Post-Covid 19 Economic Development and Policy[1]

Submitted as Recommendations to the Scottish Economic Recovery Group

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Governments are now considering how to develop policies for economic recovery responding to Covid 19 and it is particularly welcome that some, like the Scottish government, are explicitly considering the issues for it calls the 'wellbeing economy'. There is no general, single definition of the wellbeing economy although the territory has been investigated from a theoretical and practical perspective by Sen (1985), Layard (2006), Anand and Piketty (2011), O'Donnell (2018) and many others. Within economics, these ideas have encouraged both the OECD and the United Nations to develop multi-dimensional indicators of population wellbeing which they continue to monitor.[2] In the case of the United Nations, its Human Development Index has provided a basis for thinking about the wellbeing outcomes beyond income including health, education and latterly gender equity. In turn, the index has motivated the development of the millennium development goals more recently replaced by the sustainable development goals.

Within the OECD, a Better Life compendium and programme of work based on measurement and monitoring was instigated in 2011 and subsequently OECD policy analysis incorporates consideration of human wellbeing into its analysis of policy and the economic environment across its portfolio of work. National leaders in various countries have also drawn on concepts of wellbeing in their policies and this includes an exercise by the Office of National Statistics in the early 2010s which produced a wheel of over 40 indicators. This has had a lasting impact and perhaps more importantly, there are now government officials who are aware of the ways additional ways of assessing economic activity that add to the traditional financial measures.

Principles and insights from the economics of wellbeing literatures and policy experience that have emerged include the following five points.

Income is an **input** for the production of human wellbeing. In some cases, such as physical health there is a strong positive correlation between wellbeing and income, in other cases

[1] Led by the LSE CPNSS Human Wellbeing and Development Project.
[2] See for instance Durand and Exton (2019) and the annual UN Human Development Report series.

ranging from time spent with children through mental health to functional family life, the relationship is less direct and or negative. Even where there is a positive relation, just looking at income alone does provide information about the pathways to or dimensions of wellbeing - health, housing, nutrition, decent work, social connection, and exercise in particular.

Second and closely related people vary dramatically in their abilities to convert financial resources into valuable outcomes. Economists refer to this as **heterogeneity** while psychologists talk about individual differences. The sources of these variations include disability status, household composition as well as social resources such as personality, non-cognitive skills and aspects of social capital such as personal ties and trust within communities. These variables are increasingly referenced in economic research though still not given as much prominence in textbooks as they might.

Social resources play an important role in economic activity which can be positive or negative. Positive social and cognitive outcomes are particularly valuable to individuals while social and cognitive mechanisms can re-inforce or be more effective than high-powered financial incentives in some settings.

Lastly and connected to all the above, there is growing economics interest in **inequalities**. These are now recognised to be multiple and there are significant variations in tolerance of these depending on the domain involved and groups affected. There is often substantial voter support for addressing inequalities in labour markets and people are often particularly concerned when they learn about the extent of inequalities in health.

Full and adequate **public deliberation** is important when developing collective policies, not just for reasons of legitimacy and influence but also because it may be the only way in which details that matter to people can be discovered by policy designers.

Based on these five insights from economics and closely related research that engages with the human wellbeing agenda, we make and explain the following 14 recommendations.

Recommendations

Labour Market and Related Policies for Human Development Outcomes

1. **Use a wellbeing lens to prioritise or refine economic policy**. The wellbeing economy framework can be applied to all areas of conventional economic policy in which case it may generate insights, and sensitivities to need, that do not emerge easily or at all from a traditional efficiency-plus-equity approach. The experience of OECD and UNDP can be drawn on here.[3] In this case of governmental response to Covid 19, wellbeing outcomes related to the labour market events can be used to identify issues and opportunities additional to traditional questions of productivity and workforce composition as we demonstrate below.

[3] Llena-Nozal et al (2019).

2. **Develop policies that help to limit the consequences of 'scarring'.** It has been shown that those entering the labour market in a period of downturn suffer long-term negative consequences in health and other areas of life. Providing ways to connect such people to firms this year could include incentivising employment or apprenticeships. Helping university and school leavers spend a year in some kind of national volunteering service related to teaching or caring is another possibility. Alternatively, there might be support for those wishing to upgrade shortage skills particularly related to the digital field.[4]

3. **Develop a policy that protects the social and cognitive wellbeing of workers forced into premature retirement by making use of their experience and skills.** It is likely, and there is supporting evidence from the US, that a consequence of Covid 19 will be to cause some workers to exit the labour earlier than planned.[5] Notwithstanding legislation on age discrimination, older workers made redundant by Covid may find it hard to get another job and yet have skills and experience to share combined with needs to be socially and cognitively engaged. Thinking about skills, companies and not-for-profits might be incentivised to develop mentoring programmes that make use of early retirees in this way. These positions may also have the effect of embedding firms more closely into the communities in which they exist, which could in turn be beneficial both for their employees and the communities where they exist.

