Why landlords and banks really do need to pick up some ...

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I noticed that a couple of websites aimed at landlords have picked up on my suggestion that all tenants should be given the right to a three-month rent-free period if the coronavirus epidemic becomes as serious as many, including the UK's Chief Medical Officer, clearly think it will become.

As will also be apparent, there have been many comments from landlords on here, which are without exception deeply antagonistic to that suggestion. The ones published are the more acceptable ones: I promise you that there are others that are more offensive.

I readily admit that I have given many of those commenting short shrift, and some think I have been rude as a result. So let me, largely for the sake of providing a reference point for any further comments that come in, explain my logic for this proposal and the reasons for my reactions to comments upon it one last time.

Risk based reasons for this proposal

It would seem that many who have commented on what I have said have not appreciated the scale of the crisis that coronavirus represents.

It is widely thought that 60% or more of the people in the UK will get this virus over the next few months.

At any one time it is thought that up to 20% of people in the U.K. will be off work, either because they are sick or because they will be caring for those who are.

And such is the scale of the impact that this will have on the economy that many others e.g. many people who work in the hospitality sector, may well find themselves temporarily laid off without work by their employers because there will quite simply be nothing for them to do.

We face the risk of an economic downturn of almost unprecedented scale as a result. Of course, this may not happen, but the likelihood is that it will.

I am expecting the shortfall in government revenue that results from this to make the deficit of 2008 look to be of modest proportion.

The likely loss of GDP is at present almost impossible to estimate, but I am expecting it to be substantial.

And the result will be that many millions of households that have no savings and/or are highly debt leveraged will face an inability to pay their debts. As the **Equality Trust has noted:**

6.5 million households are in debt, or face the prospect of falling into debt within a month, should they lose their jobs. Over 40 per cent of non-retired households have too little saved to pay even a month's worth of household bills.

As a matter of fact, many of these households will be in rented accommodation: those with wealth tend to be owner-occupiers.

A massive economic downturn does, then, create at least four risks for landlords:

* Major risk of tenants defaulting;
* The prospect of very large numbers of tenants becoming formally insolvent;
* Substantial risk that landlords will not, as a result be able to find creditworthy tenants after the crisis has passed, even if they evict those in default during it;
* Mass sales of rental property as a consequence, leading to likely significant falls in house prices.

The latter risk would be exacerbated if owner-occupiers were not offered a waiver on mortgage payment obligations during a downturn, which is precisely why I have recommended this as well, as a matter of right. I have suggested that landlords should be able to take advantage of this opportunity, which effectively automatically extends the loan period without lender consent being required or penalty being imposed. Interest due from this period would be settled at the end of the loan period. This is a measure also completely intended to preserve solvency.

My proposal is based on the massive risks that face our economy.

Reasons for my suggestion in the light of the risks faced

The imperative that we face during the crisis to come is to keep the cash flow that UK households require to meet their basic needs going. Families will have to be able to feed themselves and meet their essential bills. Nothing is more important than this.

The same is true of productive businesses: many of them will need all the help they can get to keep going over the next few months, and tax deferrals, whilst important and crippling for the government's finances, will not be enough to achieve this goal.

In that case all available financial assistance during the likely crisis to come must be focussed on these two essential issues:

- Keeping households solvent so that they can return to more normal financial states as soon as possible after the crisis is over;
- Keeping ass many productive businesses as possible afloat during this period to ensure that as few employment opportunities as possible are lost as a result of it.

These two objectives underpin my decision-making process for the suggestions made.

It is my suggestion that all landlords should share these objectives: without people in employment they have no tenants. Without a strong economy the value of their properties will crash. My aim is to prevent both situations arising. Why landlords take objection to that is very hard to work out.

Why I have suggested that landlords and banks should bear the immediate apparent burden of this crisis, alongside the government

As already noted, the UK government is likely to suffer a staggering loss of revenue as a result of the coronavirus crisis: I am expecting deficits bigger than in 2008 as mass applications for deferral of tax payments, or straightforward defaults, become commonplace. The government can, however, withstand this decline in its income: if necessary it can be entirely covered by quantitative easing, which I expect to be in use well before the year is out.

I have suggested banks most grant automatic loan payment deferrals for three reasons. The first is that if they do not there will be a very large number of defaults, that may be sufficient to destroy the credit records of millions of people, in the process irreparably harming the future market for bank-created debt, whilst in the short term threatening the solvency of many banks. We simply cannot afford to let either of these situations happen. Nor will the resources exist to appraise applications for loan payment deferral: 20% of all workers will already be off work, remember, including in banks. Automatic deferral is then the only option. Mortgage, loan and lease terms can all be easy extended and critically bank balance sheet values are not threatened as a result. Nor is their income if the interest due is simply deferred. There might be a need for some increase in bad debt provisions, but to nothing like the degree that would arise if automatic deferral was not permitted. This proposal is, then, designed to keep banks solvent, and that is vital. It should massively assist achieving this goal.

And then there are landlords. I have, as previously noted, deliberately targeted them with my proposal. There are four reasons. The first is they cannot afford any of the situations I have noted, above, arising. Second, as a matter of fact (even if most were dispute it) landlords are wealthy. They have the means to ride out a short-term loss of income which the vast majority in the population do not have. And third, landlords have assets which will always grant them a line of credit which, once more, the vast majority cannot secure. And last, the measures that I am proposing are designed to preserve their asset value: the trade-off of a small loss of current income is very much in their favour when it is very likely that the vast majority of people in the economy will be faring much worse.

Is this politically motivated?

All economics is politically motivated, so of course this suggestion is. But it is only politically motivated to the extent that I would like as much of the current economy to survive as possible during the course of this crisis. If that shows are biased towards anything it is not Marx, as it would seem that many commentators would like to suggest, but the market. I agree that 'picking on landlords' looks like I have picked out that sector to suffer, but that's only because it will, if my proposals are adopted, probably come out of this crisis better than almost anyone else. And yet landlords cannot see that.

Do I have any apologies to offer?

With respect, I have no apologies to offer at all. I have been abused for doing three things:

- Exercising my professional judgement;
- Doing so in the interests of the population at large;
- Seeking to minimise the overall harm that the coronavirus epidemic might cause to the UK economy.

Did that justify people hoping that I might die from that disease? I don't think so.

Does it require me to be told that I am a Marxist, an idiot and much more? No, I don't think so.

And did it require that people say I have no idea how the real economy works when I most certainly do? I doubt that too.

Instead what all those comments suggest are three things:

- People have not read what I've written, which is deeply annoying;
- People are acting out of pure self-interest when that is the last thing we can afford;
- Plenty of people like trolling.

So I am offering no apologies.

Conclusion

What I am hoping is that this idea might be adopted: we're going to need something very likely if we're going to get through what might well be coming our way. And imaging what is required in that case is a responsible act, even if people do not like it. I am unrepentant.