CHARLOTTE STREET
PARTNERS

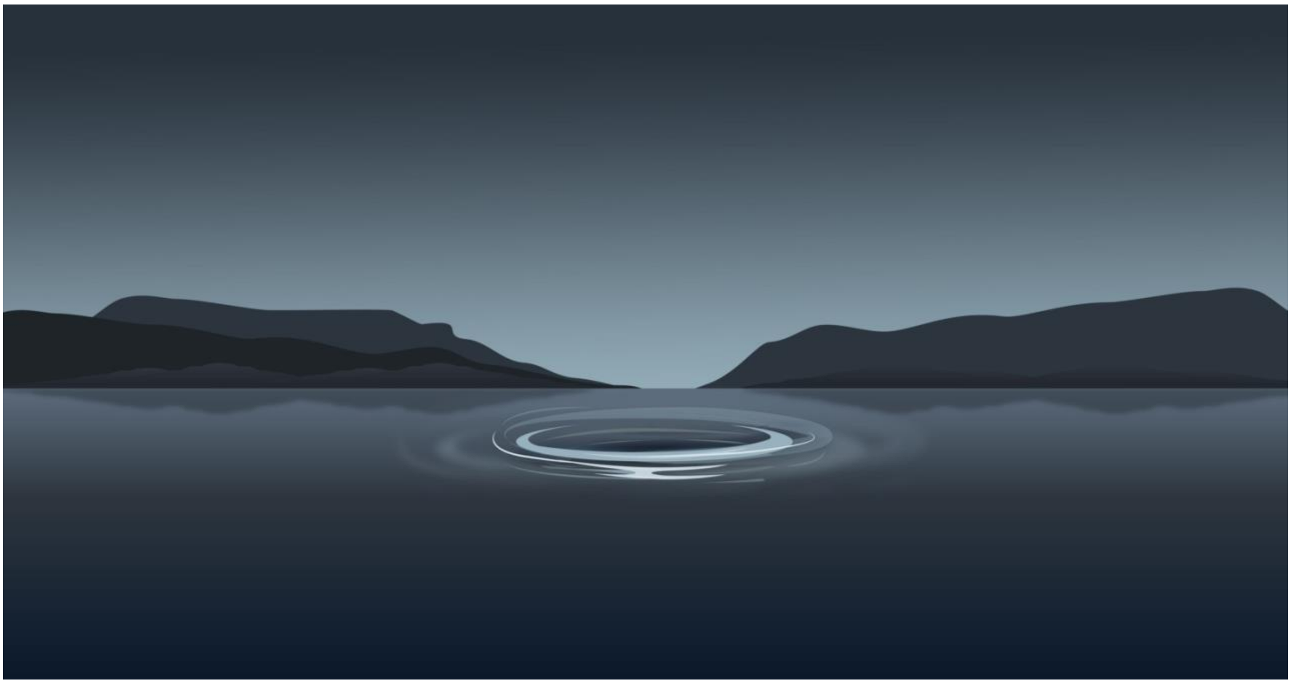
COVID-19 AND THE ECONOMY

June 2020 update

FROM A DIFFERENT PLACE

ESCAPING THE WHIRLPOOL

Health crisis triggers economic crisis that worsens health crisis that deepens economic crisis. Break the pull or down we all shall go.



We know that a whirlpool is formed when two opposing currents meet, and that a whirlpool with a downdraft is called a vortex. At best they are extremely dangerous; at worst they are deadly.

Corryvreckan (cauldron of the speckled seas) is between the islands of Jura and Scarba off the west coast of Scotland. It is the third largest whirlpool in the world. Its neighbour Little Corryvreckan is officially classed as unnavigable by the Royal Navy. That corner of the world means a lot to us at Charlotte Street Partners for one reason and another. The water flows like a river south between Islay and Jura and off to the oceans beyond.

We now face a whirlpool that must be navigated. But are we to continue in a way which treats the protection of health and the recovery of the economy as opposing currents, inevitably increasing the risk of failure? We have already spoken of navigating without a map, but it would be a prudent navigator who avoided reasonably foreseeable risks. We know that economic, environmental and social outcomes are inextricably linked; the last few months have brought this into sharp relief.

Amidst the crisis, we have seen some startling gains in relation to the environment – reduced carbon emissions, less travel, cleaner air, safer cycling. We have also seen some significant impacts on mental health as we seek to protect physical health. And we have seen many sectors suffer severe losses, which are likely to be enduring and, in some cases, irrecoverable.

