

UNIVERSITY of STRATHCLYDE
**FRASER OF ALLANDER
INSTITUTE**

Two years on: We asked a diverse mix of experts to reflect on their opinions of the economic implications of the coronavirus pandemic from June 2020

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Introduction

In our [June 2020 commentary](#), at the height of the Covid-19 lockdown and cases continuing to rise we asked a group of experts from across the Scottish economy to share their views on the current economic implications of the coronavirus pandemic and how our economy and society may be impacted in the future.

At the time, we asked our experts three questions:

- How do you view the immediate outlook for the economy over the next 12 months?
- What permanent changes to our economy do you see emerging from the crisis?
- What should be the key area for policymakers to focus on at this time?

Two years on, and we've asked some of our experts to reflect on their opinions from that time and answer three key questions:

- Did the economy evolve during 2020 and 2021 as you were expecting?
- Do you see the changes in the economy emerging that you felt were likely two years ago?
- Given where we are, what should be the key area for policymakers to focus on at this time?

Contributors



Stephen Boyle, Fraser of Allander Institute

Stephen Boyle has worked as an economist for more than 35 years including in banking, universities and government. He is the former chief economist of the Royal Bank of Scotland and Head of the Analytical Unit for the Scottish Government's Enterprise and Skills Strategic Board. He is now a visiting research fellow at the Fraser of Allander Institute.



Tracy Black, CBI

Tracy is the CBI Scotland Director. She has previously held executive roles at UBS Investment Bank and Goldman Sachs, as well as running the London-Based consultancy Interactive Partners, which she founded in 2012.



Claire Mack, Scottish Renewables

Claire has been Chief Executive of Scottish Renewables, the representative voice of Scotland's renewable energy industry, since October 2017. She is responsible for leading the organisation's work to grow Scotland's renewables sector and sustain its position at the forefront of the global clean energy industry.



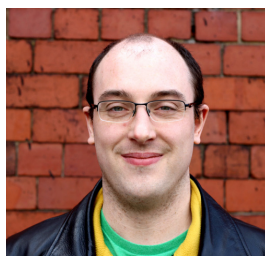
Liz Cameron OBE, Scottish Chambers of Commerce

Liz is the Director and Chief Executive of the Scottish Chambers of Commerce. Recognised as one of the most influential forces in Scotland's business community; Liz has spearheaded business growth initiatives including Scotland's very first education/business partnership, a National Graduate Recruitment Initiative and the innovative International Trade & Exporting Partnership.



Professor Catia Montagna, University of Aberdeen

Catia joined the University of Aberdeen in June 2013 as Professor of Economics. She was awarded the Jaffrey Chair of Political Economy in 2018. She previously held appointments at the University of Glasgow and at the University of Dundee where she held a Personal Chair in Economics.



Craig Dalzell, Common Weal

Craig is Common Weal's Head of Policy & Research and has been part of the team since 2016. His background is in laser physics but has been involved in economics and statistics since the 2014 referendum. Common Weal is a 'think and do tank' campaigning for social and economic equality in Scotland.



Professor Mike Danson, Heriot-Watt University

Mike is an Emeritus Professor of Enterprise Policy within the School of Social Sciences at Heriot Watt University and is leading on several projects and networks. He has been involved in many learned societies internationally over the last thirty years and has worked extensively with a range of disciplines.

Did the economy evolve during 2020 and 2021 as you were expecting?

Yes and no. On the ‘yes’ side: the course of the disease and health policy responses, such as movement restrictions and business closures, significantly influenced economic activity; both demand and supply contracted; in mid-2021 income was lower than at the beginning of 2020; and both investment and exports fell while savings rose. More instructive is what did not come to pass. First, I was concerned that unemployment would be high for a prolonged period in the absence of active labour market programmes. Second, I had expected the fall in demand to outweigh the fall in supply and for disinflation to result. Instead, unemployment is very low and the current, pressing problem is high inflation. There are four reasons for those errors. First, the scale and effectiveness of the Treasury’s interventions, especially furlough, were much greater and more sustained than I had expected and they blunted the rise in unemployment. Second, large numbers of people have left the labour market. Third, I did not anticipate the damage to the supply side of the economy domestically and internationally. Fourth, the speed of vaccine development and deployment was much faster than could have been hoped for in the second quarter of 2020.

Stephen Boyle, Fraser of Allander Institute

It’s always instructive to look back on previous predictions about our expectations for the Scottish economy and learn lessons about what we got right, and where we were a bit wide of the mark. With the worst of the pandemic now over, it seems accurate to reflect that while it did present many novel challenges – in terms of a sharp drop in demand, pivoting products and operations to adapt to new circumstances, and a shifting to a more widespread home-working culture – the coronavirus also served to highlight a number of long-term weaknesses in the Scottish economy. From a lack of access to people and skills to inadequate levels of exporting, low productivity to generally low levels of business and capital investment.

