



OFFICIAL REPORT
AITHISG OIFIGEIL

Economy, Energy and Fair Work Committee

Friday 29 May 2020

Session 5



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ECONOMY, ENERGY AND FAIR WORK COMMITTEE
16th Meeting 2020, Session 5

CONVENER

*Michelle Ballantyne (South Scotland) (Con)

DEPUTY CONVENER

*Willie Coffey (Kilmarnock and Irvine Valley) (SNP)

COMMITTEE MEMBERS

*Colin Beattie (Midlothian North and Musselburgh) (SNP)

*Rhoda Grant (Highlands and Islands) (Lab)

*Alison Harris (Central Scotland) (Con)

*Dean Lockhart (Mid Scotland and Fife) (Con)

*Richard Lyle (Uddingston and Bellshill) (SNP)

*Gordon MacDonald (Edinburgh Pentlands) (SNP)

*Andy Wightman (Lothian) (Green)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Benny Higgins (Scottish Government Advisory Group on Economic Recovery)

Charlie Smith (Scottish Enterprise)

James Smith (Resolution Foundation)

Dame Julia Unwin (Scottish Government Advisory Group on Economic Recovery)

CLERK TO THE COMMITTEE

Alison Walker

LOCATION

Virtual Meeting

Scottish Parliament

Economy, Energy and Fair Work Committee

Friday 29 May 2020

[The Convener opened the meeting at 09:30]

Covid-19 (Impact on Businesses, Workers and the Economy)

The Convener (Michelle Ballantyne): I welcome members, witnesses, and those joining us online, to the 16th meeting in 2020 of the Economy, Energy and Fair Work Committee. This is the fourth meeting that we have conducted remotely and, on behalf of the committee, I would particularly like to thank the broadcasting team for making it possible.

Our main item of business is to take evidence in our inquiry on Covid-19 and its impact on Scotland's businesses, workers and the economy.

I am pleased to welcome our first panel of witnesses: Benny Higgins and Dame Julia Unwin, members of the Scottish Government's advisory group on economic recovery; and Charlie Smith, managing director of Scottish Development International. I invite Benny Higgins to make a short opening statement.

Benny Higgins (Scottish Government Advisory Group on Economic Recovery): The group has been asked to make recommendations on economic recovery in Scotland. In normal times, one would talk about the short term, medium term and long term. These unimaginable circumstances have rendered some of those definitions more ambiguous, so it is probably easier to say what we are not being asked to look at, which is the immediate emergency actions that are required to keep the economy on a life-support system. To extend that analogy, our task is to look beyond that at the rehabilitation and recovery of the economy.

We are going about that with the following framework. We have a small inner circle advisory group of eight people, including me and Dame Julia Unwin. We have, however, had dynamic engagement with as many parts of the Scottish economy as possible, and we are continuing that. Our deadline is to produce context and recommendations by the end of June, but I hope that we might be able to do it a little sooner, as we are working flat out. We are right in the midst of dealing with a wall of consultation responses coming back from a variety of parties.

The framework that we have adopted for the structure of our report is partly based on four pillars of capital. Of course, the barometer of success remains the national performance framework. The most conventional pillar is financial and physical capital; the other three are natural, human and social capital. Our objective is to make recommendations that can give Scotland a robust and resilient future that focuses on wellbeing.

The Convener: Thank you. That sets the scene for the questions that we are going to ask.

I will invite each member to ask their question, and then I will invite the witnesses to respond. If members want their question to be directed at a particular witness, it would help if they could indicate that at the beginning of the question. I will then allow other witnesses to respond, if they wish. I will go back to the member for a follow-up question, and, once they have finished, I will move on to the next member.

As I said in our earlier briefing, keeping questions and answers succinct will help us to get through all our questions. Do not forget to give broadcasting colleagues a few seconds to switch your microphone on, before you start to speak.

Alison Harris (Central Scotland) (Con): Good morning. Will the advisory group produce a recovery plan with specific policies and actions, including clear plans for roll-out, administration and budget implications?

Benny Higgins: We must be realistic about what is possible in a matter of weeks. We will certainly set a direction of travel as part of our recommendations. The group will make clear recommendations about which interventions—whether those are structural, policy or institutional—should take place. I am determined that we will be brave and, where possible, radical in making suggestions and recommendations. Coming up with a full roll-out plan in the time that we have available is inconceivable. There will be a great deal more work to do after this.

I do not expect many of the ideas to be brand new. The advisory group's job is to curate ideas from around Scotland. I hope that we can shine a spotlight on ideas that have been buried in the past, for good or bad reasons, or that have not been given sufficient oxygen.

