

We're in panic mode: what the government does no...

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There remains a little doubt about whether or not there will be a coronavirus epidemic. I think, based on what he's saying, that the UK Chief Medical Officer, Prof Chris Witty, thinks that we will. But he knows the odds on these things are never certain. There remains just the slightest hope.

That is not true of stock markets. They have decided to panic. That is the only way to describe yesterday. There may, of course, be a bounce today. But if there is then it will only be temporary, I think. That is because the damage is already done, in three fundamental ways.

First, as I have long argued, markets have realised that stocks were horribly over-valued, come what may. That bubble has burst. The disconnect between real markets that were going nowhere and stock markets marching inexorably upwards has been broken. That needed to happen. The timing and the speed have both been brutal, but it was overdue. QE and the thinking of the pension sector - in turn driven by inappropriate regulation and the economic myth that it is actually possible for whole generations to save for their retirement when that is not true, because only real investment activity can achieve that goal, and savings and investments in this sense are almost entirely unrelated - have led to vast amounts of money seeking a home in the stock market, which has at the same time restricted the supply of available shares to buy. The result was a bubble, pure hype, and now a crash to which we have not as yet seen the end.

But, second, coronavirus is already going to hurt. Trade events and shows are not happening. Sporting events likewise. People are already losing money. In my own hobby, a big show scheduled for April is incredibly unlikely to happen. That's a massive deal for the traders who were going to be there. It's maybe an even bigger deal for the venue, the caterers and all their staff. The real losses are already happening. And whatever happens this will get worse as attempts to avoid risk grow amongst people at large. Of course, that isolation might just work for coronavirus. But the traders may not recover. And their employees are already in trouble.

Third, put these two facts together and there will be a loss of confidence. And that means less spending. It is as simple as that. Now, I admit I am conflicted: the Green New Deal requires less consumption. But I am not a revolutionary, and crashed markets impose chaos just as revolutions do, and people get hurt in both, which is why I do not like them. Evolutionary change is so much more productive, but right now I suspect that what is happening is epochal.

What do I mean by that? I suggest that of all the equivalent crashes we can look at - and yesterday will, as I predicted early in the day, go into the record book of crashes - most are surprisingly benign. 1987 burst a property bubble and led to the ERM crisis, but for many the pain was limited. The Labour government successfully contained the damage of the dot.com crash, even if it laid the foundations for 2008. That crisis should have been epochal, and it wasn't. We've all paid the price of that. This crash will be 2008's likely reckoning. And in that sense it may, as Larry Elliott suggested yesterday in the Guardian, be like the oil price-driven crisis of the mid-70s, albeit this time the price is moving the other way for the time being. That was epochal: Keynesian policy died. And neoliberalism might end now.

The idea that markets answer all questions needs to die. It is simply untrue, except in the fantasy world of some small-minded economists and their acolytes. It has enslaved us for four decades despite that. And now we need planned solutions. That is the only way we manage the climate crisis. It will be the only way we manage global interconnectivity. It is the only way we can direct funds to the real investment we need. It is the only way we can restore real prosperity rather than create recurring bubbles of illusory financial gains.

But the will to cooperate does not exist at present. Brexit is proof of that, and a precursor of this crisis, along with US - China trade wars. Both are exceptionally unwise. A shock may be necessary to make clear Trump, Johnson and their ilk really are not the providers of any answers. A US stock market crash is the best reason for thinking Trump may not be re-elected, for example.

But what I do predict is that this crisis is game-changing: the failure to address the systemic faults of 2008 followed by the failure to use QE appropriately guarantees that, I think. But that means the next two years are going to be very tough. And they are going to require a government that truly understands the need for creative deficit funding and which fully embraces the positive and constructive role of government in the economy. I wish I could believe that a Cummings led Treasury does that. I am not sure it does. And that should be our biggest worry, because what government does now is key to the well being of millions.