The UK’s Path to a Doughnut-Shaped Recovery

Executive Summary
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There has been a lot of discussion about whether the economic recovery from Covid-19 will be V-shaped, U-shaped, W-shaped or L-shaped. The letters generally refer to the size of the economy over time, or sometimes just to the stock market. But there are other dimensions to a post-pandemic recovery that matter more for societal well-being than the market value of our output.

Is this a recovery that will put us in a stronger position to prevent and withstand future crises? Will it create opportunities for everyone in our society to live fulfilling lives? And will it do these things without jeopardising the ability of future generations, and people elsewhere in the world, to meet their basic needs?

These are the kinds of questions being asked now in cities like Amsterdam, where, instead of focussing narrowly on the rate of economic growth, policymakers have chosen a more holistic framework to guide and evaluate their response to Covid-19: the “Doughnut” of social and planetary boundaries.

The Doughnut of social and planetary boundaries, developed by Kate Raworth. Source: Reproduced from doughnuteconomics.org under a Creative Commons BY SA 4.0 licence.
The goal in this framework is to meet the needs of all without destabilising Earth’s critical life-support systems. It is a compass for a well-being economy. But what if the policies needed to protect public and planetary health conflict with the goal of growing Gross Domestic Product (GDP)? Pursuing what might sound like a modest target of 2% GDP growth per year implies doubling the scale of our output and consumption every 35 years. The scientific data suggest a conflict between pursuing such growth in wealthy countries like the UK and preserving enough ecological space for poorer countries to meet their basic needs. In any case, the spectre of shrinking or stagnating GDP has repeatedly been invoked to block environmental policies. Most recently it has also been invoked to justify the lifting of Covid-19 restrictions in workplaces, in spite of the risks to public health. Two thirds of the British public want government to prioritise health and well-being over GDP. So why do policymakers remain so preoccupied with this one economic metric?

Why is slowing growth such a frightening prospect?

Part of the answer is that our economy is currently dependent on growth to maintain economic and political stability. Our growth dependence expresses itself in at least four ways:

- **The threat of unemployment**
  
  All else being equal, automation and other innovations gradually reduce the need for labour. Conventional economic wisdom says we must stimulate consumption growth to soak up the surplus labour. But there is an alternative and more environmentally sustainable way to maintain employment: share out the remaining work. Instead of using productivity improvements to drive down prices and sell more goods, companies could offer workers a shorter working week at a higher hourly pay rate. This is not a solution that profit-oriented companies are likely to deliver of their own accord. It will require coordination, and a shift in the balance of power in work places.

- **The risk of private debt crises**
  
  We are dependent on growth to maintain financial stability because our economy is heavily burdened with debt. Debts are promises to pay, often based on expectations about the future — usually of revenue growth or asset price growth. If those expectations don’t come to pass, debt obligations can become dangerously destructive. Unlike equity investments that shrink or grow with the fortunes of the firm, debts are fixed in nominal terms, and if the interest cannot be paid, they grow exponentially. High levels of indebtedness can transform a modest fall in expected growth rates into a full-blown crisis. To make our economy resilient in the face of slowing growth, we must look for ways to reduce indebtedness, both for households and firms.

- **The inequity of rent extraction**
  
  Growth is required to protect the privileges of landlords, financiers, monopoly interests, and other “rentiers”. Rentiers do not create wealth; they extract the wealth that other people create through their control of monopolised and scarce assets. As long as the economic growth rate remains higher than the rate of
rent extraction, this situation can continue. But when wealth creation stalls — while landlords, financiers, monopoly interests, and other rentiers continue to extract wealth and accumulate assets — the result is rising inequality. To prevent inequality rising as growth slows, we must diffuse the power of rentiers.

The failure to safeguard basic needs

High levels of unemployment, indebtedness, and rent extraction are all-the-more dangerous in an economy like the UK, where essential goods and services like social care, energy, and transport are rationed by price — i.e. by ability to pay. In this context, the ability of the poorest to meet their basic needs is threatened by a fall in income, or a rise in prices. This is also why carbon taxes — which are essential to meet our climate obligations — are so difficult to introduce under the current system.