During this crisis, we have realised that, if we put our minds to it, we can get a great deal done that, in the past, could not have been done in the timeframes that we have become used to.

Alison Harris: Last week, we heard from Scottish Chambers of Commerce, the Confederation of British Industry Scotland and the Federation of Small Businesses. They were pretty

unanimous in their support for a unified, four-nation approach to opening up the economy and beginning the recovery. Given that those organisations so strongly represent the voice of business in Scotland, to what degree are you taking that recommendation on board as you design your recommendations to the Scottish Government for delivering recovery here in Scotland?

Benny Higgins: That is a distinction between the immediate requirements to lift lockdown and the longer-term structural changes that are required. You can be sure that we are taking the opinions of business very seriously, just as we are listening to the opinions of other parts of Scottish society.

The Convener: As none of the other witnesses have indicated that they wish to add to what has been said so far, we can move on.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): My question is for anyone on the panel. In its call for views, the advisory group said that it will

“consider the perspectives of those impacted by the disruption caused by Covid-19 as well as those who will be critical to rebuilding Scotland’s economy in a greener, fairer and inclusive manner.”

How will you achieve that in such a short timescale? Are you already seeing new ways of working that might serve us all better as the economy starts to recover?

Benny Higgins: I will say a few words and then Dame Julia Unwin can add to it.

I cannot deny that we are working to an incredibly short timescale. That is why, in my response to the previous question, I made the point that it is as much about curating past ideas that should be accelerated as it is about dreaming up entirely new interventions.

We find ourselves in a unique context. The crisis has had an unequal impact on people, and that is very close to our heart as we start assessing what needs to be done.

Dame Julia Unwin (Scottish Government Advisory Group on Economic Recovery): That is an important message. We have to recognise that nobody has gone untouched by the crisis. When we say that we want to listen to people who have been affected, that is the whole of Scotland, which is a tall order. However, there are people who have been more or worse affected.

We have listened to voices from civil society and the voluntary sector, from trade unions, business and the workforce. We must carry on doing so. The Scottish Government has given us the task of designing the transition out of the crisis and how we do that will determine where we end up and what that destination looks like.

As Benny Higgins said, by looking at the four pillars of capital, we can look at the impact of Covid-19 on the social fabric of Scotland, and on the skills and training that are needed, as well as on business interests. I hope that we can hold all of those together.

Charlie Smith (Scottish Enterprise): On the question of whether more dynamic and integrated ways of working are emerging, the answer is yes. We have seen phenomenal work in the national health service in Scotland, with the supply chain as well as public and private sectors coming together to identify possible gaps in funding that we would like to fill. More importantly, the process is about bringing the business community together to curate opinion that will inform the advisory group’s recommendations. That is the critical bit—it is about curating opinion from many people from across every constituency to get their views on what we do next. That is principally what the group is here to do. Certainly, we have seen several good examples in the past two months.

Willie Coffey: There are lots of fabulous examples of that locally, particularly in the retail sector, such as people using digital technology to alter their business model. Does the panel think that those approaches will stay with us and become part of the new model and way of working, or will we go back to normal ways of working after the emergency is over?

Benny Higgins: That is an important question. On some levels, the current period has been the most unwanted but also the most extraordinary social experiment of civilisation. We have learned and good things have emerged. Many people have adopted home working with great speed, and that will clearly stay with us. However, that is another area in which the inequalities in our society have been laid bare. The top 50 per cent of people in the United Kingdom by earnings can largely work from home—90 per cent of them can—whereas only 10 per cent of those in the bottom 50 per cent by earnings can work from home. We have learned a lot about things that we need to embrace. That is critical, and we have commissioned a specific piece of work on the lessons learned during lockdown that we hope we will be able to interpret and include in our recommendations.

Dame Julia Unwin: I can only echo that. We have seen extraordinary ingenuity and enterprise, and that must stand us in good stead for the recovery. Some things will carry on into the future. I suspect that we will not be using office space at the scale that we were previously and that conference centres will not be viable in the way that they were previously. Amazing imagination is being shown.

We have to be careful that we do not simply fast forward from lessons learned in an emergency and say that they will automatically apply in a more steady state. However, Mr Coffey's retail example is a good one—extraordinary things have been done at the small business level, and we should hope that we can sustain those in the long term.

Richard Lyle (Uddingston and Bellshill) (SNP): My question is for all our witnesses, but it is to Benny Higgins first. The advisory group's call for views states that

"the scope for new public spending will undoubtedly be constrained"

and that the group welcomes

"thoughts on how existing resources and systems can be made more resilient".

Will the group provide direction on whether existing strands of economic spending should be repurposed or even stopped altogether?

