

## **Response to the Economic Recovery Advisory Group**

### **Wellbeing Economy Alliance and the Poverty Alliance**

**June 1, 2020**

#### **1. Introduction**

The Wellbeing Economy Alliance and the Poverty Alliance welcome this opportunity to respond to the Economic Recovery Advisory Group's call for evidence on the approach that should be taken in responding to the challenges that arise as a result of the social and economic impact of the coronavirus pandemic. As has been clear over the last three months, the scale and range of impacts of the pandemic will be significant, both in the short and long-term. In Scotland and the UK this impact will be rightly measured by the health impacts – most principally the number of deaths - that occur as a result of the outbreak, and by our efforts to contain the spread. Over the longer term though, we must move on from this pandemic in ways that strengthen the systems and structures that have been so important in the initial response.

We are concerned that the outcome of the pandemic will be to further entrench already existing patterns of poverty and inequality that harm so many communities and individuals across Scotland. Although we face very significant economic and social challenges ahead, the extent to which governments can intervene and shape economic dynamics has been underlined during the emergency stages of the response, and it is clear that we have the power to shape and model our economy as we move through to recovery . Patterns of inequality that marked Scotland prior to Covid-19 were the result of decisions taken over the kind of economy we wanted. and were the outcome of the prioritisation of economic growth over the wellbeing of individuals or our environment.

Scotland has already started on a journey away from this kind of economic model as can be seen, for example, in the development of the National Performance Framework and a range of other tentative steps in the direction of the wellbeing economy. However, the scale of the economic disruption that has already emerged and that will continue in the wake of Covid-19 means that the pace of change and implementation must increase dramatically – **it is time to 'double down' not dial back the nascent work already done in Scotland to build an economy in service of people and planet.**

'No return to business as usual' appears to have widespread appeal and support. But what does this mean in practice? For us, it is nothing less than economic system change. WEAll has 'crowd sourced' from its members the core needs that a wellbeing economy must deliver. This yielded five areas:

- Dignity: Everyone has enough to live in comfort, safety and happiness. This speaks to provision of basic needs –both in terms of physical and psychological needs.
- Nature: A restored and safe natural world for all life. This recognises that nature is essential for the life support system it provides to humanity, and also acknowledges the intrinsic value of nature for all life.
- Connection: A sense of belonging and institutions that serve the common good. This upholds the importance of relationships to wellbeing, includes aligning institutions with the goal of human wellbeing, and prioritises collaboration at all levels.
- Fairness: Justice in all its dimensions at the heart of economic systems, and the gap between the richest and poorest greatly reduced. This embraces a broad understanding of fairness to encompass attending to inequalities of wealth and income (with attending to reducing extremes at both ends of the spectrum), and also horizontal dimensions such as race and gender.
- Participation: Citizens are actively engaged in their communities and locally rooted economies. This speaks to the role of agency as a vital aspect of human wellbeing and the need for rich, robust democracies. It is also about economies that build up and with communities rather than economies that extract from communities.

Many of the problems that we face as a society – poverty, inequality, poor health, climate change – result from the way we have designed our economic life. Our priority is to move decisively away from the economic model that has so clearly failed both people and planet – and which has been so exposed during the Covid-19 pandemic - , towards one that meets everyone's needs and prevent further environmental harm.

We believe that, as a starting point, the Advisory Group on Economic Recovery should set out a series of principles that will underpin the recommendations that it makes to the Scottish Government. [Ten principles for Building Back Better](#), developed by the Wellbeing Economy Alliance, should underpin the approach that the Advisory Group takes to developing its recommendations. **These principles cover issues such as fair distribution, universal basic services, protection of environmental standards and democracy.** By developing their recommendations in line with these principles and linking them to the National Performance Framework, the Advisory Group will make a real contribution to ensuring that the direction of the recovery is one that has concern for people and planet at its core. Following these principles will not only ensure that the recovery is fair and equitable, but will also mean that it reflects the values and compassion that have been displayed across Scotland, by people, communities and many businesses over the last three months.

