

The only outcome of this crisis is going to be recessio...

Published: January 13, 2026, 2:30 pm

I was involved in discussion with academic colleagues yesterday on the economic consequences of the coronavirus crisis. One of the issues discussed was whether or not we will suffer a significant downturn as a result of this pandemic. We had no doubt that this would be the case.

Firstly, there are already indications [that maybe 20% of UK employees](#) (and employees in other countries as well) might now be effectively unemployed.

Second, as [I have warned](#), with which warning [others seem to agree](#), there is a significant chance that we have not seen anything like the true number of redundancies that will flow from this crisis as yet.

Third, there are already warnings that [Germany will lose 10% of GDP as a result](#). I think that may well be optimistic.

Fourth, global trade is already forecast to be [down a third because of the crisis](#).

For all these reasons both demand and supply are going to fall off cliffs as a result of this crisis.

But matters may be worse than that. Financial capital is haemorrhaging out of UK businesses, both large and small at present. That is what inevitably happens when companies suffer major losses and continuing cash flow pressure at the same time, which is precisely what is happening at present because almost none of the promised UK government support to business has yet to arrive with the vast majority of them. What this means is that many businesses will fail, and very soon. And they will not, then, be able to participate in any upturn: their capacity is going to be lost.

That would be worrying if there was to be a massive increase in demand immediately after the lockdown ends: that could give rise to inflation if that were to be the case. However, the number of unemployed people, and the number of people earning vastly less than usual at that time removes any risk of that.

That is, though, another factor to consider. This is the fact that there is an almost inevitable, and entirely human, reaction to crisis, which is that people begin to save quite significantly during and in the aftermath of crises. This is what Keynes called the 'paradox of thrift'. Once we have survived the initial onslaught of a crisis, which the end of lockdown will represent to many people, we then, quite rationally move to a position of trying to protect ourselves from the next attack. Economically this means that we save. Many of those who found themselves exposed to considerable financial risk as a consequence of what has happened, and have a continuing income, will not suddenly begin to spend again: instead they will build reserves to ensure that their chance of surviving another downturn is improved.

I am not in any way condemning anybody who saves in this way: it is an entirely personally logical thing to do. But, as Keynes pointed out, whatever might be logical individually does not necessarily represent the best course of action for society as a whole. And savings always withdraw money from the economy. The consequence is that the money in question is not used to purchase new goods and services. This, then, exacerbates any downturn that we will suffer as a result of unemployment and the loss of capacity within the economy, and produce an increasing downward spiral potential economic difficulty.

Keynes great contribution to economics was to suggest that the only way in which such a downward spiral can be broken is by government intervention. By necessity, government has to spend to stimulate demand in such a situation. Nothing else can begin to reflate the economy when this happens, excepting war.

Five logical conclusions follow.

The first is that any stimulus must be planned to occur over a very long period if we are to recover from the coronavirus crisis. We are talking in terms of years, and not months, and of massive amount, and not a little additional help, when considering this issue.

Second, unless this happens the scale of the crisis that will hit the UK economy is of unimaginable proportions.

Third, in such a situation the chance of inflation rising is close to zero: indeed, the risk is of deflation, which only exacerbates economic downturns.

Fourth, the only way in which this sort of stimulus can be provided is by direct monetary funding (DMF) of government spending by the Bank of England.

And fifth, that does not create a risk for the UK, or its exchange rate, or its economy, because every other major economy in the world is going to be facing the same problem at the same time, and will react in the same way.

None of which provides much comfort, but we need to face the truth, and the sooner the better.