4. **Consider work-sharing schemes.** There are examples where countries have developed work-sharing policies and giving additional incentives for this for a short period of time could mitigate problems of large numbers of discouraged workers, that is people who would like work but are not actively searching for it given the high levels of unemployment that look immanent. Work-sharing in the short-term may be more valuable than other active labour market policies as a recent review of many studies finds the latter are less effective when unemployment is high.[6]

5. **Develop a response to the rise in mental health issues that will emerge following the multiple burdens of unemployment and social distancing**. There is likely to be a greater wave of mental illness and it is known that early interventions tend to be more effective.[7] Recent events are likely for some to have longer term impacts on productivity and so encouraging people to discuss mental health issues early will potentially have both human and financial benefits.[8] Similarly, it is worth noting that there may be more support and interest in programs that address isolation in older age. A US surgeon general has described isolation as a major public health problem and there are similar trends in the UK. In economic terms, communities may be external goods for individuals and it is natural to expect underinvestment by

[4] Strandh and Nordland (2008), for example, find evidence immediate employment ALMPs have a short-term impact that wears off whereas training has benefits that emerge over a longer term.
[5] Coibion and Gorodnichenko (2020) provide evidence for such a Covid impact in the USA.
[6] The psychological benefits of employment after 8 hours a week are low according to one Cambridge University study, Kamerade et al (2019). Work sharing has been used in the 2008-9 financial crisis by the German government.
[7] There is a large literature in economics that uses subjective wellbeing measures and there are growing interests in distributional issues, including the distribution of well-being itself – e.g. Graham and Pinto (2019).
[8] The Depression Report, LSE (undated).

individuals. One the other hand non-profit organisations, and possibly some firms, might be incentivised to develop effective programmes that address these needs.[9]

6. **Increase the development of digital skills.** For the UK, there are shortages of skills related to IT and STEM subjects.[10] There may be a need to increase general IT literacy of the workforce and also to increase the proportion of the workforce able to take on job roles that make more intensive use of digital skills (for example in finance or creative industries). Digital skill development if done in a work context allows workers to earn an income and be productive at the same time. That said, if there is a short-term shortage of work, digital training for the unemployed may have low opportunity cost in terms of productivity.

7. **Connect business support with gender equity goals.** Government data for Scotland suggests that female employment is particularly concentrated in the finance, tourism and care sectors which leaves open a considerable opportunity to expand involvement in other sectors of employment. To address the issue, employers and industry sectors need to be welcoming to women and family friendly policies that enable and incentivise men to do more child care should be developed.[11] Indeed policy-makers are likely to consider forms of equity given recent research showing that in the UK and US that minorities, along with the young and least educated are being hardest hit[12].

8. **Consider policies to reduce the likelihoods of evictions and homelessness.** Policies to allow for rent and mortgage holidays have been made in various countries but now are coming to a close. Defaults and evictions, without a replacement policy may rise significantly and it would be useful if some follow-up policy could enable parties to renegotiate repayment terms or possibly even total amounts as happens in the commercial sector. The study of evictions has not yet had a high profile within economics though work by a Harvard sociologist looking at the 2008-9 financial crisis suggests that they may become a serious issue for workers in some sectors.

9. **Consider policies that promote wellbeing at work.** There are also instrumental reasons for considering the wellbeing of employees. Significant relations between worker wellbeing on the one hand, and productivity, customer loyalty and retention on the other have been documented in research on management practices.[13] Given that social relations at work are a key aspect of wellbeing at work, and given the need to physically distance, governments might consider commissioning guidance on good relations in the workplace.[14]

Strategic Investment, Trade, Tax and Data

[9] Organisations like Pro Bono Economics help charities set up evaluations.
[10] See Migration Advisory Committee (2019).
[11] A recent government report explaining drivers and policy responses is provided by GEO (2019.)
[12] Bell and Blanchflower (2020).
[13] See for example Krekel et al (2018).
[14] Podcasts may be a way to do this.

10. **Consider implications of shortening value chains around the world.** It has been suggested that in the medium term, some companies and in some cases, countries will take action to shorten their value chains for at least some classes of goods, such as food, health-care supplies and digital related products.[15] This could lead to a reduction in exports combined with greater opportunities for some home based producers. The issues may not be significant for some countries but many will need to consider what might be done if a major export industry were to suffer from other countries reducing their imports.

