Cushioning the economic impact of the virus measures

It s time to take stronger economic action to offset the impact government measures against the virus around the world, along with consumer behaviour is now having on jobs and business.

It is clear that as the virus spreads so people cancel travel plans, hotels, restaurants and pubs lose clients, cultural and sporting events are stopped, business and academic conferences abandoned and discretionary shopping and tourism fall substantially.

Let us take a bad case of what could happen. Let us suppose that the 20% of our economy most exposed to these activities that lose out from closures and loss of customers are in trouble for four months. Let us guess that they lose a large 50% of their revenue on average. They are likely to lose more turnover than businesses do in a typical recession, as in some cases what they do is simply banned and in other cases consumers walk away from them in big numbers.

This would mean a fall of 3.3% in annual GDP just from the impact on the most vulnerable 20% of the economy. There would then be second round effects. These businesses would shed labour quickly as they try to stem their cash losses. Some will go bust with every employee losing their job. This then means lower incomes for people to spend on other things, and a further loss of consumer and investment confidence.

What could be done to reduce this bad outcome? The government could step in with temporary help for employees working for basically sound businesses that have experienced a big loss of turnover thanks only to the special circumstances of the virus. It could be like the German temporary reduced working scheme which has got through state aid tests.

The terms might be that the government will pay a specified quite high percentage of the wage bill for a company that was profitable up to the end of January, but has faced a fall of more than say 15% of turnover since thanks either to the virus putting off customers or from bans and closures required by law. This would be a grant, available for a limited period related to the progress of the virus. It would be conditional on the business not taking on any extra employees during that period, and not making anyone redundant. The business would otherwise be loss making.

It is most important that say a good hotel in a town or city can keep its core staff together during a period of much reduced bookings to be available again for the recovery once we have an all clear from the virus. Putting more businesses through bankruptcy is not a good idea if they are sound businesses for the future damaged by this one off extraordinary event. Bankruptcy puts the costs of the employees onto the state anyway when they lose their jobs, and makes recovery for them and for business more difficult afterwards.

The new facilities to lend to business, and the capacity of the Treasury to delay tax payments are both very helpful to many businesses hit by the virus slowdown. They will not be sufficient for the businesses at the sharp edge of the problems, as their revenues fall too much to survive just on more loans and deferred tax.