those businesses that will fail will be rapidly replaced by new businesses once the crisis is over. Both views are not just naive, but callous, and show a lack of awareness of the enormous human capital that is embedded in most existing businesses which will be lost unless action is taken to help the cash flow of a great many companies who will face enormous challenges over the months to come.

Again, there are obvious actions that might be taken:

- a) Business loans must be subject to repayment holidays, with loan periods being automatically extended, and without interest penalties being applied;
- b) Business rent holidays must be granted for periods of up to three months, and maybe longer;
- c) Tax payments must be deferred and in some cases may need to be waived. Although I am not convinced that a blanket waiver process would be appropriate, I strongly suspect that a bias towards smaller enterprises will be required if they are to survive. This will impose a significant cost on government.

Government

The UK government is in an entirely different position to every other participant in the economy when it comes to a cash flow crisis because it can never have one: it can always create the money it needs to settle any obligation that falls upon it. What is more, it is always capable of extending credit to anyone within the economy, precisely because it has its own bank that is fit for this purpose. Unless, and until, this is understood by those in central government, the Treasury and the Bank of England we will have a crisis.

When those agencies realise that it is their job to address the country's cash flow crisis then the biggest challenge that we face will be over.

So, the government can agree to defer tax payments.

And the government can agree, if it wishes, to support banks if they face cash flow crises as a consequence of non-repayment of loans.

The government could agree to increased expenditure to support people in society, because that is their job.

And the government could even agreed to support particular businesses that were in trouble.

All of this can be done with government-created money.

And all of that government created money can be cancelled and taken out of circulation when necessary by what I have called coronavirus quantitative easing. And there should be no pretence that when that happens the debt in question would ever be reissued: it would be cancelled.

Over the coming months the government really has to be the banker of last resort to the UK economy, providing our country with the liquidity it needs, on demand, to ensure that however bad the health situation becomes, the economy does not need to suffer as much.

Summary

If these suggestions become the basis of an economic plan then the economic consequences of coronavirus can be tackled. But, without such broad-based thinking everything could be very much worse than is necessary. This government faces an unprecedented challenge. The hope must be that it has the ability to address it.