11. **Consider accelerating investment in low carbon infrastructure**. Direct wellbeing benefits from moving to a low carbon economy are more likely to be related to health than employment in the short to medium term. These benefits depend in part on how other countries behave but it may nonetheless be useful to invest in the construction of infrastructure, such as energy efficient buildings (particularly social housing which could help to address fuel poverty) and greener energy production.[16]

12. **Ensure taxes due from digital activity follow citizens.** The rise of online retailing is causing tax revenues to be diverted from places where people live and work to the jurisdictions where head-offices are located. Because taxes exist to provide public goods within a jurisdiction, this is becoming increasingly problematic for the financing of their provision.[17] Two thirds of the world's privately owned newer companies valued more than $1bn are based in just two countries for example, and so it is important for wellbeing economies that principles of fairness be brought to bear more closely on the taxation of large digital corporations.

13. **Involve non-profit organisations in shaping the wellbeing economy.** The charity sector does not feature prominently in economic thinking and analysis though from a wellbeing perspective this is unwarranted.[18] Not-for-profits have a range of useful capacities from devising innovative and targeted programs to delivering services at scale. A very large spike in unemployment could take five to ten years to recover from and in the early years alternative uses of those who are without work are unlikely to result in substantial misallocations of resources.

14. **Develop early indicators.** It is important to recognise that at international level there is considerable awareness of the changing data environment. National statistical offices are involved in developing new measures and methods of data collection and the production of early indicators by the UK Office of National Statistics appears to have been of value. It could be useful to policy makers in Scotland to have early indicators of sales based on monthly reports from a sample of firms across the size range and covering all sectors, employment and investment on a monthly basis for the next 6 to 12 months for internal monitoring purposes. Business confidence data

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[15] The need to do this has been discussed by a variety of international organisations (eg World Bank, OECD, FAO).

[16] See for example discussions from Oxford – for example Hepburn et al (2020) who suggest that green investments provide higher returns than traditional fiscal stimuli.

[17] The OECD digital tax project can be accessed at http://www.oecd.org/tax/beps/.

[18] But see The Value of the Charity Sector Report (2019).

may already be collected in this way but might not be sufficiently specific. A repeated series would give economists in government a focal point set of figures to shape thinking and online panels can be developed at low cost. A similar survey of quality of life could be conducted quite affordably with citizens on a quarterly basis using online panels. Conventional data reporting cycles are often too slow for the needs that might be expected over the next year or two.

The Policy-making process

In addition to these substantive recommendations we conclude with a final set of suggestions that relate to the process of policy development itself. It is recognised from work in research on behavioural economics that decision-making is subject to a range of biases, Davenport (2020). In the face of decision-making under conditions of substantial uncertainty, there are potentially many blindspots. One method of addressing is by having a systematic approach to environmental scanning for policies, an approach recently illustrated by a Cambridge project that used the approach to identify 275 ways to disrupt the transmission of Covid 19, Sutherland et al (2020). A similar approach could be applied and useful in areas of policy making related to policy.

Somewhat related are findings that people respond to novel situations by a process of adjustment that generally underestimates the amount of change required. The existence of transactions costs may help to explain this but even in experiments into how people extrapolate, the degree of underestimation observed is often huge. Furthermore, there is evidence also of a normalcy bias, that is the expectation that things will return more closely to their previous states than actually happens. In enabling an economy to recover, it needs to be recognised that patterns of world trade may change particularly with respect to tourism and some items to be of strategic value. It is likely that in some cases, the ideal trading partners an attitudes to free trade will be changed by this as well as by the exit from the Europe Union.

In terms of the policy making process, and a better integration of wellbeing into economic policy making, public deliberation achieves strong support from both Sen and Rawls, the authors of two predominant views. Citizen assemblies may or may not be a good way to achieve this but a systematic, nationwide approach to town-hall meetings, possibly virtual for now, combined with formalised scientific input could be a way to achieve this.[19] Telehealth is currently the primary mechanism by which patients connect with their general practitioners and it suggests a value in considering the potential of a range of communications between individuals and the state. In theory, regular engagement between government and citizens could improve awareness of priorities, needs, values and options for policies that facilitate improvements in wellbeing.

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[19] This may also be a way to find ways to address the fact that risks faced by people vary dramatically with age – Office of National Statistics data suggest a sharp change around the age of 50 and there is some evidence that people are taking this information into account (see for instance Oswald and Powdthavee).

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