Benny Higgins: That is another good question. We will be fiscally constrained—nobody should assume anything to the contrary, as that would be unhelpful and unproductive. With that background, it is absolutely essential that we prioritise properly. We need to understand the most important things that we need to do to create a robust and resilient Scotland that is ready for the next crisis and focused on wellbeing. The prioritisation that is involved in that will require us to look at things that need to be accelerated. However, I am afraid that the bedfellow of prioritising things is deprioritising things. We are in the midst of looking at the wall of suggestions that have come to us from all sectors and parts of Scotland, but a test of good recommendations is whether you are choiceful about how to proceed in a constrained environment.

09:45

Dame Julia Unwin: I would like to add to that. We are completely schooled in understanding the fiscal framework, the fiscal shortages that there will be, and how difficult it will be for the Government to pay for things. We are also conscious that there are other sources of funding in Scotland, and we are interested in how companies and investors can step up to help the recovery, because there are other players that can contribute. The recommendations will, of course, be to the Scottish Government, but other parties are called on to play their part. The recovery requires that breadth of input.

Richard Lyle: Basically, Benny Higgins said that there are hard choices. What are the hard choices? What could be repurposed or even stopped altogether? A lot of pain could be caused

if we stopped things that people have taken years to build.

Benny Higgins: Answering that question is a bit premature at the stage that the group is at. During the next few weeks, we will discuss the various proposals and suggestions that are coming in from across Scotland.

I will take an example. We have not agreed that there will be a recommendation on this, but Scotland has every reason to believe that it could be a world leader in respect of natural capital. If it is going to be, we might have to consider repurposing some of the apparatus that lies in the North Sea around carbon sequestration, for example. That would involve taking something that has been a historic strength and part of the past and putting some of it to use in solving problems in the future. However, today is not a day for me to start to talk about some of the things that are floating around which we have not nailed down yet. If you do not mind, you will have to wait for a few weeks for that.

The Convener: It is clearly early days, but the committee wants an idea of the context in which you are receiving the thoughts that come in, how you will look at them, and the strategic direction of travel.

Gordon MacDonald (Edinburgh Pentlands) (SNP): I want to continue the fiscal framework discussion that Dick Lyle started. Given the size of the challenge that the Scottish Government faces in supporting the economy, is change to the fiscal framework—in particular an increase in borrowing powers—required? Will the advisory group consider that? That is a question for Benny Higgins.

Benny Higgins: Yes, we are considering that. The fiscal framework is being revisited on schedule next year in any case, and it needs to be considered in the new context. Everything that we do has to pivot to some degree on the new context in order to give ourselves the best chance to create the nation that we all hope for. However, we should not restrict the conversation to being simply about the fiscal framework. We might need to look at ways in which we can take advantage of the current low interest rates, for example, that would not necessarily be liberated exclusively by the fiscal framework. There might be other arrangements. To be frank, I do not want the debate to be political; it has to be an economic one.

Gordon MacDonald: On supporting businesses, the job retention scheme has stemmed job losses not just in Scotland but across the UK. Will you be considering whether the job retention scheme should be retained beyond October and whether companies should be

contributing to it, if they are able to? We should bear in mind that many companies will have had no revenue for the past three months. Will you be considering whether the scheme should be phased out in different timescales across different parts of the UK?

Benny Higgins: We need to consider that in the context of the transition, because the transition will have an impact on the ultimate consequences for the country, but not to the extent that it falls into the category of immediate life support, as I described it earlier.

However, I can assure you that, when we look at the important themes that we face, unemployment is right up there with a number of others, and it has as much importance as any. We have to get people back to work and ensure that their employment prospects are not devastated by the crisis. In doing so, we also have to be careful to look specifically at, and make specific provision for, the generations that could be hurt and scarred by the crisis in the long run, one of which is the late teenagers up to those in their mid-20s who are coming out of secondary or tertiary education into a very different world from what they would have thought only a matter of months ago.

Dame Julia Unwin: I want to underline that point. From all the research over decades, we know that, if time is lost from the labour market for the age group that Benny Higgins talked about, that is a scar across their working lives and income until they retire. One way or another, we need to find ways in which companies can step up and make a different sort of offer, with support from Government, to ensure that the distance from the labour market is not too great for that group. The job retention scheme has done that to a certain extent, but it is not a long-term prospect, because people being kept at home on 80 per cent of their wages does not keep them very close to the labour market. We need to get people back into work, and we will need to ensure that we target jobs in the recovery at that age group, otherwise Scotland will pay a very high price in 20 or 30 years' time. That is an urgent issue.

The Convener: What is Scottish Enterprise's view on the job retention scheme? Charlie Smith must have been hearing from the people that it supports.

