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# The upside-world of virus economics. And why we free marketeers must adapt our usual ways of thinking.

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Governments are certainly taking action in the face of a likely coronavirus recession. Emmanuel Macron has committed the French state to protecting every company from bankruptcy. Steve Mnuchin, the U.S. Treasury Secretary, has announced that Donald Trump's government willmail cheques to Americans within two weeks.

And Rishi Sunak yesterday unveiled a huge package of UK measures: £330 billion worth of zero-interest loans and loan guarantees for businesses, business rates relief and cash grants for retail, hospitality, and leisure companies, £10,000 cash grants to all small businesses, and a three month mortgage holiday for those in distress. More Government action, so we are told, will come with employment support. That's on top of £12 billion coronavirus-related spending in last week's budget.

Many will question the specifics of the Treasury's measures. Is there enough there to tide over restaurants and hotels seeing complete demand collapses? Will the offer of loans be enough for manufacturing firms suffering from delayed demand, given the crisis duration is unknown? If mortgage holders are worthy of support, why not renters? And is the existing generosity, eligibility, and administrative capacity of the welfare system broad enough to support households seeing job losses or falling self-employment income in the coming weeks?

The answer is "probably not," but the Chancellor's assured tone screamed that more was to come. "Whatever it takes" was his message, repeated five times.

If such questions seem weird coming from a free-market economist, it's because we are in unprecedented times. As I outlined yesterday, the upside-down world of coronavirus economics means that employees not engaging in on-site work is, today, largely a virtue, not a sin.

Short-term GDP boosts and pumping up consumption are not desirable given the health consequences. We don't want "fiscal stimulus." In fact, economic activity will shrink precisely because of the social distancing and containment policies we need to curb the virus.

Our key economic challenge is to avoid this necessary, short-term, pandemic from inducing "economic contagion." We don't want a temporary and partial shutdown of the economy to lead to otherwise viable businesses collapsing, with destructive losses of capital, worker-employer relationships, and resulting unemployment. Whereas ordinary recessions bring “creative destruction” among firms, few would suggest your local Indian restaurants could feasibly have foreseen a global pandemic eliminating months of its business income.

The theoretical aim of policy then should be bridging over what is hopefully a short pause in activity, eliminating near-term distress for households and businesses to allow a V- or Nike-tick shaped recovery once the viral tsunami passes.

In this light, Sunak’s approach recognises the nature of the business problem. Big on direct payments and loans, the Chancellor in effect has Government mimicking a missing insurance market, with cash payments and low cost loans available such that “good firms” remain tied over through this year, with further unspecified support to ensure they maintain employment too. The thought process is that most large companies can access credit or investment capital if they have long-term viability. Given current sentiment though, Government loans on more favourable terms may ease the pressure given any credit crunch. Smaller businesses are more likely to be credit constrained, and such will be the hit to activity in areas such as restaurants and hospitality, big loan repayments short-term may end up making businesses unviable anyway. Hence the cash grants announced yesterday.

Now, from a free-market perspective, this all throws up some obvious concerns, not least taxpayers being on the hook for large loan losses. Timing is another worry. We still talk under the assumption that this pause in activity will last a few months. But if the Imperial College modelling suggesting that coronavirus suppression might require 18 months of containment is correct, then “bridging” won’t work, despite the Government’s best efforts.

As the OBR’s Sir Charles Bean said yesterday, the longer this runs, the less likely loan, even on favourable terms, can plug firms’ budget shortfalls without endangering insolvency. So the Government would have to turn to taxpayer grants. But a less palatable truth is that the longer it goes on, the more market activity and the structure of the economy will change, and the less continuing support would be beneficial for any rebound.

Already, understandably, more resources are flowing into the production of ventilators. Amazon is hiring more staff at higher wages. If we are holed up for a year or more, our spending habits will change, perhaps irrevocably. New enterprises will prioritise delivery. More shops would move to online only. The nature of firms and teleworking would change, and probably our interests and tastes too. At that stage, considering this an economic “pause,” aiming to return to where we left off, will just not be infeasible but undesirable.

Of course, we aren’t there yet. But it’s worth bearing in mind. For Sunak yesterday fixated on big fiscal measures, no doubt considering stock market reaction. But, in fact, governments should also be considering regulatory changes and adjustments to their own spending that might make this period and any future adjustment easier.

Just yesterday, for example, Robert Jenrick announced that cafes, restaurants and pubs will, from now on, automatically become takeaways and food delivery companies. Why there was a requirement to obtain permission through planning laws for this already is a mystery. But this is just the sort of innovative thinking that will give businesses and workers some breathing space, easing future change.

With the crisis pressing, the government should think carefully about other steps that could both ease the immediate challenge and provide new ways of working. Why not relax licensing requirements and child-staff ratios for childminders? Why not ease overtime, agency worker rules and Sunday trading regulations to generate more income opportunities and allow smoothing of supermarket visits? Rather than seeking work, why not encourage jobseekers to do helpful tasks on Mechanical Turk? The possibilities for innovative thinking are endless.

Then there's the Government itself. For now, the coronavirus is being treated as an add-on to existing activity, requiring new funding. As businesses adjust, government as yet is not curbing its own activity by, say, delaying infrastructure projects. But if this crisis continues, might it change the Government's outlook? If a fall-out from all this is greater remote working, how does that affect the "levelling up" agenda? Or undermine the business case for HS2?

Sunak yesterday was firefighting a crisis and setting out his view of the macroeconomics. His answers have a clear coherent rationale: protect jobs while mothballing certain activity to contain the virus by providing bridging support to the recovery. But he must keep one eye on more uncomfortable possibilities, and keep other economic levers to make this less destructive under constant review.

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