We cannot allow our next phases to be marred by conflict between the economy, health and climate – it is not necessary, and it is certainly undesirable for one to prosper at the expense of the other. They are integrated, and seeing the joins is a much surer way to recovery than amplifying the rubbing points.

ANDREW WILSON
Founding partner

COVID-19 AND THE ECONOMY – JUNE 2020 UPDATE: OUR VIEW ON WHAT IS GOING ON NOW, AND WHAT NEXT?

ANDREW WILSON
Founding partner, Charlotte Street Partners

This note follows our earlier economic take published on 17 April. At that time, we made clear that we disagreed with the then growing consensus among many forecasters that a V-shaped recovery would result. Our view was that the short-term collapse in activity due to shutdown globally and locally, would be followed by a slow and difficult recovery with the risk of further setbacks from a second or further waves.

Nothing we have heard since has altered this view, but we are refining our thinking about what we now face and what the possible best responses could be. We are also very pleased to include an international perspective from our friend and collaborator David Skilling of Landfall Strategies. His analysis aligns with our own.

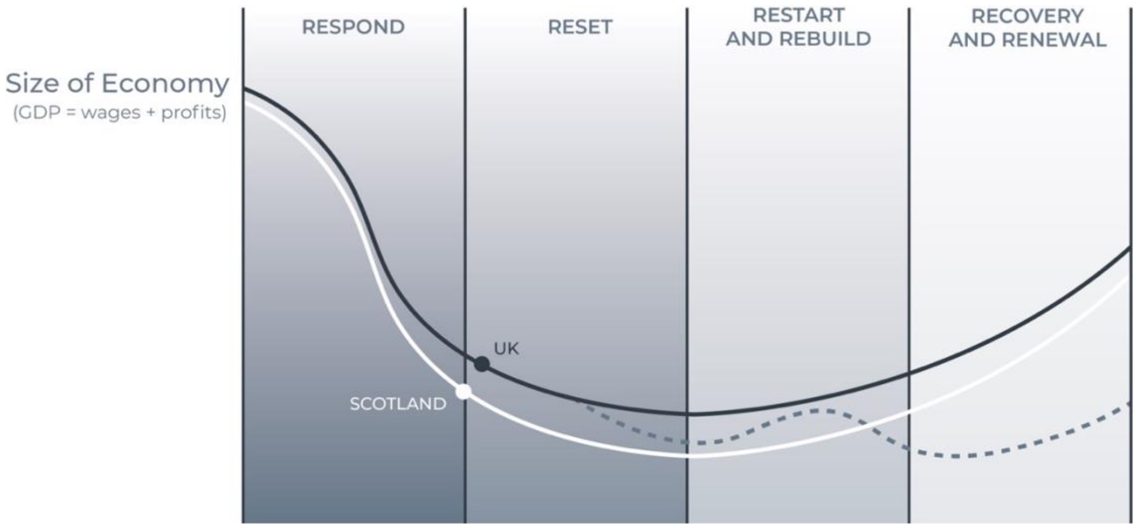
As the developed world emerges from the first phase, it is clear that a dual focus is required on both the health and, now, economic crises. And it is not a case of 'either or'. There is not a trade-off here. Unless both are tackled with equal vigour, imagination, creativity and discipline then each will feed the other. In our view the poverty, inequality and unemployment that we now risk will destroy many more lives than Covid-19 itself.

Beyond this the political risks globally add to the economic ones. Deglobalisation is being accelerated. Countries are erecting barriers to trade and free movement in the name of safety in some cases, or in the name of resilience and supply security in others. The risks of 'economic nationalism' are real. The lessons of the Scottish Enlightenment should not be unlearned. In 1776 as the United States declared its independence from Britain, Adam Smith published the *Wealth of Nations* in Edinburgh and one of his core messages was the value of trade and the damage caused by barriers to it.

As living standards fall, the risk rises of further political support for populist leaders who blame 'others', promise short-term relief that doesn't materialise and end up strong arming their own citizens and, potentially, those of other countries. We do not think it is overstating the risks to note that as the economic crisis threatens to be the worst in industrialised times, so too does the political climate nudge towards the most difficult since world war two. The combination causes us grave concern.

That said, the world has the means to resolve these tensions, risks and difficulties. Leadership quality is at an historic premium in companies, countries and the institutions that we depend on. Coordination, collaboration and cooperation are crucial, everywhere we look.

