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Money in the Time of Coronavirus

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Summary

An infinitesimally tiny bit of protein – a virus from the coronavirus family, the cause of the disease now known as Covid-19 – has altered the life of every human being on this small planet. It has admonished us that we're not superior but weak and vulnerable, in spite of all of our knowledge, technology, and resources. Covid-19 will not exterminate the human race and neither will it eliminate money, for millennia the companion of humans and the omnipresent means of payment in each economy. Having said that, once the Covid-19 pandemic is over, money will be shaped by two key factors, the course of the outbreak and emergency economic policies, both fiscal and monetary. The macroeconomic lesson of the pandemic is clear: contraction of aggregate output and unemployment growth are proportional to the contagiousness and pathogenicity of any new virus or bacterium. Economic recovery will also be determined by the speed with which the pandemic is brought under control.

Key words: *coronavirus disease 19, Covid-19 recession, economic recovery, 'helicopter money', spreads via banknotes, supply of cash, macroeconomic lesson.*

Coronavirus disease 19

An infinitesimally tiny bit of protein – a virus from the coronavirus family, the cause of the disease now known as Covid-19 – has altered the life of every human being on this small planet. It's forced us to watch from our windows as spring awakens, confined to quarantine at home; to keep physical distance from others; and to wear face masks and gloves on the rare occasions when we do venture out. Coronavirus has shown us all how interconnected we are and laid bare the truth that there's no room for Robinson Crusoe's Island in our modern world. It has admonished us that we're not superior but weak and vulnerable, in spite of all of our knowledge, technology, and resources. Coronavirus has made all people equal in this tribal world, where investment into tools that destroy life are thousands of times greater than in those that help it survive.

The scale of the Covid-19 scourge is revealed by the frightening daily statistics of infections and deaths by country, region, city, village, and, inevitably, for the world as a whole. It's accompanied by the grim figures showing the extent of the Covid Economic Crisis,[1] the economic pandemic: the dizzying growth in unemployment, plunging production levels, and curtailment of domestic and foreign trade to just the bare necessities. Any decline in aggregate demand is, by definition, a prelude to economic recession. In terms of its depth and duration, the Covid-19 recession is already showing all the hallmarks of a depression. The medical and economic emergencies have elicited preventive action from all of the world's governments and their departments.

The Covid-19 recession: Money for survival

In responding to the Covid-19 recession, the policymakers' first instinct was to reach for money. Obviously, not their own, but ours – taxpayer money, money printed in profusion by central banks. Without a doubt, at this time of economic pandemic, every member of society must be entitled to the bare minimum required for life, regardless of their country's budget deficit. Also without a doubt, the real sector must receive at least some of the assistance given to the financial sector during the 2007-2009 global financial downturn and lasting to this day. And yet, in doing so, the relative stability of goods and services prices must be maintained – a difficult but not impossible task, because there's no reason to expect aggregate demand to grow during the pandemic. Curing the respiratory distress of the economy surely requires mechanical monetary ventilation, but for a limited time only, to reduce hardship faced by populations and prevent markets from collapsing.

Most governments have already temporarily relaxed their tax rules and provided fiscal support to small and medium-sized firms. Having learnt their lesson in the Great Depression of the 1930s, central banks ensured the financial system remained liquid and extended vast amounts in loans at zero or negligibly low interest rates. Central banks have also scaled up their purchases of safe securities issued by both banks and non-bank financial institutions and companies operating in the real sector.

At the same time, economists have lost no time in proposing various incentives, with some going as far as insisting that these remain in place permanently.[2] Although all of these stimuli are directly or indirectly linked to money, discussing them would take us too far from our topic – money in the time of coronavirus.

Support for recovery – NOT 'helicopter money'

The pressing need for economic recovery has brought to the fore an old term, 'helicopter money', first used in a completely different context by Milton Friedman, the founder of modern monetarism. An erroneous interpretation of Friedman's example,[3] which gained currency during the global financial downturn, became dominant in the Covid-19 crisis.