Charlie Smith: Of course. We are ensuring that we curate the views of business and that the advisory group hears those views. It is clear that, as the job retention scheme recedes, there are concerns about the rise in unemployment, but what galvanises us as a collective is the need to create new jobs.

On the point about prioritisation, we need to ensure that we bring together the public

ecosystem and the private sector to focus on industries in which there are prospects and particularly in which Scotland has a comparative and competitive advantage, so that opportunities can be met. As Benny Higgins said at the start of the session, there are areas in which we have extraordinary talent and capability, whether that is natural capital, emerging technology or advanced manufacturing. We should be as forthright and optimistic as we can be in bringing the collective together to ensure that we create more employment in those areas and get behind people who can help us to realise the opportunities that will come in the future, notwithstanding all the hardship that many people face right now.

Andy Wightman (Lothian) (Green): I want to explore the challenges of tackling inequalities throughout the crisis. A couple of weeks ago, the Institute for Public Policy Research produced an interesting report on rentier power and the contrast and inequalities between the working poor, who depend on incomes, and the asset-owning wealthy. It highlights that the incomes of those who own assets or debts, such as banks and landlords, have, in effect, been underwritten throughout the crisis, which reflects a long-standing situation whereby wealth inequality has been far greater than income inequality. Given that, as has already been mentioned, financial insecurity has disproportionately hit people on low incomes and in precarious work—particularly women—what work will you be doing to make sure that those deep and long-standing problems can at least begin to be tackled?

Benny Higgins: I will open and then let Dame Julia talk on a subject that I know is close to her heart. First, the framework that we have adopted has two pillars of capital that are highly relevant here: human capital and social capital. We are very concerned about Scotland being a successful wellbeing economy, and we will be looking at a number of relevant factors in making sure that people can get back to work and that they are given a chance to level up to a greater degree than has happened.

I somewhat berated someone on a panel the other day when they spoke about bouncing back. I do not think that we want to “bounce back”; that term understates some of the issues that we had in Scotland coming into the crisis. We have to treat this as an opportunity and as a catalyst for doing things that perhaps we should have accelerated before but that we can accelerate now. Education will be crucial, and lifelong learning and skills development are part of what we will be considering in our recommendations.

Dame Julia Unwin: It is a very important question. The crisis has laid bare the gross inequality that exists both in income and in wealth,

as Andy Wightman has just described. However, it has also shone a bright light on other sorts of inequality, including the inequality of work status. The jobs on which we have all entirely depended in the past three months are the least well regarded and the least well remunerated, and they have the least progression.

The crisis has also shown us some of the really dark side of in-work poverty. It is quite comical to see politicians talking about a return to work when the people in the front line, who are the lowest paid, have all been working flat out during this crisis and are in the most insecure jobs with the least progression.

I welcome the IPPR report, because I think that it gives us a chance to say that we need a reset and, as Benny Higgins rightly says, we will not be bouncing back. We need a very different settlement. What that will do to the owners of capital, I do not know, but I know that a bright light has been shone on the behaviour of business leadership and business owners, and there is a clear distinction in the public mind between those companies that have stepped up in this crisis, rewarded their staff and kept them close to make sure that they are safe and those companies that have not. That will result in a big divide in public policy in the next couple of years, which I think is something that the advisory group can comment on. Certainly, our priorities will be focused on the people who were locked out of the proceeds of growth when we had it; we cannot afford their being locked out of the benefits of any sort of recovery over the next two, three or four years.

Charlie Smith: I echo the point that it is an incredibly important question. As Benny Higgins has said, we have had an incredible amount of dynamic engagement with business organisations and business leaders, and we have had representations from companies the length and breadth of Scotland. There is an emerging theme, which is beyond job creation and wealth creation and being part of an enterprise economy: business talks increasingly about its participation in the economy and its impact on society. Judging by the volume of commentary that we have heard from the business community on the subject, I imagine that that theme will be very live.

Lord Smith of Kelvin is curating that business input, and I think that you will certainly hear, in the representations that we have made to the advisory group, a great deal about participation and about ensuring that there is the right level of inclusion and that we understand businesses' contribution to society and, indeed, the mutuality that exists. It is a strong theme in the conversations that we are having. Therefore, I expect that it will be very much at the top of the agenda in the work that Lord Smith gives to the advisory group.

Andy Wightman: It is not for me to tell the advisory group how to do its work, but I am a little concerned about its remit, which says that the group will advise on actions that will make a difference to businesses. We hear a lot about businesses in the context of the economy but, although businesses are part of the economy, they are not the economy. The economy is about wellbeing, resilience, security and all the rest of it. We have seen that even great businesses can be brought to their knees by a modest virus.