THE CHARLOTTE STREET PARTNERS ECONOMIC OUTLOOK – JUNE 2020



No numbers or dates are used because they remain unknowable

As we noted in our April outlook, we were inspired by a conversation with John Kay and Mervyn King to eschew spurious forecast precision. They encouraged us to simply ask the big question: "what is going on here?".

The chart above illustrates nothing more than the phasing and shape of how we are thinking about what is happening and what is coming. We have charted where we think the UK and Scotland are now, and fear the reset phase could last the summer and beyond.

Of course, there could well be fewer or more phases, but this gets the essence across. We feel we must avoid a fifth – retribution. But we also fear that this hope will be in vain. Balance is needed as ever, holding the decision makers to account is wholly necessary in all times but especially in crisis. But opposition is a responsibility too. Excoriating leaders every day risks increasing their nervousness and propensity for caution. Crises require governments to hold their opponents close in the circle of trust, and their opponents to demonstrate they are worthy of that trust and can put national interest ahead of partisanship.

What has changed since April?

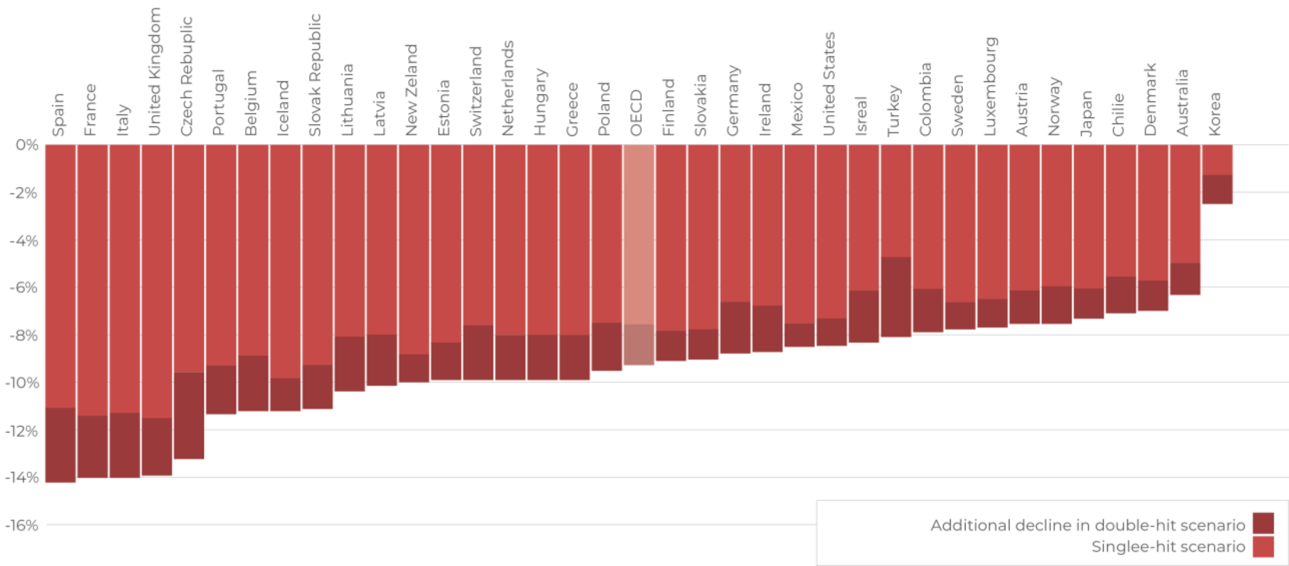
The broad shape of our forecast remains the same. We have made the reset phase one of continued but more gradual decline whereas last time we hoped that the economy would reach bottom at this point. We think this is unlikely because the furlough scheme has been hugely valuable and costly but has delayed both job losses and business closures. We expect a tidal wave of both when it comes to an end, and with that will come a loss of both wages and profits and therefore a further fall in the overall size of the real economy. Just because activity is slowly restarting, it does not necessarily mean that the economy is growing as such. The scale of what is going on is so huge that it is impossible for official data or lead indicators to tell us much.

However, as unlocking begins, we are able to chart – or at least attempt to chart – where we think we are on the continuum and we have done that. We have also brought the risk of second wave and jaggy performance into the initial phases of unlocking. The good news from around Europe as David Skilling notes below is that there is, as yet, no second wave there since measures shifted toward a return to normality.

However, it is early days. Recent news from the United States has seen a spike in areas that had previously navigated the crisis well, most notably in Florida.