Tracy Black, CBI Scotland Director

We were all aware just how connected we were to international supply chains, particularly those in China, but the key surprise has been just how much influence that has had over our everyday lives. The inability to get on top of Coronavirus and maintain anything like normal manufacturing and trade patterns has brought shortages which have rippled through everywhere from offices to supermarkets. That lack of supply clearly brought inflationary pressures through 2020 and 2021 which the economy seemed to be weathering. Government policies such as the furlough scheme brought a great deal of welcome stability and there was even a short bounce as household savings made from no travel and very little consumption spending were put to use on home improvements. But more recent events, largely the war between Russia and Ukraine have shown just how powerful an economic influence energy is and how it can so quickly override even these most unprecedented economic supports and actions.

Claire Mack, Scottish Renewables

Since the onset of the global Covid-19 pandemic, developed economies were poised to stage a robust post-pandemic recovery. Pent-up demand after worldwide lockdown restrictions gave businesses a much-needed shot in the arm. Our direct engagement with businesses across Scotland and with businesses across the worldwide Chamber Network, made it clear to us that the world after Covid-19 would not go back to business as usual.

Liz Cameron OBE, Scottish Chambers of Commerce

Overall, in the last two years the Scottish economy has improved and GDP has now moved back to just about pre-pandemic levels. As I feared at the time of the 2020 Commentary, however, the recovery has not been uniform and has been accompanied by what may turn out to be structural, long-term, reallocations across sectors and regions of Scotland. Some of the industries that experienced the greatest contractions (such as hospitality, arts and culture) remain at levels of activity that are well below the pre-Covid ones and in some regions (such as the North East) the employment figures are particularly challenging. Crucially, in addition to these disparities, a relatively good aggregate labour market performance continues to hide a mixed outlook in terms of participation, high levels of in-work poverty, and skill mismatch whereby firms find it difficult to hire staff with the right skills.

I still think that the pandemic is likely to have long lasting structural effects, compounding the challenges for the economy that, alongside potentially valuable opportunities, other process are bringing about. Unfortunately, now in addition to the adjustments required by Brexit, technological change and the profound transformations the North Sea oil and gas industries are undergoing, there are the economic effects of the Ukrainian conflict. As a result of the impact of the war on oil and gas prices and on already disrupted global supply chains, we are experiencing high rates of cost-pushed inflation which is deteriorating further already declining real incomes and which is bound to increase inequality, as low-income households are particularly affected by it. Higher costs and ever-growing uncertainty are also not boding well for business confidence, with likely depressing effects on investment and hence on the creation of high quality jobs.

Professor Catia Montagna, University of Aberdeen

Sadly, the UK economy evolved more-or-less as I feared. An inadequate response to the first Covid wave led to subsequent lockdowns and loss of life and the “V-shaped” recession predicted in my last commentary did not come to pass in even the most optimistic countries across Europe. This is despite a more comprehensive Covid support scheme than I would have anticipated in my 2020 commentary (though it was still not without its problems) and the relatively successful roll-out of vaccines in the UK. It should be said however that the European experience has been one of more complete recovery than the UK has with data from the OECD suggesting that the EU has returned not just to pre-pandemic levels of GDP but back to roughly where they would have been had they followed pre-pandemic growth trends. The UK, however, has languished with GDP some 10% below pre-pandemic peaks. The combined impact of both the pandemic and Brexit are likely to blame and the UK appears to be facing the “L-shaped” recession of my personal worst-case scenarios.

Craig Dalzell, Common Wheel

As expected, since 2019 the UK and international economies have been through a deep recession and partial recovery. Covid and the local responses across the world exposed weaknesses in a global system now based on long and complex supply chains, inadequate global institutions, and a lack of political capacity to address the inevitable disruptions generated by the pandemic. Different countries and cultures responded and accepted quite intrusive and draconian ways to cope with Covid, with greater and lesser degrees of success. Speaking and working with colleagues around the world, it was clear that within communities, and especially the poorer and most vulnerable, there was demonstrable solidarity and altruism revealed in this adversity. That offered hope of alternative, inclusive visions for the post-pandemic world.

Professor Mike Danson, Heriot-Watt University

Do you see the changes in the economy emerging that you felt were likely two years ago?

Broadly, yes. During future public health emergencies health policy will be at least as influential on economic outcomes as economic policies. China's actions in the first half of 2022 are an example of that. Responses to the pandemic prompted a range of innovations, notably in working practices. Public debt has risen but real interest rates have remained low and have, in fact, fallen. The shifts to more home working and online shopping have reduced demand for commercial and retail property and town and city centres are showing the strain.