It is vital that the Advisory Group does all it can, even in the compressed timescale that it has, to reach out to those who will be impacted by the recommendations that it

makes. This will obviously include private sector organisations and the public sector that supports so much economic development activity, **but it is essential that it also speaks to people working in low paid and precarious jobs, or in sectors that will be impacted, or who are members of communities that currently bear the brunt of economic inequality.** The Poverty Alliance would be happy to facilitate this kind of engagement.

The term ‘resilience’ has been used a lot as people start to think about the post-Covid economy. Resilience to shocks requires diversity and spare/ under utilised capacity in a system and hence potentially jars with the “productivity” agenda that was a feature of many Scottish policy conversations prior to the pandemic. Recognising this tension and focusing on what matters most to Scottish people rather than on out-dated measures of progress will be vital in determining whether Scotland builds a wellbeing economy or reverts to the system that was already proving itself inadequate.

## 2. Macro/Fiscal Context

*What will be the **shape and form of the recovery** and the what will be the implications for the **future growth** and structure of the economy?*

There are clearly choices to be made over the shape and form that the recovery takes over the months and years ahead. What is clear is that we must build on the experience of the last three months and recognise the important role of the state in setting the terms of this recovery. Both the Scottish and UK Governments have invested to ensure that enterprises of all types continue to exist. We are not yet at the end of this period of investment, but this experience must set out a new relationship between the state and the private sector. There should be, as we outline below, a greater sense of duty and action on the part of the private sector to contribute to overall wellbeing. **There are exemplars in the private sector, companies who lead with their values and put these into practice. When it comes to shaping the recovery it is these kinds of organisations, and those who aspire to be like them, that should receive the support of government.**

Applying the 10 principles of Building Back Better would focus less on how we boost private consumption to stimulate recovery (something that in the past inadequately translated into quality lives for enough people) and more on how we best support those [foundational parts](#) of our economy that we all rely on. There is no doubt that private consumption will be important as the economy begins to open up, but efforts to boost consumption should be focused in ways that reinforce the rebuilding of local economies and the provision of adequate incomes. In this context measures to **provide additional income through the devolved social security system to people living in poverty can be seen as a measure that will help meet basic needs in addition to supporting wellbeing.** The commitment by the Scottish Government to introduce the Scottish Child Payment has shown the kind of action that can be taken to use our social security powers to boost incomes. In the current context, and to aid economy recovery, we need to take bolder action in this area.

In the same way, **ensuring that more workers are paid the [real Living Wage](#) will sustain local economies** as people are more likely to spend this additional income on goods and services locally, sparking the multiplier effect rather than waiting for wealth to trickle down.

It is these kinds of measures that have the potential to boost spending in local economies where it is needed most, as well as beginning to prioritise those actions that will help transition to a wellbeing economy.

Taxation will necessarily be part of the response to the current crisis. Taxes can serve three purposes: 1) to raise money to fund public services; 2) to redistribute resources; 3) to provide incentives for certain behaviours. All three functions need to be mobilised:

- *To raise money for public services/ investing in collective goods:* **the Scottish Government must explore all mechanisms for taxing wealth, economic rents and use of the commons.** Council tax, which has been reviewed several times over the last twenty years, is ripe for radical change and could provide the beginnings of a land value tax. Efforts – in collaboration with other governments – to reduce tax evasion and avoidance are vital. The move to exclude businesses and individuals that are registered in tax havens from accessing Scottish Government relief funds is welcome and must be built upon. Additionally, some firms based in Scotland will have made significant financial gains as a result of the crisis (or at least been able to protect existing surpluses). A windfall tax should therefore be explored to ensure that these gains also help to support the collective good.
- *Redistribution:* The income tax powers of the Scottish Government should be utilised to the fullest extent to ensure those with the most contribute the most. But redistribution is an ‘after the fact’ task and diverts attention away from why gaps opened up in the first place. Scotland is a vastly unequal country in terms of wealth and income. Hence our recommendation for **reshaping the economy into one that creates more equal outcomes from the outset (‘predistribution’)**. **Predistribution can be advanced via business models that distribute value more fairly (cooperatives for example and businesses with lower earnings ratios), the real Living Wage, better sharing of work, and investment in human capital endowments (for example reducing the education attainment gap).**
- To create a wellbeing economy there are some business behaviours that need to reduce and some that need to expand. Tax and other forms of government charges such as rates – supported by procurement and planning – should be utilised to discourage the former and encourage the latter.