Latest OECD forecast: UK among the economies hardest hit

On 10 June the Organisation for Economic Cooperation and Development (OECD) published their latest outlook. The chart below highlights their 2020 performance predictions for GDP in the 37 industrialised economies that make up their membership on a single hit as now or with a possible second wave.



Source: OECD

There is little commentary beyond the obvious sectoral exposures the UK has. But they do conclude with this point: "the United Kingdom should make a temporary arrangement to stay in the EU Single Market beyond 31 December 2020 given the pressures firms already face from Covid-19."

Scotland: more exposed and with a slower return to work

We have also added a new line for Scotland to illustrate our view that the storm clouds north of the border are of a marginally darker hue than for the rest of the UK.

There are two reasons for this. Firstly, the structure of the Scottish economy is more exposed in some respects. The oil and gas sector was already in difficulty and this crisis has accelerated the problem. The tourism and hospitality industry is hugely important with multiplier effects that are generally underestimated – it is Scotland's biggest export earner. Other export generators such as food and drink will suffer from the collapse in demand from many export markets and, once again, this will have implications for the supply chain across the rest of the economy that we often fail to truly understand and value. The education sector is another big export earner for Scotland with its top universities ranking well internationally and a magnet for non-domestic students – again hit hard by Covid-19. What is true for universities is true more generally for an economy crying out for migrant skills and labour for today's needs (how will the harvest be brought home?) and tomorrow's as demographic challenges bite.

The second reason is that the policy analysis of the situation in Scotland has led to a more cautious approach to unlocking. In one sense this is understandable. However, across the business community there are concerns that the government has erred too much on the side of precautionary closure while other countries have been quicker to balance the economic risk with the health one.

Ireland's Taoiseach Leo Varadkar made his country's balanced approach clear in last Friday's acceleration of their phased approach:

> *Based on the medical evidence & the recommendations of NPHET & government reports on the economic and social impact of Covid-19, cabinet today agreed to implement all elements of phase two and move further along the roadmap."*

In Scotland however the concern is both that many businesses have remained closed for longer than necessary at potentially fatal cost to both employer and employees, and that this trend will continue overall. The impact this may have on discretionary investment decisions could be material.

This week we have detected a tonal shift however in the first minister's content at the daily briefings. On Monday, 8 June she said:

> *We've got a lot of focus, rightly so and understandably so, at all of these briefings on the health implications of coronavirus because it is putting people into hospital, into intensive care, and it is still taking lives, although all of that we hope is starting to reduce; but we have a very, very clear focus as a government on what we need to do, consistent with our health advice, to get the economy moving again, to get it opened up again, and to continue to provide the support that businesses need, and I just want to assure people watching that that focus is as strong as our focus on dealing with the health aspects of this emergency."*

This is very welcome. The challenge now will be to ensure that she has the economic firepower at her disposal, along with a genuine and meaningful engagement with the people in the real economy, to help ignite the restart and deliver the renewal.

Can devolution cope with Brexit and Covid-19?

In a word? No. Not as stands and sorting this is urgent.

Already more exposed to Brexit than the average for the UK and doubling down with exposure to Covid-19, the Scottish economy is in deep trouble.

With days to go until the closure of the window on a potential Brexit extension we could be locking in two intergenerational stress events in one year.

The Royal Bank of Scotland's chief economist noted:

> *"The latest round of talks between Britain and the EU on their future relationship ended with "no significant progress". The EU demands that Britain sign up to a "level playing field" of environmental, labour market and competition rules in exchange for extensive access to the single market. But Britain sees it as an affront to the country's sovereignty. Time is running out as any requests for extension of the transition period, which ends in December, have to be submitted by the end of this month. Conducting tricky negotiations by videoconference also hardly helps."*

The economics of this are truly mind blowing. Once again short-term politics are engulfing the material interests of the real economy. The arguments for or against Brexit at a UK level at least, are over. That we should pursue its transitional pain urgently looks like craven self-harm.

The spirit and detail of devolution is that Scottish (Welsh and Northern Irish) solutions should be sought for their problems and opportunities. Economic development and business and skills support is also largely devolved. But the financial underpin to this remains but a whisper into the gale that is coming.

What financial powers (post Smith Commission) that dominate are completely exposed to the crisis; income tax, business rates, assigned VAT will all plummet with some stabilising protections provided, but not enough in the context of what the crisis response will require. Meanwhile, and crucially, the ability to access debt capital markets is marginal even in the best of times.