10:00

I will conclude with another question. It might not be your place to speak about this, but I would welcome your comments on it. You have been asked to deliver advice to a Government about how we recover from a crisis. We had a crisis 10 years ago—the banking crisis—and, over the past 10 years, young people have seen their wages flatline and they have not seen the opportunities that one might have anticipated being offered built and expanded. That simply has not happened. I do not want to get into a debate about why that is, but I am sceptical about the existence of ability and political will to ensure that a group in society that suffered from the previous crisis will not suffer from this crisis. What can you say to reassure me that we will do better than we did 10 years ago?

Benny Higgins: I am not entirely sure what I can say to reassure you. I can tell you that we will be doing our level best to make the right recommendations. You echo something that I mentioned earlier, which is that we should not think that we came into the crisis in the best shape possible. We should not be trying to get back to that but should be trying to find a more robust and resilient, brighter and fairer future.

On business, I have just remembered that 70 per cent of Scots are employed by the private sector. That is important, but it is not the only important thing, and, at times, we run the risk of relegating it too far in engagement. It is important that the business sector thrives in order to create jobs and growth in the economy. We want a wellbeing economy that grows.

The matter of trust lies beneath much of the conversation that we have had in response to this question. Since the financial crisis, many traditional institutions, including in the corporate sector, have lost trust to some degree. As Julia Unwin said, the current crisis has been an opportunity for companies to emphasise why they should be trusted, and that is true for all organisations. I am the chair of a wonderful charity called Sistema Scotland, which, through the vehicle of music, supports children in some of the most deprived parts of Scotland. In the past eight weeks, that organisation has pivoted in a

remarkable way to support kids. It has used technology in a way that would have taken us years had we not been forced to confront it. The trust that families and communities have in that charity has been reinforced by the way that it has responded. Lots of people can learn lessons from that.

The Convener: An addendum to that is the issue of how we value human and social capital in our economy and the business sector. When I was at university, many years ago, we talked a lot about whether human and social capital should be a feature of accounting and whether companies' balance sheets should include a value for human capital in terms of retention, training and so on. Will the advisory group look at that? As individuals, do you think that that should add to a company's value?

Dame Julia Unwin: Around the world, there is a live debate about how we account for human and social capital, and it is really clear that there will be no safe recovery unless we attend to social and human capital. One thing that will undermine any recovery is a deeply divided society in which there is no trust or certainty.

We know that we are headed for precarious times in other ways—there might well be other pathogens, and there will certainly be climate change shocks—so we, as a group, have been fixed on the notion that the capitals are equal and that how we treat people, or human capital, in their training, employment and progression, and how we treat society, which is social capital, is not an add-on but is central to economic recovery, because economic recovery will be jeopardised if we do not get it right. That is why it is important that we are taking a four capitals approach.

Many businesses are beginning to report in that way. Whether it should be a requirement is for a different discussion. However, many businesses are now interested in the capitals approach.

The Convener: Over the years, there has certainly been a shift—maybe more visual than real—in mission statements and in the valuation of training. However, it has never been put on balance sheets, in accounting terms, that it is part of the value of the company. The debate over that has been raging for the 35 years that I have been involved with it, so what you have said is quite interesting.

Rhoda Grant (Highlands and Islands) (Lab): Can I press Dame Julia a little bit more? We have talked about the scarring of young people's careers and about women and lower-skilled workers bearing the brunt of the economic crisis that is due to fall. How do we prevent that from happening? You also spoke about a different offer.

What would that offer be, and how could we create more equality in the employment market?

Dame Julia Unwin: That is a huge question, and it is one that we have been wrestling with for some time. In the context of recovery, there are things that people can do. For example, the Edinburgh guarantee worked very effectively for a time, when businesses took some responsibility for ensuring that young people who were furthest from the labour market had an opportunity.

However, I think that it goes deeper than that. It is to do with expectations, how organisations procure, how the anchor institutions in every locality behave and what their employment practices are. We know that employment practices run through supply chains. How we address those deep-seated inequalities is, therefore, a deeply economic issue.

I have always argued that, if an organisation is outsourcing its cleaning contract, it is hard-wiring poverty into its local community. That is more true now than it ever was before. Looking at how supply chains operate is going to be very important.

Rhoda Grant: If we are looking at how we procure, should we bring such jobs in-house and value them? I recently heard someone say that a lot of work in the care sector is outsourced, that the necessary training is not being done and that that is having an impact not only on the workers but on the people who are being cared for. Is that the kind of thing that you mean, or should we be looking at something more fundamental?

Dame Julia Unwin: I think that the care sector has been exposed as being very dysfunctional. The financing of the care sector and the way in which procurement is done have created many of the crises that we face.

