

Banks and landlords have to pick up the costs of the ep...

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I have [already discussed the potential economic implications of coronavirus this morning](#). The purpose of this blog is to summarise the underlying economic logic of what I have said.

We will have an economic crisis in 2020 as a result of coronavirus. There can now be no doubt of that; the likelihood that this epidemic can now be contained seems to be very low indeed. The evidence from China is that the impact on productivity and the economy at large is enormous. Whether we can survive the impact of this epidemic without major economic consequences arising is largely dependent upon the effectiveness of the planning that the government undertakes now. What is apparent is that at present there are a few signs that this planning is taking place. We can hope for it in the forthcoming budget, but the signs are, so far, not good.

The key issue that the government has to decide upon is who will bear the economic consequences of what is to happen. I have already indicated in my first post on this issue that I think that the consequences of this epidemic will fall upon three clearly identifiable groups, which are individuals, businesses and government. However, when appraising who will bear the cost the criteria are slightly different.

It is unacceptable that individuals bear the cost of this crisis. There is simply too little economic resilience within the population as a whole for that to be the case. Far too many people have too few savings to survive major periods of economic inactivity without massive prejudice to their short-term and long-term well-being.

In addition, it is unacceptable that many businesses should fail through no fault of their own but that is what will happen unless the government steps in to prevent the major economic downturn that might happen this year. Cash flow issues will cripple many companies.

In that case it would seem that consequences of what might happen will fall, in the first instance, on the government.

As I explained in my previous post, the government can afford to bear a substantial

cost from this epidemic precisely because it alone in the economy can suffer a cash flow crisis without risk arising. That is because the government of a country like the UK which has its own central bank and its own currency always has the means to create as much cash as their economy needs. This is, if ever there was a time to do so, the moment to appreciate that fact and use that ability.

But that is not to say that there are no costs to an epidemic: clearly there are. In that case the question has to be asked as to who should bear that cost. There are three groups who should.

Firstly, landlords should. I have already suggested that should the epidemic spread then as a matter of statutory right any tenant should be provided with a minimum three-month rent-free period to ease the stress upon them whilst this crisis last. I would suggest that the grant of that extension should be automatic to anyone who does not make a due payment of rent on the required date during the period of the epidemic. They should be automatically granted this extension by the landlord without having to make any further application or to complete any additional paperwork.

I stress that the cost of this will fall directly upon the landlords in question. I am quite deliberately suggesting that they should bear the heaviest burden of dealing with the epidemic. The reason is simple and is that whatever happens they will still have an asset at the end of this period, and no other sector can guarantee that at present. As a consequence they have the greatest capacity to bear this cost. And, if it so happens that some landlords do fail as a consequence, the assets that they have owned will still exist after this failure and so the economy can manage the consequences of this.

Second, I suggest that the costs of this crisis fall upon the finance sector. This is because, as I have also noted in my previous post, I think that anyone who has a mortgage or loan (including a lease) that they cannot afford to meet during the course of the epidemic period should be granted an automatic three-month extension to their loan period, which period might again be extended if the epidemic lasts longer than is expected. Once more I suggest that there should be no need to apply for this extension: simple default should be enough to trigger it. I am not in this case suggesting that the interest owing not be due though: it could be settled at the end of the loan. What I am saying is that cash flow must be eased.

What these two, straightforward, recommendations suggest is that it is those with wealth, and not those with low incomes or tight cash flows who should bear the burden of this crisis. That meets any definition of justice that I know of. But in both cases I am also being realistic: the value of financial assets of banks and other lenders is being preserved by this recommendation when if loan waivers were not in place it is likely that they would be prejudiced, whilst the value of land assets is not in any way diminished as a result of there being a rent-free period imposed for an external reason. To be blunt, given the risk that both the financial and rental sectors face as a result of an epidemic the proposed automatic waivers leave them in a better position than they

would be in without them.

And what of government, which is the third party to suffer a loss? Its risk can be covered by coronavirus quantitative easing.

A plan of this sort is urgently needed, and now.