Stephen Boyle, Fraser of Allander Institute

What was heartening throughout was the profound way that government – both at a UK and devolved level – and business rose to the occasion to protect lives and livelihoods. Delivering vital PPE and ventilator supplies, getting loans and emergency grants to the firms that needed them most, and delivering a pioneering furlough system that protected millions of people from unnecessarily losing jobs showed what can be achieved when business and government pull in the same direction.

What nobody saw coming was a new set of epochal challenges emerging just as much of the world had started to re-emerge from pandemic-induced lockdowns. The economic and moral costs of Russia's invasion of Ukraine have been significant. Not only has there been intolerable suffering and loss of life, but the impact has spread to global markets – particularly impacting wholesale energy costs, and food supplies.

Tracy Black, CBI Scotland Director

We had been through a long period of artificial stability not just because of the economic policy response to the pandemic but because of the use of monetary policy and interest rates in keeping household budgets and consumption pretty buoyant. At some point, something was going to bring that to an end and bring a certain amount of pain with it. The incredibly sharp nature of how this has happened is hard for households as many just haven't experienced how quickly a rise in interest rates on mortgages can eat away at disposable income for example. The other story, inflation, would have been predictable to an extent post-pandemic due to supply constraints but the joint impact of Brexit, the epidemic and the war between Russia and the Ukraine have created a unique and perfect economic storm for the UK. The first two are things which there are some relatively well-known policy fixes for but the impact on energy and food prices are issues for which there are no ready or short-term solutions.

Claire Mack, Scottish Renewables

Many trends that were already in motion before the pandemic had now been turbo-charged and accelerated – for many sectors, adapting was the only route to survival. For example, businesses are continuing their progress on the road to Net Zero, helping to work towards our climate targets.

This is particularly evident in the expansion of digital services and digital transformation, most notably in the immediate shift to remote working, the rise of digital services including e-commerce, telemedicine and hyper-local delivery services. This has all impacted wider structural areas such as localisation of supply chains, reshoring production and the future of city centre economies.

Looking ahead, the post-pandemic rebound has largely ground to a halt as a result of a toxic combination of business challenges: rising fuel costs, record inflation, surging price of materials and a tight labour market. What was an already fragile recovery has been thrown another curveball and these costs are forecast to increase further. Businesses will be forced to raise prices to cover these increases in costs. At the same time, the ongoing cost of living crisis means that this risks turning consumers away.

Liz Cameron OBE, Scottish Chambers of Commerce

I would say so, overall. What was not expected were the further challenges posed by the conflict in the Ukraine with added inflationary pressures and uncertainty which may unfortunately lead to a global recession.

Professor Catia Montagna, University of Aberdeen

The trends towards home-working and a more dispersed and online working environment for office workers looks like it is here to stay – it certainly happened that way for me personally as I now work from home permanently and enjoy the benefits of doing so in terms of the time and cost savings from getting rid of my daily commute. However we have only marginally seen the more structural changes I hoped for. Our international supply chains are still extremely fragile (again, the combination of Brexit and the pandemic has likely left the UK even more vulnerable than other comparator countries in this regard) and we have not seen the comprehensive housing and public transport reforms I called for in 2020. If anything, the rise in demand for housing repairs and retrofits not having been coupled with a commensurate rise in construction sector training and recruitment has created price inflation and supply bottlenecks that should have been avoidable.

Craig Dalzell, Common Wheel

The pandemic revealed weaknesses in the global economic system, around supply chains and institutional capacity in particular, but also generated international healthcare responses that delivered vaccines and support that contrasted with traditional formal cooperation and foreign aid approaches. In the UK, Brexit and the other major failings of the establishment and the Conservative Government in Westminster exacerbated the negatives of the pandemic and missed the opportunities for real forms of recovery. In Scotland and Wales, the respective Governments and Parliaments adopted different approaches, each constrained by the limited devolved powers available to them. Two years ago in Scotland, for instance, the Just Transition Commission along with various other Scottish Government advisory groups, the STUC and others independently proposed very similar ways for the economy and society to recover more quickly from the pandemic than the paths apparent from the market alone or the UK Government. To an extent, these policies and interventions are being implemented, but the heavy weight of Westminster choices: austerity measures, rampant inflation and greater inequalities, are again restricting the potential to support people and businesses in addressing the Brexit crisis and the impacts of the war in Ukraine

Professor Mike Danson, Heriot-Watt University

Given where we are, what should be the key area for policymakers to focus on at this time?

In Scotland, the Government has set out its National Strategy for Economic Transformation and it is better to concentrate on executing that well than on identifying new or additional things to do. However, it is silent on the long-term scarring and distributional effects of the pandemic in two areas – learning loss and the future of town and city centres – and these merit attention. Inflation and inflation expectations have risen and that is the immediate priority at this time.