There is a live discussion in Scotland about how the care sector should be supported in the future, and that is vital to getting this right. There is a real risk that reverting to the existing parts of the care sector will simply not be good enough for what we are trying to do at the moment. In Scotland, and in a lot of other places, there is a lot of talk going on about that.

However, the economic advisory group is conscious of the fact that the provision of care is part of the economy; it does not happen separately. It enables people to go to work, and it employs a very large number of people. We have learned—if we did not know it already—that people employed in the care sector have been employed in rather precarious and risky ways. Therefore, the sector is a top priority, and it is certainly something that we have discussed in the advisory group.

Rhoda Grant: Does the gig economy play into the situation? A lot of young people are on unstable, zero-hours contracts. Should we be getting rid of that kind of employment practice?

Dame Julia Unwin: There are big questions to ask about the regulation of employment. One of the things that we have learned—certainly, south of the border, in England—is that the scale of the gig economy meant that quite a lot of the furlough schemes did not touch the sides for many people. It is not only young people who are employed precariously.

I know that it is at a lower level in Scotland, but you have regulatory tools to intervene and ensure that that does not create its own deep insecurity. I have always thought that casual work is suitable for some people at some stages of their lives but that it is an absolute catastrophe if it becomes part of a working life that goes on beyond six months after somebody leaves school. I think that what we have created is really troubling.

Rhoda Grant: I have a question for Charlie Smith about the role of enterprise and skills agencies and local authorities. All those agencies have had pretty severe budget cuts in the past, and I wonder what capacity they have to support the economy through the challenges of Covid-19 and in coming out of the situation. Do they have any capacity at all, and what do we need to do to build that capacity?

Charlie Smith: I do not think that any of the enterprise and skills agencies are like any other institutions, public or private. We have all had to prioritise and pivot resource to where we think the greatest need is as we respond and attempt to reset. The balance is in how we, as a community, deal with the here and now and how we wrap around those who need our help while keeping an eye on the restart and recover phase. It is critical that, as part of that work, there is a set of recommendations that start to shape what the future will look like and that the Government brings them to our attention as it deems appropriate. On a daily basis, I have seen a significant amount of movement and prioritisation, which mirrors what is being done everywhere else.

Clearly, there is simply not enough help that can be given. The virus has had an acute and unparalleled impact on the community, so there is no end to the amount of help required from what I would say is a dynamic pivoting of our collective resources. It is critical that we do not act as independent agencies but come together as a partnership not just across Scottish Enterprise, Highlands and Islands Enterprise and South of Scotland Enterprise but with Visit Scotland, Creative Scotland, Scottish Futures Trust, Scottish Financial Enterprise and many others to think

about how we will solve some of the problems collectively.

That is about prioritising within our own organisations and across the enterprise and skills system. It is a very difficult question to answer. There is no limit to the amount of help that is needed, but we are pivoting and prioritising dynamically as we work our way through the crisis.

Rhoda Grant: Given that we are looking at revisions that look like budget cuts to Highlands and Islands Enterprise, how will it be able to react to some of those challenges?

Charlie Smith: I am not really in a position to answer specifically on Highlands and Islands Enterprise. I know that the cabinet secretary will be before the committee on Tuesday—as many of the other enterprise agencies will be, in time. It comes down to the prioritisation question again. Across the public and private sectors, we are all going to have to work within fiscal constraints, which means that the method and the speed at which we prioritise will become critical.

Benny Higgins: I will be brief. I give a reassurance that, as I said, we have been seeking to be in dialogue not just with different institutions and sectors but with different regions of Scotland.

I have had two conversations with the full board of Highlands and Islands Enterprise, in one instance, as well as with individual members of the board, including the chairman, in the past few weeks, and I expect them to bring forward what they think are the matters that should be accelerated and re-energised. They seem very enthusiastic about the opportunity, so I am looking forward to hearing from them.

10:15

Dean Lockhart (Mid Scotland and Fife) (Con): Good morning to our panel. The last time that Mr Higgins gave evidence to the committee, it was about the Scottish National Investment Bank. To what extent has the Covid crisis impacted on the implementation timeline for the bank to be established and up and running? What role will the bank have in dealing with the economic recovery?

I also have a wider question. The bank was set up to provide more long-term, patient capital to the economy. Given the immediate need that many companies have for capital, what is the balance in the tension between allocating resource for long-term, patient capital and allocating resource for the immediate needs of the economy?

Benny Higgins: For those members who do not know this, I note that I have been and remain a strategic adviser to the First Minister on the creation of the Scottish National Investment Bank,

so it is not unreasonable that I attempt to answer those questions.