These four vulnerabilities are a straightjacket on democratic choice. They impede our ability to respond effectively to public health and ecological emergencies, and undermine our ability to live within the Doughnut of social and planetary boundaries. When certain forms of economic activity become dangerous to our health and well-being, or to the living systems upon which we depend, our governments must have the confidence to scale back those activities — without fear of triggering crises of unpayable debt, unemployment, or rising inequality. This confidence can only be achieved if we tackle the underlying causes of our dependence on growth.

Does Covid-19 present opportunities to reduce our growth dependence?

The Covid-19 crisis is exacerbating many of the economic injustices that underpin our growth dependence. But by exposing the vulnerabilities in our current system, the crisis also presents opportunities to tackle these problems head on. It offers a chance to redesign aspects of our economy to be distributive by design and resilient to economic shocks. To get on the path to a Doughnut-shaped recovery, in which the basic needs of all can be met within planetary boundaries, we propose four parallel policy strategies.

1. Safeguard basic needs

Due to Covid-19, millions of people now have first-hand experience of the inadequacies of Universal Credit, the flaws in our Statutory Sick Pay system, and the tragic consequences of under-resourcing our health service and care system. And yet we have also seen that where there is political will, very substantial public funds can be found to safeguard basic needs. There is now an opportunity to strengthen our social safety net and provide sustained investment in the social infrastructure upon which our lives depend. To safeguard basic needs, we need to:

- Introduce a Minimum Income Guarantee and better Statutory Sick Pay
- Provide comprehensive adult social care
- Reform energy tariffs to create a free minimum energy entitlement
- Invest in free and affordable alternatives to private car travel
2. Empower and protect workers

The pandemic has drawn attention to the low pay and precarious conditions that so many workers face, and to the moral bankruptcy of a corporate governance model which allows billions in public bailout money to be funnelled to shareholders while jobs are cut. To address these injustices, we must:

- Provide support to firms to cut hours, not jobs
- Create well-paid secure jobs through a Green New Deal
- Use equity-based bailouts to increase worker rights over the long term
- Raise the minimum wage and end insecure work
- Strengthen sectoral bargaining and democratise workplaces

3. Reduce exposure to debt crises

The unfolding crisis in household and business debt reinforces the need for structural changes that will reduce our exposure to debt crises over the long term. Unfortunately, there is a risk that public debts in the aftermath of Covid-19 could be used as a battering ram for a new campaign of austerity, which would force even more households into debt. To address these issues, we must:

- Make more extensive use of central bank financing of government deficits, to reduce the burden of public and private debt
- Facilitate interest holidays and debt write-downs for households
- Reduce the cost of borrowing for small and medium sized enterprises
- Shift from debt to equity financing, and prevent the use of debt for tax avoidance
- Use macro-prudential tools to discourage inflationary lending and reduce asset price booms and busts

4. Tackle rent extraction

Urgent measures are required to prevent a harmful consolidation of rentier power in the wake of Covid-19. The dramatic fall in tax revenues from employment and consumption creates an added incentive to improve the taxation of unearned incomes like capital gains, dividends, and monopoly profits. Mounting rent arrears reinforce the need to overhaul the governance and ownership of our land and housing systems. To stop rent extraction from driving up inequality post-crisis, we must:

- Prevent public bailout money being captured by rentiers
- Tax capital gains and property wealth more fairly
- Protect tenants and reduce rent extraction in the housing market
- Protect small and medium sized enterprises, while taxing monopolies
As well as directly reducing the precarity and exploitation experienced by millions in our society, these four structural shifts would make our society much more resilient in the face of slowing growth and economic shocks. By reducing our growth dependence, we do not foreclose the possibility of greener economic growth, but we open up more room for society to manoeuvre. We give policymakers the freedom and confidence to pursue a well-being economy, to respond decisively to public health emergencies, and to introduce tough environmental protections in line with planetary boundaries. Shedding the blinkers of GDP maximisation, and adopting the Doughnut as a new compass to guide public policy, would allow us to focus on the health and well-being of all people, and protect the living planet upon which we depend.
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