

GIVING SUBSTANCE TO THE WELLBEING ECONOMY

A DISCUSSION PAPER

KATE FORBES, IVAN MCKEE, MICHELLE THOMSON

INTRODUCTION

As a group of backbench SNP parliamentarians we recently indicated our intention to spend time considering key policy areas and publishing papers on matters of importance to Scotland. We welcome the First Minister's positive response to constructive suggestions on policy. This paper is the first in a series, unpacking key issues. It is neither comprehensive nor complete, and aims to open a debate around the given subject. In that context we welcome any input.

TO TACKLE POVERTY AND PROTECT THE ENVIRONMENT, A 'WELLBEING' ECONOMY NEEDS TO HAVE SUBSTANCE

This coming week the Scottish Government will launch its mini Programme for Government. It is to be welcomed that the first debates focus on Poverty and the 'Wellbeing' economy. This concept isn't new, wellbeing has been at the heart of the SNP's economic narrative for many years. The Scottish Government has been a member of the Wellbeing Economy Government group (WEGo) along with New Zealand, Finland, Canada and others since 2017. The concept of inclusive growth, the precursor to the Wellbeing Economy narrative, was a central plank of the Scottish Government's 2015 economic strategy.

As a narrative, and an opportunity to project Scotland's image on the world stage, it ran right through the Sturgeon years.

So what exactly is the Wellbeing Economy? How different, or similar, is it to traditional economic approaches? How much substance, as opposed to 'feel good' spin, underpins it? And is it the answer to tackling the fundamental issues affecting people today – chief amongst them the poverty that blights so many of our families and communities – something we, as elected MSPs, see in our urban and rural communities every day?

The debate around the Wellbeing Economy is often reduced to a simple narrative which is more slogan than analysis; 'to grow or not to grow?'. However, like most things in economics, delivering real change requires a deeper understanding of how complex factors interrelate to each other, and what specifically needs to be done to tackle the problems we seek to fix.

YOU GET WHAT YOU MEASURE

To deliver a 'Wellbeing Economy' it is necessary to be able to measure what success looks like, otherwise there is no way of knowing whether progress is being made, and the whole exercise runs the risk of being just words devoid of any practical effect. It might make us feel better, but does nothing to tackle poverty and protect the environment.

Since its conception in the 1930s, and its international adoption following the Bretton Woods conference in 1944, the modern concept of Gross Domestic Product (GDP) has been the key metric used to track, and compare, the economic progress of nations. But GDP, and GDP growth, are flawed metrics. This is something on which most agree. It places value on economic activity that could actually be detrimental to wider society – for example, environmentally damaging activity – and fails to credit value to socially beneficial economic activity – for example care-giving. However, despite some work to define a more balanced measure of economic activity it remains the primary measure by which economies are compared internationally.

Work has been done – in Scotland and internationally – to define a measure, or suite of measures, which can replace or supplement a stark GDP metric. The Scottish government's National Strategy for Economic Transformation contains a commitment to develop a Wellbeing Economy Monitor, and the latest iteration of this work proposes a suite of fourteen separate measures, effectively a subset of Scotland's National Performance Framework – including preventable deaths, active travel, greenhouse gas emissions and the gender pay gap amongst other. All are important and laudable aims, but success in distilling those down into something that allows effective international comparisons is still elusive.

So the challenge remains, notwithstanding work by international economist such as Rutger Hoekstra and others, that GDP, and its rate of growth, are internationally accepted measures, and continues to affect borrowing costs and investment decisions whether we like it or not. These are important considerations with real world impacts that affect people's lives, and cannot be ignored – just ask Liz Truss. However it is critically important to ensure that wealth created is shared, so measures that track whether growth in wages and household incomes keep pace with GDP growth are of critical importance. In recent years this unfortunately has not been the case. The solution to this isn't less economic growth, it is to take steps to ensure these other measures grow faster than GDP.

The think tank Common Weal has done a substantial amount of work around how to structure an economy that serves people, and not the other way round, built around the concept of 'all of us first'. Common Weal studiously avoids using the 'Wellbeing' terminology, finding it vague and ill defined, instead focussing on practical measures that can be taken – around industrial strategy, investment, skills, business and sectoral development and Community Wealth Building. This is a focus on developing the economy to make it better rather than emphasising size for its own sake.

WHAT DO WE WANT THE ECONOMY TO DELIVER

So what do we want the economy to deliver, for people and for the planet, and what are the mechanisms to make that happen?

We would argue that there are two underpinning objectives, or outcomes, that our economic strategy, and policies, have to deliver. To eradicate poverty, including reducing financial pressures on those who are 'struggling to get by', and to deliver our environmental ambitions, including Net Zero and biodiversity. In summary an economy that serves people and the planet.

Alongside these the wellbeing economy should also ensure the financial capability of government to fund high quality public services, strengthen communities and support a good work-life balance.