To be honest, it is not so much the Covid crisis that will have an impact on the timeline; it is more likely to be other matters that were already around before the crisis, such as getting through state aid approval.

It was always the plan for the bank to launch and open its doors at some point between July and the end of the year. My best guess is that, with a fair wind, it will remain in that window, but it will probably be towards the end of autumn. That is my answer to the first question. However, there are some unknowns, particularly on state aid, which is not entirely in the hands of the project team, the newly appointed chair Willie Watt or the chief executive.

My second point is that the bank was created not as a silver-bullet solution to economic problems, but to fill a particular gap that had two aspects. The first of those was the need for patient capital, which Dean Lockhart mentioned, to invest in Scotland in ways that prepare it for the mid-21st century—for the green agenda, the climate emergency, the demographic challenges and the transition through the fourth industrial revolution. As those of us who are of a certain age in Scotland know, transitions can be very problematic. It is really important—and it will be even more so in the wake of the Covid crisis—that Scotland is prepared to invest patient capital in the long term.

The plan for the bank was also looking for it to support businesses to scale up and achieve their ambitions. There is a slightly awkward size of company—this is not exclusive to Scotland—for which scaling up becomes quite problematic. They are too small for the bigger investors and too big for others; they tend to be looking to raise single-figure millions of pounds of either equity or debt. That is another area that the bank was to focus on, and that remains absolutely the case.

Will the bank be affected by Covid and will it have to pivot to some degree? Of course it will. Nobody will be exempt from having to respond to the crisis. However, it is just as important to remember that the bank must work hand in glove with other parts of the apparatus in Scotland—the enterprise agencies and other aspects. In my original implementation plan, which is now more than two years old, I said that we had to seek to unclutter the landscape so that companies would find it easier to get support. At the moment, some people are very pleased with the support that they get, while others find the array of choices quite baffling and end up getting insufficient support.

If we did not have a national investment bank about to open, I think that the crisis would have

triggered a desire to look at one. Its importance is as great as it could ever have been, but we should remember what it is there to do. There will have to be resources through other means to support businesses and other aspects of our society.

Dean Lockhart: I would like to put the same question to Charlie Smith. Will you comment on the balance between the enterprise development model that Scottish Enterprise uses to support companies that are looking to expand versus giving capital to and supporting existing, established businesses and making sure that they can find their way through the crisis?

Charlie Smith: That challenge is very live for us right now, as you can imagine. Companies of all shapes and sizes across Scotland are facing very difficult challenges that, in many cases, they have not faced before, and many of those challenges are about how they manage cash and their working capital in the short term.

There is a suite of United Kingdom interventions, and we have to look at what they address. As well as the furlough scheme, there is the coronavirus business interruption loan scheme and the bounce back loan scheme. There was also a recent announcement about the future fund, which addresses early-stage finance. To what extent do those interventions address the needs of the business community in Scotland? We are looking at where we believe that there are gaps in what is available in order to ensure that the right sums of money get to the places that are not served by those interventions. That task is moving at pace with sufficient diligence and analysis to ensure that the money is going to stick and will get to those businesses that can see this incredibly difficult period through and endure. That is the method by which we are analysing the here and now.

As we look ahead, we know that there will be opportunity. As I said, we have been doing a huge amount of work to look at where our advantage meets that future opportunity. We will galvanise around the key, major economic opportunities, whether they are in low carbon, advanced manufacturing or indeed emerging technology—wherever business needs help to realise its potential.

As we pivot human and financial resources, our conversation with the Government and the Cabinet is about how we will get the balance right. We are in the midst of that and we are working actively to make sure that we retain the balance as best we can within the resource envelope that we have.

Dean Lockhart: I thank Benny Higgins and Charlie Smith for their answers. I have a follow-up

question on the capital that is required in the economy.

A huge amount of recapitalisation is required in the form of debt and equity. The UK Treasury has announced project birch, which is a forward-looking policy measure to rescue companies that would otherwise, but for the crisis, be viable businesses. What role will the advisory group have in that recapitalisation exercise?

In my mind, whatever policy measures are introduced, the single most important issue at the end of the day is, to be frank, the size of the UK Treasury's balance sheet and how much money is available for recapitalisation in the economy. I would like to hear the views of Benny Higgins and Charlie Smith on how Scottish companies can benefit from that recapitalisation programme.

Benny Higgins: That is an extremely good question. There will need to be recapitalisation. The estimate that I have heard is that the figure for the whole of the UK could be over £100 billion, and one would anticipate that the figure for Scotland would be a tenth of that.