Scotland has the benefit of direct access to governments intent on building wellbeing economies via the Wellbeing Economy Government partnership (WEGo). We urge this partnership and the international collaboration it offers to be utilised in order to learn from best practice and to collaborate in joint initiatives.

### 3. Micro/Enterprise

*What are the medium- to long-term consequences of the lockdown on businesses, including loss of employees, debt overhang, loss of markets, reduced investment and unemployment?*

The effects on businesses and organisations have already begun to be felt. The efforts made by both the UK Government and Scottish Government to protect businesses and jobs through efforts like the Job Retention Scheme have been an important lifeline. It will mean that many companies and organisations will be able to re-open relatively intact.

However, for others it will only delay the impact on their business, with sectors such as hospitality and tourism and retail looking likely to be significantly and particularly impacted. Employers we have spoken to in the hospitality sector, for example, have highlighted the significant levels of debt that their businesses will take on, despite the Job Retention Scheme, and the fact that they are unlikely to retain current levels of employment when furlough ends. The impact in rural economies, in particular, of the loss of hospitality and tourism businesses and employment is likely to be significant and long-lasting.

SMEs account for 99% of Scottish employers and 55% of private sector employment, so their survival is vital. One immediate concern is the lack of support for company directors. The Poverty Alliance's work with SMEs through Living Wage Scotland has highlighted that director's salaries are often less than the real Living Wage and their income is through dividends. Current support only allows only claims for loss of PAYE income and not dividends, which could impact on the viability of some businesses as owners suffer large reductions in income.

To address these problems and to better support businesses beyond the winding down of schemes like the Job Retention Scheme, the Scottish National Investment Bank needs to align its work with frameworks such as the National Performance Framework and the Business Pledge. It needs to cultivate those business models which offer most potential to ensure financial wealth is shared, to deliver on fundamental human needs (such as autonomy, competence and relatedness) and to do so in a way that regenerates the environment. In particular, Scotland needs to use all the mechanisms it has (not least procurement and planning, but also Scottish Enterprise and SNIB support) to populate the business ecosystem with enterprises that are better at redistributing wealth (worker cooperatives for example). In times of high demand on public sector funds, the economy needs to do more of the heavy lifting in terms of ensuring more equal distribution of wealth.

The SNIB also needs to support community initiatives to provide for their needs – not least community-led and community-owned renewable energy projects.

**It is also worth noting that the investment mindset needs to flow into social and economic policy more creatively so that harm done by unequal economic systems (that carry substantial fiscal price tags) are prevented through the creation of a wellbeing economy that distributes more fairly, that delivers basic needs, that provides purposeful jobs, and which regenerates the environment.**

#### 4. Labour Market and Inequalities

*What will the implications of the recovery be for **different groups, unemployment and on the nature of work**? How is the recovery likely to impact on socio-economic inequality as a whole?*

Prior to the Covid-19 crisis our economy and society was one that was marked by inequality. These patterns of inequality are well known: gender inequality, and inequality on the basis of ethnicity, by age, by disability or by geography. It is very likely that these existing patterns of inequality will, as one Poverty Alliance member organisation has described, be 'supercharged' as a result of the pandemic. An individual's location in the labour market going into this crisis is likely to have a significant bearing on how they will fare in the months and years ahead – the issues of the impact on groups, the nature of unemployment and the nature of work are all closely interconnected.