Historically low-cost debt can fuel recovery and renewal investment – hurry up

Central banks have done almost all they can. Tax revenues are plummeting, and this would be absolutely the wrong time to cut public spending or raise taxes – such a move would simply add kerosene to an economy than is on fire.

But all hope is not lost. As it stands the world's debt capital markets remain hungry for love. Trillions will be raised this year by companies and countries alike and at historically low rates.

Recent UK sovereign bond auctions have seen £7 of demand for each £1 on offer. Planned sales between April and July amount to £225bn. Our view is that the UK Government should accelerate such issuance while the going is good and boost the balance sheet. This opportunity should be extended in some form to the three devolved administrations urgently by either allocating capital, allowing direct access or some combination. Alternative routes should also be considered.

The capital will then need to be used wisely, not to fill the gap left by taxation – that remains the role of the UK treasury. The investment capital should be targeted where it can help the transition through the crisis and to the other side.

Policy debate should focus now on what a good use of the capital is. Talks to ensure it for the Scottish Government (and Wales and Northern Ireland) should happen and conclude urgently.

Social housing, the third sector, universities, infrastructure and others would benefit from this now. allowing new models to be formed and demand to be stimulated.

We think that along with direct investment in businesses, targeted investment across sectors makes sense. How to do that, allocate risk and deliver, especially for smaller firms is not simple.

City UK this week published their interim report from their recapitalisation group. What is clear is that the scale of capital required across the economy will be vast and will need to include the SMEs that are harder to reach with equity capital, especially outside of London. There will be a clear role for government here in directing the schemes, locating pools and capital, and indeed in direct provision.

Now is the opportunity to solve the grand dilemma that has held policy back for decades: that short-termism inevitably leads to resource being funnelled into alleviating the symptoms of failure, rather than investing in the long-term transformations required.

This is the historic opportunity amidst all the pain we now endure.

All of this will require high quality talent, ambition, energy and imagination at all levels. It will also require partisanship to be shelved in the national interest.

Just as the effectiveness of central banks rests on their credibility and the belief of markets in their competence and consistency, so too do governments need credibility on the economy everywhere.

In the UK and Scotland this will require a step change in the quality and content of dialogue with business at all levels. And it cuts both ways: business needs to know what it needs and ask for it; and government must demonstrate both strategic clarity and a laser like focus across the detail of the economy – as opposed to in grand gesture.

In Scotland we remain concerned about the immediate response to the crisis now and we say more on this below. However, we are more optimistic that steps are being taken to ensure the longer-term strategy steps up to meet the inter-generational importance of its challenge.

The Higgins Advisory Group on the Economic Recovery (AGER)

For us the access to debt capital is the core priority at the heart of the recovery and renewal strategy. If solved it can fuel whatever recommendations emerge from the rapid-fire work that has been undertaken under the stewardship of Benny Higgins. The AGER group is curating ideas old and new for what needs to be done and actioned, rather than just talked about. Heroic timescales are being traversed and it is our hope that the publication of their recommendations afford the Scottish Government an opportunity to pivot purposefully onto the economic emergency as well as the health one.

Higgins has proven himself to be adept in the minefield of balancing Scottish politics and business. He successfully navigated the new Scottish National Investment Bank creation and is now charged with the massive task of how we respond to the crisis longer term.

What little he has said publicly to date points to radical new measures and reforms. If these can be backed by investment capital, then there may yet be cause for optimism that we can collectively navigate this crisis well.

UK Government measures: pending

Similarly, there are a raft of ideas being mooted at a UK Government level the detail of which we await with some anticipation. "Project Birch" is oddly titled. We hope it is so because the birch is the fastest growing broadleaf tree. Measures speculated upon so far include:

- **Bad bank:** A proposed state-owned bank which would hold stakes in bailed-out businesses that many fear could fail.
- **A new 3i:** A decentralised, government venture fund to help SMEs throughout the crisis. Originally proposed by Colin Mayer of Saïd Business School.
- **Project Birch:** A business bailout scheme authorised by the chancellor last month where the state acquires stakes in businesses facing difficulties due to the crisis.
- **Business Growth Fund's (BGF) bailout fund:** The BGF, which is backed by Britain's largest banks, plans to use part of its remaining cash – which would be matched by the state – to aid companies that are struggling to repay state-guaranteed coronavirus loans.
- **Future Fund:** A £500m fund that looks to back high-growth British businesses and help them through the pandemic.