Proponents of the helicopter approach are growing ever more numerous. 'There is an alternative ... direct unrepayable funding by the central bank of the additional fiscal transfers deemed necessary, an intervention commonly known as "helicopter money"'.[4] This strategy, seemingly simple and effective, is one of the greatest threats to the real value of our money. Decades of low and stable inflation don't mean that hyperinflation has been stamped out – just like with dangerous viruses.

These proposals have prompted central bankers to respond. In early April, Jerome Powell, Chair of the Fed, stressed that ‘these are *lending* powers, not *spending* powers. The Fed is not authorized to grant money to particular beneficiaries. The Fed can only make secured loans to solvent entities with the expectation that the loans will be fully repaid.’[5]

This is why it’s particularly important to distinguish between the functions, tools, and scope of fiscal policy, on the one hand, and those of monetary policy, on the other. In brief, this means setting the responsibilities of the Ministry of Finance and the Treasury apart from the role of the central bank.

The discussion about *money-financed fiscal interventions* has overshadowed a vignette in which our cash – or, more precisely, our banknotes – played the bad guy. Let’s take a quick look at the directors and stars of this one-act show, and see how things turned out.

Covid-19 dislikes cash

It took just one offhand remark made at a press briefing of the World Health Organisation to set off an avalanche of questions about whether cash could carry the virus. *Use contactless payments,* the world’s public health body said. And so, we learnt that cash was not just responsible for crime, terrorism, tax evasion, drug trafficking, and all other illicit activities, for monetary policy constraints and world wars[6] (see *Abolishing of Cash or Losing of Anchor*), but for the coronavirus pandemic as well.

Nevertheless, the joy of global money providers, card network corporations, and private issuers of cryptocurrencies was short-lived. Soon afterwards, the MIT Technology Review retorted: *No, Coronavirus is not a good argument for quitting cash,* adding ‘[i]n fact, we don’t have any evidence that money in any form has ever been source of any kind of infection… You’re more likely to pick up COVID-19 from people exposure than from the type of payment.’[7]

One of the first central banks to wade into the fray was the German Bundesbank, which released a statement titled *Cash poses no particular risk of infection for public:* ‘… the risk of picking up coronavirus via cash is **extremely minimal**.’[8] Shortly thereafter, the Riksbank, the national bank of cashless Sweden, declared there was *no evidence that the coronavirus spreads via banknotes*.[9]

As may well have been expected, the most colourful answer came from Scotland: ‘The risk of banknotes spreading the coronavirus is small “unless someone is using a banknote to sneeze”, says Christine Tait-Burkard, an expert on infection and immunity at the Roslin Institute at the University of Edinburgh.’[10]

And so, thanks to the world’s immunologists and microbiologists, banknotes received a last-minute reprieve from the death sentence pronounced on them long ago by proponents of the cashless society. What’s more, they have proven to be a key means of preventing pandemic panic.

No country may have had sufficient supplies of gloves, face masks, or ventilators, but all had ample stocks of banknotes, and all made this fact known in good time – like the Bundesbank, which reassured the public that '*[t]he supply of cash is secure*' (18 March 2020).

Money after the coronavirus pandemic

Covid-19 will not exterminate the human race and neither will it eliminate money, for millennia the companion of humans and the omnipresent means of payment in each economy. Having said that, once the Covid-19 pandemic is over, money will be shaped by two key factors, the course of the outbreak and emergency economic policies, both fiscal and monetary. The macroeconomic lesson of the pandemic is clear: contraction of aggregate output and unemployment growth are proportional to the contagiousness and pathogenicity of any new virus or bacterium. Economic recovery will also be determined by the speed with which the pandemic is brought under control. Medical precautions can greatly dampen these consequences, but not prevent them outright.