**Women:** the economic impact of the response to Covid-19 will have a pronounced impact on women. Women are more likely to work in low paid occupations, in sectors that are likely to be significantly disrupted by the virus and are more likely to provide unpaid care. Women are already being disproportionately impacted by the crisis, and are also likely at a higher risk of unemployment and underemployment as a result of the changes brought about by the response to Covid-19. **It is critical that in designing programmes to support economic recovery, the Scottish Government and its agencies have a clear gendered perspective that seeks to address the systemic inequalities faced by women in the labour market.** This could include, for example, additional support for business start ups led by women.

**Young workers:** the high proportion of young workers in sectors such as hospitality and retail will mean that they are significantly impacted by the immediate impact of this crisis. As the furlough scheme is wound-down, we can expect to see increased numbers of young people becoming unemployed. Those leaving school or universities and colleges this year will face additional challenges to find employment. **Support that is targeted at supporting young people to remain in employment or to take part in retraining programmes that will help them find work in new sectors should be a priority.**

**BAME Groups:** people from BAME groups have been disproportionately affected by Covid-19. Not only have people from BAME groups suffered higher death rates, but they are also likely to have worked in key worker roles that have exposed them to greater risk with often less reward, as well as being more likely to be employed on zero hours contracts or other forms of temporary work (meaning they have often had less job protection during the crisis or have felt more pressure to work). Although we are still learning and understanding about the precise nature and causes of this excess impact, **it is clear that we need to attend to the structural inequality and discrimination that people from BAME communities face as we begin the process of economic recovery.**

**Disabled people:** going into this crisis disabled people had lower employment rates than other groups, were likely to be in lower paid occupations and were more likely to be living on a low income. There is likely to be a significant impact on disabled

people and it is **critical that the Disability Employment Action Plan is urgently reviewed to take account of the new context.** While the Scottish Government's delivery of disability benefits will now be delayed, it is essential that when this support is delivered it is done so in a way that supports disabled people's engagement in the labour market.

**Spatial inequalities:** Areas of Scotland that are already economically disadvantaged, or whose economies are fragile and rely on employment in sectors that are likely to be most severely affected must be given special attention. Measures to support economic recovery must be designed in such ways as to account for the uneven spatial distribution of poverty in Scotland. This will mean ensuring that local authorities, local anchor organisations as well as local businesses, play their part in developing tailored approaches to economy recovery. **The community wealth building strategy recently launched in North Ayrshire is an example of how this approach to sustainable economic recovery can be delivered in practice.**

Scotland has a good track record in demonstrating how low paid workers can be better valued, with the most direct way of doing this being to provide just remuneration. The Scottish Government's support for the process of Living Wage accreditation has meant that Scotland has a higher proportion of Living Wage accredited companies than any other part of the UK. The Living Wage is central to the Scottish Business Pledge, alongside addressing the gender pay gap and reducing the use of zero hours contracts. Overall, the ten elements of the Scottish Business Pledge set out an agenda for action on decent work. However, there is currently little to incentivise employers to actively adopt practices that would help them meet the pledge. **Making the adoption of at least the three core elements of the Business Pledge a condition of receiving public funds would do more to encourage best practice.**

We have also seen Scotland make progress in ensuring that the real Living Wage is paid to adult social care workers, and a further commitment to fund the payment of the real Living Wage to workers delivering the 1140 entitlement to early learning and childcare from August 2020 (although this has now been delayed as a result of Covid-19). These examples show that where the Scottish Government has opportunity it can reflect the value of key workers in approach to policy and delivery. Taking these examples as the starting point, we should practically demonstrate the value of key workers by ensuring that their pay and conditions live up to the values contained in the Business Pledge.

