Sting will be in the tail of remarkable but vital action to rally economy

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Three weeks ago, as coronavirus began grounding aircraft, I had to cancel a flight. My ticket was non-refundable but the taxes were and Virgin Atlantic said I would have my money in a week. Two weeks passed, so I asked again. "Refunds are estimated to take up to 90 days" due to "extremely high volumes", the airline replied.

Last week, a friend who runs an aromatherapy company was told by a high street retailer he supplies that payments were being delayed from 90 to 150 days. Another well known chain cancelled a large order shortly before taking delivery.

On March 15, central banks including the Bank of England agreed emergency dollar swap lines with the US Federal Reserve to meet a surge in demand for the US currency. The dollar shortage came from a "drawing down of funding lines by corporates", Andrew Bailey, the Bank's governor, later said.

The three incidents have one thing in common. The desire for cash. Virgin Atlantic, no doubt, is hanging on to customer funds partly for cashflow reasons. Retailers are delaying supplier payments or cancelling orders to retain cash and big businesses are tapping debt lines they don't yet need in case their bank runs out of money by the time they do. Meanwhile, the state is paying the wages of "furloughed" workers to keep them liquid.

We live in a cash economy now. Not in the form of notes and coins, but electronic cash. All anyone wants is to sit on their money to ensure they can cover rents, pay cheques, interest payments, taxes and utility bills as they come due.

The problem is not a shortage of money. A decade of quantitative easing has ensured there is a copious amount in circulation. It is the "velocity" of money, the number of times it changes hands.

Economic growth, from a monetarist point of view, is a function of the supply of money and its velocity. Velocity has been slowing for some time, as savings have risen, but it has now collapsed. If money is not changing hands, the authorities have little option but to increase supply to prop up growth.

The US Fed is taking extraordinary measures, with open-ended quantitative easing (QE) and programmes to buy up mortgages, corporate bonds, asset backed securities and debt instruments to create a trillion dollars, or more, of new deposits.

In the UK, the Bank is injecting more than £400 billion of cash into the economy through QE, cheap funding for banks and corporate loan scheme — doubling the cash reserves created since the 2008 crisis.

It is also enlisting the banking sector to create money. By relaxing regulations, lenders can provide £190 billion of extra credit and the authorities are using moral suasion to conscript them into the Covid war effort and back small businesses.

The Treasury is doing its bit with wage support, grants, tax holidays and loan guarantees. Even so, a fifth of small firms will shut permanently, according to Be the Business, an industry group. Large construction companies fear their banks, mindful of Carillion's collapse, will hang them out to dry, too.

With the velocity of money cratering as never before the authorities are doing everything possible to boost the money supply. According to Tim Congdon, the monetarist economist, US money growth is on track to be "the highest ever in peacetime", at 20 per cent this year. The UK is not far behind.

Our new cash economy is almost primitive, it is so illiquid. But it is our best chance of stopping a health crisis causing economic devastation. Beware the sting in the tail, though. Money is not created on this scale without generating inflation. In 2008, QE was offset by shrinking bank balance sheets, Simon Ward of Janus Henderson Investors, points out. This time they are working together. When the recovery comes, prices could let rip.

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