Liquidity trap?

Some economists are now questioning the risks of any meaures producing what Keynes described as a "liquidity trap". Joseph Stigliz and Hamid Rashid noted this week:

> *It is now clear that the pandemic will last much longer than a few weeks, as was initially assumed when these emergency measures were enacted. That means these programs all need to be assessed more carefully, with an eye to the long term. During periods of deep uncertainty, precautionary savings typically rise as households and businesses hold on to cash for fear of what lies ahead."*

So, the trap is that people hold cash fearing the future and don't spend it. Regardless of how much cash is pumped into the economy, demand and activity remain stilted. To mitigate this risk, detailed thought on stimulus and action will be needed.

In any event it is clear that there are some in the UK policy system thinking very ambitiously about the role of government. Others urge financial caution. Whoever wins that fight it is clear that the 1980s Thatcherite consensus on when and how government should intervene in markets is at an end.

Balancing 'building back better' with rescuing all that we can from the fire

The economy now is like a person suffering a near death health emergency. Many who look their maker in the eye and recover, resolve to live a better, more meaningful and fulfilling existence afterwards. That could be true of the economy and society in this experience.

We may indeed look after our collective well-being more, care more for those for whom a life of lonely isolation is normal. We may act to solve the worst intergenerational inheritance in many generations. We may indeed agree to secure the climate benefits and further action that is so urgently needed. I believe we can and hope we will. That will take leadership and the toppling of strongmen populists everywhere.

But we can't live that new life if the patient does not indeed pull through. And that is the urgent emergency for business, jobs and the economy now. Once again balance is needed, let us escape the pull of the whirlpool and then set sail towards the new world we seek beyond the horizon.

The world was already in trouble from climate change and burgeoning inequality by gender, geography and generation. Those have accelerated with Covid-19, whose economic impacts are felt most acutely in the poorest communities and by the lowest paid. McKinsey point out that there are 7.6 million jobs at risk in the UK, but that half of them are in roles paying less than £10 an hour.

These people deserve both a far better structure of society and economy in the future, but also a monumental and urgent effort to kickstart the economy now.

Our chairman Sir Angus Grossart is a wise owl with a lifetime of experience in bearing risk, investing and making things happen. Conversations with him remind us that the urgent need now is less theory than practice – it is like jump leads applied to the broken car, now.

His grave concern is of the need for people who can, to do. He worries that the government alone cannot do it all. He is correct. Government can and must act, allocate resource, incentivise, bear risk and trust. We collectively need a colossal effort of government, business and employees and their representatives to get things moving again.

Angus recalls with great fondness his tutorials at the University of Glasgow with the great Alex Cairncross talking about the what got post war Germany in motion and productive again. It wasn't policy as such, although rescue resource mattered hugely. It was in releasing the abilities of people who could drive action and get things done. All great endeavours tend to be won by many actions led by what Angus calls, 'prime movers'. This is what we face now, an urgent need region by region, industry by industry to get the wheels in motion again and the economy growing.

> *We need to recognise the need to engage the private sector, almost overlooked in the self-proving belief that only government can do it. It is not government, or the civil service which will reignite our economy."*
>
> SIR ANGUS GROSSART

Whatever systems, method and resource the policymakers currently have in place cannot be enough for the scale of this challenge. A new approach is needed and with it a quantum leap in partnership working across society and the economy.

Social distancing: how do we strike the balance?

One current dilemma for government that really does matter for the economy is the guidance on physical distancing as we unlock. The Lancet analysed the importance of the issue in its article published at the start of June.

The UK currently remains firm at two metre distancing although there are signals this this may be under review. Many other countries are at less ranging from one to two metres. The guidance of the World Health Organisation is one metre.

For many businesses the difference is existential for survival longer term, assuming social distancing measures remain in place. It transforms the viability of customer propositions for many and the ability of colleagues to work well but safely. Similarly, the return of schools is exponentially easier at one metre than two metres

There is a clear body of scientific opinion in favour of maintaining a distance of at least one metre; there is some evidence that a distance of two metres might be more effective. There is also evidence in favour of wearing face masks, although more analysis is said to be required.

Respected medical journal the Lancet puts it thus:

"From a policy and public health perspective, current policies of at least one metre physical distancing seem to be strongly associated with a large protective effect, and distances of two metres could be more effective". It adds, "For the general public, evidence shows that physical distancing of more than one metre is highly effective and that face masks are associated with protection, even in non-health-care settings...".