Scotland is going to have to take steps to ensure that work that is available in the formal labour market is shared more evenly. Discussions around a four day work week are therefore welcome, but need to be backed by tangible mechanisms to make it happen – utilising the levers at the Scottish Government's disposal to encourage shorter working weeks and greater employment of staff, as opposed to more hours for staff working longer than they would want or need. Again, the Business Pledge is an underutilised mechanism in this respect, but business support, planning, licensing, procurement, government endorsement can all be used to cultivate a shift in approach to work distribution. With regard to procurement, we believe that the impact of Covid-19, as well as the impact of the UK's exit from the

**EU, means that it is now the time to review the Scottish Government's guidance on the mandating of payment of the real Living Wage in public procurement.**

## **5. Wellbeing, Inclusive Growth and Net Zero**

**What can be done now to ensure the transition to a wellbeing-oriented, inclusive economy on a transition to net zero**

Some of the efforts that have been undertaken in Scotland point towards the kind of actions required to make the transition to a net zero economy. It is imperative that we strengthen these efforts and do not allow the disruption caused by Covid-19 to undermine progress: the circular economy agenda needs to be protected and supported and the shift to renewable energy hastened. The redesign of cities – such as repurposing of roads – that is already emerging needs to be continued rather than dropped as lockdown eases. A Scotland designed for cars and petrol is not a Scotland compatible with climate targets. A Scotland fuelled by anything other than renewable energy is not compatible with climate targets – even better would be support for community-owned renewable projects.

There is a need to protect and scale up community-based responses to climate change, and particularly to support those effects that are taking place in disadvantaged communities that are often most severely impacted by environmental degradation. Communities know what needs to be done, how their localities need to change and what sort of economy will be in service of that. **The community-led solutions that have already been developed need additional support from the Scottish Government – including via long term funding.**

Fuel poverty programmes can become a real driver of the shift to a net zero economy. Scottish schemes designed to increase energy efficiency and heat decarbonisation in the domestic sector need to be dramatically increased in both scale and pace. These schemes already make use of local suppliers and could be expanded to provide many new jobs, and could be a key element in the goal of a just transition. **As a starting point we would propose the at least doubling of current programmes such as Warmer Homes Scotland, HEEPS: ABS and others to at least £240m for 2020/21 to drive this change.**

## **6. Government Policy and delivery**

**There will be big changes in the form, nature and interactions between different institutions.**

One of the more immediate effects of the crisis has been the magnification of the importance of our shared and common needs (for good health, for safety, for access to food, etc) and for a new (or renewed) sense of responsibility for each other. These ideas are at the heart of the tangible acts of solidarity that we have witnessed during the crisis. This new recognition of our common needs and our responsibility towards



one another must have an impact on the relationship between different levels of government and with those outside of the state.

As that role changes, we need to reassess the traditional notions of social partnership, involving government, business and the trade unions. It is important that civil society organisations are centrally involved in contributing to plans for economic recovery as an equal partner. Third sector and wider civil society organisations embody the solidarity that we have seen during the current crisis, and will play an important role in determining the extent to which we either fragment in the face of the economic and social turmoil ahead or maintain that solidarity but pulling together to address the challenges we now face.

How and whether the third sector is able to deliver on its potential is dependent not only on the resources that flow towards the sector, although that is critical. Much will also depend on the changes and responses that take place in local and national government and in the private sector. Ultimately, it will depend on whether there is a meaningful redistribution of power to enable the third sector to play a full role in shaping the future economy and recovery.

Many of the tools to facilitate the engagement of civil society and to ensure that participation and dialogue is part of our approach to economic recovery is already in place. Legislation such as the Community Empowerment Act, the Child Poverty Act, the Fairer Scotland Duty all emphasise the importance of dialogue with communities. However, this is all too often an afterthought, with few resources allocated to make dialogue processes robust and long term. It is critical at a time of planning for recovery that resources are made available and efforts are made to engage those who stand to gain the most from the transition to a wellbeing economy.

The recovery needs to be measured by what most matters to people – not incremental rises in Gross Domestic Product, but by financial security, decent homes, community cohesion, purposeful work, quality local environments. The **Scottish Government's National Performance Framework offers a useful model for shifting the lens of political decision making and accountability.** It needs to be connected to recovery efforts and utilised in measuring the success of Scotland in building back better.

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