Poverty, and addressing the cost of living crisis, is primarily tackled through three distinct sets of policy levers. Increasing wages, targeted social security support and reducing household costs – in particular, energy costs. All three depend on a successful economy, the first directly and the other two through the revenues generated from a strong and growing tax base.

Scotland has made some good progress on reducing low pay, but still has a long way to go. The percentage of the working population earning less than the Real Living Wage has reduced in the last five years from more than 18% to around 9% in the latest figures. Scotland also now enjoys higher average wages than the rest of the UK, together with lower unemployment, significantly lower in the case of young people, and now with lower labour market inactivity as well. This is as a result of policies already in place, although much of it as a consequence of a tight labour market. More requires to be done to embed that progress, and continue to raise wages significantly for the lowest paid.

Fair Work is central to Scotland's economic ambitions, not just because it is fundamental to tackling poverty, but because in economic terms it works. International comparisons

show that economies that perform well on wellbeing indicators – including our Scandinavian neighbours – also have the highest productivity. In other words 'fairer and greener' goes hand in hand with 'wealthier'. These aren't opposite, they are two sides of the same coin. In fact the evidence shows that, provided government plays its part to ensure everyone is able to be part of a successful economy, they mutually reinforce each other.

As Scotland's National Strategy itself states "Productivity growth is not an end in itself. When delivered within a policy framework prioritising a broader set of economic, social and environment wellbeing productivity growth is an important enabler.... Boosting productivity and delivering a wellbeing economy are important, interdependent and mutually reinforcing ambitions"

When in government we worked constructively with Trade Unions, putting fair work, and the payment of the real living wage, firmly on the agenda in the sectors where it matters – hospitality, tourism, leisure, food and accommodation. The inclusion of trade unions in the recently-formed Tourism and Hospitality Industry Leadership Group (ILG) for example was a key step in putting Fair Work at the heart of the sector's deliberations. That work extended more widely than pay, seeking to support the Unite Hospitality Safe Home Campaign for example.

At the root of this is the need to increase the minimum wage, something Scotland is currently unable to do with employment law being reserved. Imaginative ways have been used to increase the number of people earning the real living wage. Highlands and Islands Enterprise, to their credit are the first of our economic development agencies to apply Conditionality (the requirement for businesses to pay at least the Real Living Wage and implement other aspects of the Fair Work agenda) to all their business grant support.

More can be done here, including a clear plan to apply conditionality to all business support. Government has a direct role here too, to support low paid workers in the public sector, and sectors it directly controls. Increasing wages in social care will have a major impact, not only in attracting badly-needed workers into the sector,

but also on directly tackling poverty. This is a question of priorities. Focusing resources here has the added benefits of also driving the market to increase wages for the lowest paid in the private sector, and – through the multiplier effect – stimulating growth in local economies, and small businesses, across the country supporting Community Wealth Building.

Secondly the focus on tackling the climate emergency through the energy transition is critical.

A Scottish economy powered solely by renewable energy, with surpluses exported – as electrons or green hydrogen – to supply the energy needs of our UK and European neighbours, and generate income for Scotland's finances, is within reach. That is a growth economy – but one that also delivers on our net zero ambitions. Investing in port infrastructure and manufacturing plants capable of building latest technology turbines to populate our offshore windfarms all adds to GDP, to economic growth and delivers our Wellbeing Economy aspirations.

Similarly the Circular Economy – much talked about, but still in its infancy – also drives economic growth. Re-use of resources – and initial design of products and processes to facilitate that – creates economic and job creation opportunities. But this doesn't happen of itself. Working with businesses who are in the business of finding innovative ways to re-use materials is the route to success. Leveraging our public sector procurement is a big part of the solution, for example through the recently established 'Scotland Innovates' portal that invites imaginative product and services that can be accelerated through adoption by the public sector. And this can be big business; one of the world leading computed equipment manufacturers has its European centre for refurbishment of used products in Scotland. Meanwhile a Scottish business leads the world in the brand new industry of refurbishing wind turbine parts. Both represent huge economic growth opportunities.

HOW DOES THIS AFFECT BUSINESS?

Business recognise the responsibility they have to wider society. Small local businesses in particular understand that their employees are also their customers. More money in people's pockets means more is spent in local shops, driving local economic growth.

Everyone accepts the need for regulation to deliver our societal, health and environmental aspirations. Of course no-one wants to live in communities littered with rubbish and blighted with poor health. It's important also to recognise that, if well thought out and developed in partnership, regulation can be good for Scottish businesses – giving competitive advantage to local manufacturing rather than importing lower quality products that fail to meet standards, or to create space for the purchase by the public and private sectors of innovative Scottish products or services. This use of 'regulation as a competitive weapon' is something we can and should use more proactively to support Scottish innovators, businesses and community ventures.