We also know that the length of the contact matters, and ventilation matters. Contact outdoors is safer than contact indoors. But we also know that a distance of two metres would make large swathes of some sectors such as hospitality and culture pretty much non-viable at a stroke.

None of this is easy. All of it involves judgement on the part of individuals, businesses and governments. Nobody wants to undo the gains that have been made, at considerable cost. However, judgement is a key attribute of leadership, and if the economy is to recover with any pace and vitality, it must be reasonable to consider a position for which there is strong evidence – and there is compelling evidence to support maintaining physical distancing of one metre, supplemented by face masks in appropriate settings, and with a clear position on ventilation. The evidence from other countries is that it need not be a binary issue - the issue is more than a simple or politicised question of 1m vs 2m. Willingness to keep the current approach of 2m distancing under regular review would send an important signal that the economy is being taken seriously – just as seriously as the protection of health.

So, if you worried only about the infection risk then we would keep everyone as far apart as possible. However, as we recognise the balance of risks is not an either-or, that health and wellbeing and jobs and the economy are all mutually reinforcing, then pragmatism kicks in.

In this context leaders require a balance in the advice they are receiving. Listen only to the health professionals and super caution will prevail. Consider the rounded picture, as per stated intent, and a more balanced outcome is more likely. As things stand we are no critics and recognise the difficulty of such choices. A second wave would hurt the economy hard as well as the nation's health. In our view however, what may seem like a small detail, could have huge consequences for the economy. If it is working in countries like Denmark and Germany and advised by the WHO, then surely it is only a matter of time?

The timing of that decision is one of the biggest our leaders will take in this whole crisis. We urge that they consider it every day on the basis of balanced advice.

When the patient can walk again such a partnership can help forge the new world many of us want to help build.

A GLOBAL PERSPECTIVE

DAVID SKILLING
Director, Landfall Strategy Group

As much of the developed world begins to move gradually out of lockdown, it is important to remember that the full health and economic costs are still to come. For one thing, the number of new reported cases around the world continues to grow. The waves seen in Europe and North America (to a lesser extent) are in decline, although with some geographic variation: the growth curves are not declining in big states such as Texas and California, for example.

But there is strong growth in cases in developing countries, notably Latin America and Asia, where public health systems are weaker. And there is some evidence of returning waves of cases in countries such as South Korea.

All things considered, the return of the global economy to normal is some way off. Global supply chains, the cross-border movement of people, and international investment decisions will continue to be disrupted. Over the next few years, we face fragmented, patchwork globalisation, with economies opening up selectively to other countries with low risk and who they trust. Note, for example, restrictions on Swedish travel even as other Nordics open up. And the UK and US are likely to be in the high-risk category for longer than many others; the Netherlands have banned arrivals from the UK even as they open up to much of the rest of Europe.

An effective vaccine that can be deployed at scale would short-circuit this process. But even optimistic assessments are that a vaccine is 12 to 18 months away.

The shock of Covid-19 will generate substantial economic costs. The International Monetary Fund's (IMF) latest forecasts (from April) are for a contraction in global GDP of three per cent in 2020, led by a contraction of six per cent across advanced economies. The EU and the UK are among the worst performers at minus seven per cent. And the data flow since these forecasts were released has been weak. The IMF's more negative scenarios now seem more likely, with a sharper contraction in 2020 followed by a more gradual recovery over the next few years. Indeed, the OECD's forecasts for 2020 world GDP growth, released this week, are for a contraction of at least 6 per cent.

There is significant uncertainty about the recovery profile. But even if lockdowns were removed tomorrow, the outlook would be gloomy. It will take time to fully start up the economy again after the lockdowns, significant financial costs to governments, firms, and households have already been incurred, and consumers are showing risk aversion (albeit with variation across countries) in response to economic and health risks. These various costs will become more evident across the economy as the wage credit schemes are rolled back. The international aviation sector is just one example: it is expected to take a few years for 2019 levels of demand to return, with airlines already under heavy debt loads. A V-shaped recovery process is possible, but unlikely.

And Covid-19 is unleashing political pressures that will lead to a less open, more fragmented global economic and political system. Many larger countries are turning inwards in the name of resilience, working to re-shore supply chains and to exert greater control over strategic industries. This will complicate the global context for smaller open economies. Growing geopolitical pressures are also likely, with increasing tensions between the US, Europe, and China. These forces have been around for some time, but Covid-19 has strengthened them. These will impose further costs.