Stephen Boyle, Fraser of Allander Institute

Where until recently we'd be talking about the need to bolster confidence to promote a rapid post-pandemic recovery, businesses and policymakers are grappling with the kind of business and cost rises that we haven't seen for decades. The economic wellbeing of Scotland will depend on how we, domestically and internationally, respond to this new set of challenges. While firms have proven more innovative and resilient than many may have predicted, everyone longs for a prolonged period of stability and a definitive end to a cycle of lurching from one crisis to another.

Tracy Black, CBI Scotland Director

Given where we are today policymakers are again going to have to look at economic policies and measures that are extraordinary and miles away from the free-market economy playbook. Government has already had to intervene in a most unprecedented way to mitigate steep energy prices and the conversation over food prices had not really started yet as the spending pattern is different. Food costs can to some extent be brought down by consumer choices in the supermarket (buying cheaper, different baskets of food) and the remaining lockdown savings pots have also come in handy but they can only go so far. Faced with the twin pressures of food and energy costs and rising interest rates, policymakers need to focus their efforts hard on targeted interventions to balance keeping households afloat and the economy manageable. This will not just be low- and fixed-income households, these pressures will see financial difficulty reach further up the income scale than anything we've seen previously. Some very hard tasks ahead.

Claire Mack, Scottish Renewables

The choices that governments across the world made during the pandemic crisis will shape our society and economy for decades to come. It remains absolutely critical that collective action between business, government and society continues if we are to recover and deliver economic growth for all. We need to see immediate action taken by the Scottish and UK Governments to support the survivability of the business community. We are already seeing a drag on growth due to the lack of people in our labour market. The UK Government can do more to help firms fill their gaps, including an urgent review of the Shortage Occupation List and look to expand it for sectors most at need such as aviation and logistics.

According to our latest research, nearly 8 in 10 Scottish firms are being impacted by rising energy bills which are only going to increase in the autumn and could wipe out businesses. We reiterate our call for the UK Government to immediately introduce an SME energy price cap.

From the Scottish government, we need to see fundamental reform of the business rates system, a tax that is largely out of sync with the demands and needs of Scottish business. In the meantime, the government should extend business rates relief available for the retail, hospitality, and leisure sectors, from the first three months of 2022-23 to the first six months instead.

Liz Cameron OBE, Scottish Chambers of Commerce

The key areas to be given priority are health, training and education, research, and a strong social safety net. Here I will pretty much repeat what I said two years ago. We seem to have been moving from crisis to crisis and the Scottish economy, overall, has been resisting. But to move beyond this, wellbeing, inclusiveness and sustainability need to be ‘objectives’ (not the ‘constraints’) of our policy agendas. This requires a step change for which central and local governments can lead but which cannot be achieved solely on the basis of their existing spending power – that, judging from the recent spending review, is set to decline in real terms in the years to come. We need to start tackling the problems of ill-health and low participation, dependence on the social security system, in-work poverty and inequality at their root. This requires a rebalancing of power in the industrial relation system and, in short, a new ‘social pact’ underpinned by policy and institutional frameworks capable of creating economic security, good jobs, high productivity and real wages, and high tax revenues.

Professor Catia Montagna, University of Aberdeen

In 2020 I quoted Nye Bevan’s call for broad sectoral stimulation as I called for a national infrastructure campaign to reform our economy along lines that would be more resilient to the next great disruption (such as the climate emergency which is now two years closer than it was then). That call remains and can only be repeated louder and with more urgency. It’s one thing to look at the jobs that could be created in these sectors but another to find the feet to put in the boots of those jobs. I would additionally call for a review of where education and skills training could play its part. The young apprentices who may be retrofitting houses in five years’ time are likely still in school. Those who may be retrofitting the last houses remaining before the 2045 Net Zero deadlines may not even be born yet. This puts our economy on a real crossroads where we must demand simultaneously that the government acts urgently and immediately whilst also planning for a future that is still several elections away. It has to be done this way. Further delay is no longer an option.

Craig Dalzell, Common Wheel

As before, we should not wasting the current crisis! This is exactly the time to be making bold choices and these require real political leadership: immediately protecting the people from the worst effects of inflation – especially in energy costs and so in the essentials of life - and from the combined effects of Brexit, Covid, the Ukraine conflict and falls in real incomes for all but the mega rich. The solutions and policy initiatives that follow from each are similar: implementing the recommendations for Scotland proposed for a Green Recovery by the various business, trade union, environmental and other groups in summer 2020. This should be based on moving to a net zero economy much quicker than the market and definitely the UK Government will sanction, despite the absolutely imperative need for the planet and the people. Adopting a circular, foundational, community wealth building Scottish economy which encourages SMEs, rebuilds supply chains, introduces a universal basic income and puts wellbeing rather than meaningless GDP at the heart of policy should be that key area for us all to focus on.

Professor Mike Danson, Heriot-Watt University

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