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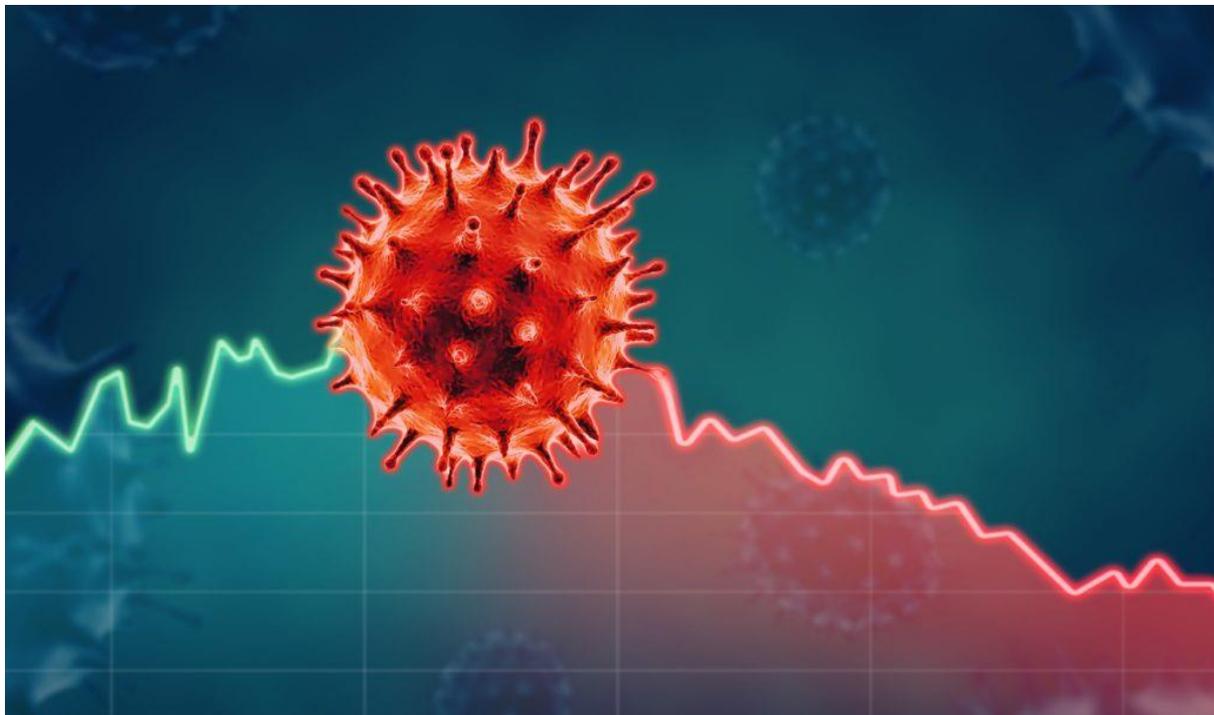
Public policy blog

<https://policyblog.stir.ac.uk/2020/03/16/coronavirus-and-the-uk-economy/>

Coronavirus and the UK economy

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The UK economy is facing a precipitous drop in demand. This fall is likely to be short-lived and is specific to a range of customer-facing industries. Social distancing is already having a hugely detrimental effect on transport, tourism, sport and hospitality.

What is the appropriate policy response? To avoid serious recession, the government must act to maintain demand. Many businesses will soon run short of cash and be forced to lay off workers. This will cause hardship and lead to further falls in demand. Many of these are viable companies that have been hit by an unprecedented shock. Thus the appropriate action for government is to replace the lost demand by compensating companies hit by the effects of coronavirus. Thus, it would “buy” the empty hotel beds, the

empty passenger seats etc. This measure would allow companies to continue paying their employees and meeting their capital costs.

The government might set conditions on the provision of such support – for example, they must be registered in the UK, pay a threshold level of corporation tax and guarantee to maintain employment until the crisis is over. Payments would be reduced if companies cut non-wage variable costs by curtailing or closing services: this could be offset if companies use these savings to enhance productivity, say by upskilling the workforce.

This proposal is well-targeted – it focuses directly on the companies that have been affected by the coronavirus threat. Other, more general, demand stimuli would likely be more expensive and would not prevent many companies going bankrupt.

Action must be quick. The Danish Government has already agreed to cover 75 per cent of the wages of those workers whose jobs are threatened by the crisis – those who propose to lay off more than 30 per cent of their staff or more than 50 workers. Whether companies can meet the remaining 25 per cent remains to be seen.

Keynes argued that in a recession, government should be prepared to boost demand to avoid mass unemployment. Coronavirus has precipitated the most drastic fall in global demand ever witnessed. Its effects will nonetheless be time limited, so the injection of liquidity will be temporary. Better to add to debt than to lose companies that in normal times support employment, foreign earnings and growth.