Perhaps controversially, the Covid-19 pandemic may help keep the real value of money relatively stable by contracting aggregate demand. After all, inflation is hardly to be expected when most people have limited access to supermarkets and other retail outlets. Aggregate supply has also adjusted to the present circumstances and is not likely to put pressure on general price growth either.

Cash should see the same levels of use for several years to come, until people have forgotten about this pandemic, as they have forgotten the much more destructive Spanish Flu outbreak of 1918. The attention devoted to antibacterial and hygienic features of banknotes, already high, is set to increase further. In case you weren't aware, '€5 and €10 banknotes, which change hands particularly often as change, additionally have a protective coating against soiling.' (Deutsche Bundesbank, 18 March 2020).

With emphasis placed on resistance to germs, the introduction of polymer plastic banknotes is certain to pick up pace. The latest example of these is the new polymer £20 note, issued on 20 February 2020, and claimed by the Bank of England to be *its most secure ever banknote*. The retirement of the old £20 note will remove from circulation the image of Adam Smith, 'the first economist and the first Scotsman to appear on a Bank of England note.'[11] Ironically, Adam Smith first appeared on a banknote in the spring of 2007, on the eve of the global financial crisis, and began to depart in February 2020, at the start of the Covid-19 pandemic in Europe. The replacement of old notes bearing his likeness will probably continue until the pandemic has died down, so his image will have linked two extraordinary episodes of economic history, the Great Recession and the Covid Recession (hopefully not Depression). If banknotes with the face of *one of the fathers of economics* are associated with such events, then no economist should ever be put on the money of any country anywhere in the world. What is certain, however, is that no economist will peek out at you from your wallet after the Covid-19 pandemic.

[1] Baldwin, R., Weder di Mauro, B. (eds.) (2020), *Mitigating the COVID Economic Crisis: Act Fast and Do Whatever It Takes*, CEPR Press VoxEU, March 2020.

[2] Paul Krugman (2020), The case for permanent stimulus, In: *Mitigation the COVID Economic Crisis*, p. 213-219. [3] '"Wise" also means avoiding the deceptive lure of variants of so-called "helicopter money" or, in less colorful language, debt monetization. Given the considerable confusion surrounding this topic, it is worth dwelling on it for a moment. Helicopter money conjures up a powerful image money falling from the sky directly into people's pockets. Choreography aside, though, it amounts to two rather mundane steps. The first is simply crediting individual accounts, just like the government does when paying out unemployment benefits or tax rebates. The second, less well understood, step is allowing the additional money to swell banks' deposits with the central bank (technically, boost "excess reserves") - that is where the money ends up. We have a pretty good idea of what their respective impact is; neither step is new. Transfers are the largest component of government spending. And the main central banks have operated with excess reserves for quite some time now. There is a consensus that simply adding to the reserves has little effect of its own on economic activity. It pushes on a string.' Claudio Borio (2019), Wise fiscal policy is not about helicopter money, *Speech*, Bank for International Settlements, 08 November 2019.

[4] Jordi Gali (2020), Helicopter money: The time is now, In: *Mitigation the COVID Economic Crisis*, p. 57-61.

[5] Jerome Powel (2020), COVID-19 and the Economy, *Remarks*, Federal Reserve System, April 9, 2020.

[6] *See:* V.V. Lepin (2020), Abolishing of Cash or Losing of Anchor, CBM *Research*, Paper 3, April 2020.

[7] Mike Ocurt (2020), No, coronavirus is not a good argument for quitting cash, *MIT Technology Review*, March 12, 2020.

[8] Deutsche Bundesbank (2020), Cash poses no particular risk of infection for public, 18.03.2020.

[9] Sveriges Riksbank (2020), No evidence that the coronavirus spreads via banknotes, *News*, 26.03.2020.

[10] Rachael King and Alice Shen (2020), Will cash survive Covid-19? *Central Banking*, 20 March, 2020.

[11] Bank of England (2006), Governor's Adam Smith Lecture 2006, *News Release*, 29 October 2006.