

Council of Economic Advisers October Meeting – Summary minutes Thursday 29th October 2020

Purpose

This note provides a summary of key issues discussed during the 10th meeting of the CEA which took place on the 29th of October 2020. The discussion focused on the Scottish Government's approach to economic recovery from the Covid-19 Pandemic.

Minutes

Update from the Cabinet Secretary for Finance:

The Cabinet Secretary for Finance provided Council members with an update on the state of the pandemic:

- The rising number of new covid-19 cases and the increasing number of hospital and ICU admissions and covid-19 fatalities.
- The Scottish Government's current focus is on curbing the resurgence of the virus. In September a regional approach to covid-19 restrictions was adopted and further restrictions on household gatherings and the hospitality industry were put in place for 2 weeks. Since then, the Scottish Government have implemented a 5-tier system at a regional level.
- The challenges in balancing the suppression of the virus against the other harms to the wider healthcare system, society, and the economy.
- The challenges for the Scottish Government in providing the necessary support for businesses over an unknown period of time and at unknown levels in the absence of borrowing powers and with the legal requirement to balance the budget.
- The importance of taking a long-term view on how to build back better and how to best achieve this with the available resources.
- The impact is being felt most by those already struggling – young people, disabled people, those with health issues and low income households.
- The pandemic has also created opportunities – higher adoption of tech in healthcare and businesses, breaking down of silos, and working to deliver at a faster pace.

State of the Economy

The Chief Economist gave Council members an update on the state of the economy:

- The Economy contracted by 25% over the 6 weeks following the implementation of lockdown on 23rd March 2020. The Economy grew in May, June and July and has recovered about 60% of lost output.
- The impacts have a clear sectoral dimension with the biggest impacts felt in the hospitality industry and sectors dependent on face to face interaction, due to closure and falling consumer demand. There has also been a collapse in demand for public transport / aviation.
- Sectors which have been able to continue to trade and see growth in demand include digital, food retail, finances, and areas such as home refurbishment.
- Aggregate unemployment is 4.5%, however over 900,000 jobs have been impacted due to covid-19 when including the furlough scheme. Estimates show that around 30% of the private sector were on furlough at one point. In the absence of business support measures the impact would have been much larger. A risk of reaching a tipping point still remains.

Key points raised by Council members during the meeting:

- During periods where the R number is much greater than 1, the benefits of curbing the virus outweigh the benefits of minimising the other harms, and the priority must be on concrete actions to reduce the spread of the virus. When the R number is around or below 1, the other harms become increasingly important in the weighting.
- It is important to balance the efficacy of immediate support against investments in structural and transitional change which will benefit everyone in the long-run.
- There must be investment in training and skills and an understanding of the changing skills needs post-covid. Additional investment in public services and digitalisation is also key.
- Conditionality should be applied on recovery funds to ensure businesses meet the longer-term needs of the economy including climate change needs and make the necessary investments and adjustments to thrive in a post-covid economy.
- There is an opportunity for Governments to create and shape supply chains and opportunities and promote wellbeing across a range of dimensions.
- The pandemic provides an opportunity to re-imagine the economic geography in Scotland by strengthening and diversifying the rural economy.
- The Scottish National Investment Bank could be used as a means to secure more funds to provide business support and support recovery.

List of attendees:

Members in attendance:

- Crawford Beveridge (Chair)
- Julia Unwin
- Marianna Mazzucato
- Martine Durand
- Sara Carter
- Craig Clark
- Jim McColl
- Harry Burns
- Anton Muscatelli

Ministerial attendance:

- Cabinet Secretary for Finance
- Cabinet Secretary for Economy, Fair Work and Culture

Officials in attendance:

- Gary Gillespie, Chief Economist
- Joanne Briggs, Senior Economist, Office of the Chief Economic Adviser – Economic Strategy (OCEAES)
- Juan Pedro Castro, Assistant Economist, OCEAES

- Alison Lang, Assistant Economist, OCEAES

Apologies:

- Joseph Stiglitz
- Brynhildur Davíðsdóttir