What is important is that there is a robust process to ensure regulations are well thought-through in advance of implementation. That all stakeholders – including small businesses, who at the end of the day have to deliver these ambitions – are brought into the process early. This requires the current Business Regulation Impact Assessment (BRIA) process that the Scottish Government currently operates to be robust, comprehensive and taken seriously. It is critical that any unintended consequences – that can serve to make well intended regulations make us less, not more likely to deliver their objectives – are well understood and addressed early.

Unfortunately this isn't always the case, with businesses concerned about disconnects and sub-optimisation across government.

The recently formed Business Regulation Taskforce has a key role to play here. The new government needs to take this process seriously and build on the work already started in this area. Consideration of 'cumulative impact' – where

a range of different regulations originate in different parts of government but no thought is given as to how they interact with each other – is also key.

Done properly, and competently, this work will actually lead to smoother and faster implementation of good regulation, and deliver better results for society and the economy.

THE ROLE OF GOVERNMENT

Fundamentally then the Wellbeing Economy isn't something divorced from mainstream economics. Wealth generation is a necessary, but not sufficient, condition for a Wellbeing economy, and a key role of government should be wealth generation and distribution through good wages and fair taxes. Put simply, without the money to pay for it no one gets less poor. This is very different from a laissez faire approach to economic development where government 'sets the conditions' and then gets out of the way. In contrast we believe there is a fundamental place for the role of government and its agencies in driving forward the economy – as a player on the 'park', part of 'Team Scotland', and not sat on the side-lines. An 'activist government'; what has been called the 'entrepreneurial state' by economist Mariana Mazzucato.

Government has a role to set the conditions yes, but also to partner with all economic actors – businesses, workers, trade unions, regional growth partners, local communities and others – to develop policy. To articulate that clearly in strategy which gives clarity and stability to businesses. To support growth businesses and sectors, directly, through our universities, colleges and innovation centres and working in partnership through sectoral Industry Leadership Groups. To be clear with investors and others what we expect from them, and how we will work with them in return. To devolve power to regional level where it empowers – as is increasingly being done through Regional Economic Partnerships, recognising the importance of rural as well as urban Scotland – and to provide coherent overall strategic framework at a national level where necessary.

And of critical importance, to walk the walk, with excellence in delivery, not just abstract strategy – as is often the case.

This approach is also very different from discredited 'trickle down' economics, the idea that all that needs to be done is to make a few people wealthy and their spending in the economy will lift everyone else. 'Trickle down' is nonsense because those with highest income, and wealth, spend less on driving activity in the economy, what they do spend is less likely to go on local goods and services, and more likely to drive 'negative externalities' around undesirable climate or environmental impacts.

As highlighted earlier Scotland's £14 billion public sector procurement spend has a key role to play here. Supporting small businesses to grow and leveraging spend to help the growth of key sectors and industrial capacity delivering the technologies of the future. Scotland has already had some success here, with 45% of our public sector procurement spend going to small and medium sized enterprises (SME's) compared to around UK and EU averages of less than 30%. But again there is more to be done. The Scottish Government's proposed £1.8 billion investment in decarbonisation of heat in buildings for example needs to be intelligently marshalled to leverage in as much private sector investment as possible – from home owners and others. It should also be deployed to ensure the products used to deliver those objectives – heat pumps, insulation materials and wood based construction products for example where Scotland enjoys significant industrial potential – are manufactured in Scotland wherever possible.

Leveraging all the talents at our disposal is also critical. The longstanding gender gap in business start-up and investment rates is well documented, and the recent Stewart Report lays out some concrete steps that can be taken to address this. But it is important to recognise that the benefits to be realised from tackling this challenge are economic as well as societal. Were women to start businesses at the same rate as men then Scotland's economy would benefit from a GDP increase of £6bn. Economic growth, with wider benefits to society.

None of this takes away from the fact that with full powers over economic levels, immigration, employment law, borrowing and investment, energy, trade and social security – in other words the full powers of Independence – Scotland could do so much more. But we can, and should, do more with the powers we currently have.

Steering the economy requires clarity on destination alongside an approach built that understanding of how all parts of the complex mechanism best work together. Dogma, of whatever persuasion, is unhelpful. There are, believe it or not, those who see this debate as some kind of culture war. Where for one ‘side’ to succeed the other has to lose, and be seen to lose. The reality is very different. Everyone has a vested interest in tackling poverty, protecting the environment and building strong and healthy communities and businesses. A government that is serious about delivering a real Wellbeing Economy understands that and acts accordingly, getting beyond the soundbites.

Growth that supports our poverty reduction and environmental aspirations is essential.

So yes we want growth.

Growth in wages

Growth in job opportunities

Growth in skills training provision to support people into those unfilled high paying jobs that already exist in their thousands across Scotland’s technology and new energy sectors.

Growth in Scotland’s renewable energy and circular economy sectors, leading the world in decarbonizing our economies.

And all of it to deliver an economy with a purpose, and that purpose being the eradication of poverty in our society.