

Liquidity and solvency

Offering money to companies to see them through a couple of months when they are not by law allowed to trade was necessary. It was right for the government to pay the wages of staff who have jobs but are not allowed to do them, so that the workforce is available to start up again as soon as the lockdown is lifted. It was right to offer money to the self employed who were also banned from earning a living.

Government now needs to handle the return to work well. The state cannot afford to carry on paying out large sums to companies that do not have enough turnover. The only way to sustain our living standards is to get everyone back to work. There are will be some businesses that were declining before the shut downs. They may need to make a bigger adjustment now as the shut down probably accelerated their decline.

There will be other businesses that had a great business model prior to the lock down that will now be damaged by the changed conditions created by the anti virus policies. Travel and hospitality will have to change the way they work for as long as social distancing remains, and plan for reduced workloads for sometime after lifting of the shut down.

There are then a range of businesses which gained market share out of the shut downs and who may continue to grow well even after the end of the exceptional times for on line retail, internet conferencing, remote working service and supplies, home entertainments and other technology winners.

What we do not want is to search for some top down government led model of backing winners, interfering with customer choices and deciding who to subsidise and what changes to lifestyle they require.

The danger is some companies that were short of cash owing to lock down end up insolvent because they do not experience a surge of returning business once the lock down is lifted. The government does not have the resources to keep all companies going that lack a strong business offer for the new conditions post shutdown. The private sector has the means to lend money and to buy shares. Large companies have access to low interest rates on bank finance and bonds, and can raise additional capital from shareholders. They can and are conserving cash by not paying dividends or buying back shares where they need to be careful with the money.