There are positives as well, with some sectors poised for stronger growth; from technology and digital sectors, to life sciences, and perhaps the food sector. Economies will need to find ways of transitioning to these sectors from structurally challenged sectors such as international tourism.

In the first instance, the challenge for governments, firms, and other institutions, is to navigate through a sharp crisis – which will be deeper and longer than the global financial crisis. But strategic investments also need to be made to respond to the structural dynamics generated by Covid-19. Done well, countries and institutions could come back stronger. But this will be an enormously demanding task, requiring aggression, discipline, and creativity.

Dr David Skilling is Director at Landfall Strategy Group, an economic and policy advisory firm based in the Netherlands. David is currently advising governments, firms, and investors around the world on how to respond to Covid-19.

WHERE IS HOPE?

It is very easy to describe the problems we face. Too easy. This is an emergency and it will last a long time. But the human condition is at its fundamental best when believing in the future, living in hope not fear.

We have been through far worse than Covid-19 in a very real sense even though its economics appear almost unprecedented. The politics may change course to give us more world leaders of depth and courage, and fewer who live in a world of populist short-termism and chauvinism.

And for our country all of the things we do exceptionally well we can still do exceptionally well. If Germany was able to recover from the second world war to become pre-eminent in so many fields then it will be possible for countries to emulate that. Denmark, New Zealand and Finland all offer exemplars for smaller countries too.

We will remain world class in many of our universities, world class in aspects of the new and emerging 'natural economy'. McKinsey's Managing Partner Kevin Sneader joined us on a call last month in which he described agriculture as an "industry of the future". Our oldest and perhaps most enduring.

Our financial services, sciences, engineering, technology and creative sectors can all find their feet again. Optimism will come again.

And how we live and where we live can become more attractive.

Live in Scotland, work anywhere

A conversation with the NatWest chairman Sir Howard Davies last week called to our attention a 2018 Harvard Business School working paper which detailed the productivity effects of working from not just home, but anywhere.

Using a study of the United States Patent and Trademark Office (USPTO) in Virginia they identified a very significant improvement in performance in working from a distance. Previously employees could work from home as long as they were within 50 miles of the office and still had to go in once a week. This restriction was lifted, and productivity rose by just under 3.5% - which is very significant. The knock-on impact on the overall economy could be also. Colleagues located themselves where they wanted to live and balanced that with work in Colorado, Florida or wherever.

For Scotland with a large landmass and small population the opportunity from this thought is obvious. Homeworking is not for everyone, obviously. But having more people working where they want to live and bringing income and stimulus to local economies is a very significant opportunity. The magnetic pull of the City of London may not relent in many ways. But this crisis demonstrates that you don't have to live there to reap its benefits.

In a world of enlightened practice, the opportunity could be clear for Scotland to address its demographic, rural development, fiscal and productivity challenges in one fell swoop and seek to be a magnet for talent based on the quality of its living environment, amenity, social cohesion and public services. What is there not to like about that?

We will avoid the whirlpool's tug – Everything's going to be alright

As we skirt the edge of the whirlpool, we are mesmerised by its pull. We must avoid capsizing as George Orwell did when staying in Barnhill house on Jura in 1947. He and his son nearly drowned when their boat flipped in the Corryvreckan whirlpool. They had to swim for shore and were eventually rescued by a fishing boat.

Just as Orwell escaped, so shall we all. We are in danger there is no doubt. But despite all of the worry the world is better equipped now than ever before to navigate all that lies ahead. The time is coming where leaders of all institutions place a premium on finding the positive outlook that is a necessary but not sufficient element in the success of the human condition.

As the American sportsman Ralph Marston put it:

> “*Being positive in a negative situation is not naïve, it is leadership.*”

Positive leadership – now is the hour.

NEXT STEPS

If further economic perspectives, briefings or analysis on the impact on your business and its operating environment should interest you, Charlotte Street Partners and our partners would be pleased to tailor research and analysis to suit your unique needs. Please contact me on andrew@charlottestpartners.co.uk or if you are looking for a specific service, feel free to contact any of the teams listed below.

OUR SPECIAL BRIEFINGS

Contingency Planning and Resilience

Working Well

A Sustainable Roadmap for the UK

Covid-19 and the Economy (April 2020)

Communicating the Coronavirus Job Retention Scheme

Remote Working Guide

Accessing Government Support

Understanding Motivational Theory

Kübler-Ross Model Applied to Covid-19

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