We will make recommendations on recapitalisation. For the most part, they may be aimed at the Scottish Government, but we must recognise that in some areas, such as the one that we are discussing, we will need to embrace the Westminster position and make clear what we think would be helpful. The other thing about recapitalisation is that we will have to look at how the private sector can step forward—the banks, private equity firms and so on. The banks will have to pivot themselves in relation to forbearance. We are in the middle of discussing all those matters with the various parties so that we can come up with sensible recommendations.

Charlie Smith: We are actively ensuring that, with the recapitalisation that is taking place, we understand in as forensic detail as we can the landscape across Scotland at a local, regional and national level, the companies that exist therein and who could and should benefit. As Benny Higgins said, we also have to consider how we work with the private sector, the shareholder community and the banking community to ensure that those who can step in, participate and help at this time do so.

In partnership with Government and the other enterprise agencies, we are looking at strategic, critical companies—locally, regionally and nationally—at a forensic level. We are having those discussions very actively and proactively right now.

Benny Higgins: I have a point to add. The banking sector has numerous classifications that determine what a small and medium-sized enterprise is by size, and I think that some of the recapitalisation programmes are likely to be taken

up by mid-sized companies. They are important and we must look after that part of the economy, but I fear for a lot of the very small businesses—typically, they are sole-proprietor businesses—of which we have so many. To be frank, they are facing issues that they have not had to face before and they will not readily or naturally understand some of the language that is used. We need to take special care of that segment of very small businesses, because they are facing the crisis and are in its teeth as much as anyone else is.

The Convener: That is very true. I see Charlie Smith nodding. Do you have anything to add to that?

Charlie Smith: No—I was merely acknowledging Benny Higgins's point about small businesses.

The Convener: Scottish Enterprise has always had a focus on increasing the number of start-ups and on high-growth businesses, which are deemed to be quick wins in terms of increasing employment and so on. However, there has always been a slight gap when it comes to those solid, long-term companies that may not be very exciting but are good income providers.

Will Scottish Enterprise be pivoting more around businesses that it thinks might have a more solid, long-term future? In my local area, companies have had big investment and much interest from the Scottish Government and Scottish Enterprise, but two, three or five years later they have been away. They get all the grants and investment and then they are gone, with hundreds of jobs lost. Is the crisis changing that attitude and approach?

Charlie Smith: I can speak only for Scottish Enterprise. Just over a year ago, we published "Building Scotland's future today: Scottish Enterprise's strategic framework 2019-2022", in which we clearly state our intent to help the gamut of businesses across the nation. We are not here to self-segment.

When we are looking to provide support, it is critical that it is not a one-off payment or bit of advice. You will find that many of the companies that we have invested in through the Scottish Investment Bank or provided support to through our grant infrastructures are companies that we have worked with for a considerable time.

Just this week, Ernst & Young published its annual foreign direct investment report, and we are encouraged that, as well as maintaining our performance and attracting new projects—we have outpaced the United Kingdom in the number of new projects that we have brought to the country and the jobs that go with that—we are also seeing a lot of organic growth by companies that are already in Scotland, with which we have ongoing relationships. That is where we hit the sweet

spot. When inward investors come and work with indigenous companies and use the available talent and skills—the talent is swapped and shared—we have to be there to curate and facilitate that and make sure that we see it through.

The crisis definitely means that we, many other public institutions and the Government will take a more substantive role now and in the future in ensuring that we create the right environment for business to be sustained and grow. However, that is not just something that we have thought about as a result of the crisis; indeed, we talked about it a great deal in the framework that we published a year ago.

10:30

Colin Beattie (Midlothian North and Musselburgh) (SNP): Many of Scotland's economic growth ambitions were centred on internationalisation. Is it still realistic to believe that that will happen in a Covid-19 world or a post-Covid-19 world? Will we need to revisit the various Scottish Government strategies on trade and the four I's—investment, innovation, inclusive growth and internationalisation? I would be happy if any panellist responded.

Benny Higgins: I will say a few words about that; I think that Charlie Smith should respond to the questions, too.

It is not so much a question of whether that is still realistic; it is essential. We have an opportunity to use events as a catalyst to reinforce what Scotland stands for. Our tourism and hospitality sector has taken an incredible blow through the crisis, but it is an important part of what Scotland needs to show the rest of the world.

We need to react to the changing times. For example, there is a school of thought that tourism may become a more premium activity for some time to come. The question is how we can ensure that the tourism and hospitality sector in Scotland is fit for that purpose.

Inward investment is important. We have talked about the inevitability of fiscal constraints. One response has to be to up our game on inward investment. That agenda has to sit alongside many of the other things that we have touched on as being very much at the heart of what Scotland needs to do in recovery mode. Charlie Smith has been doing some work on that.

Charlie Smith: There has certainly been a live conversation about that with Government colleagues and many of the different constituencies that we have consulted in the past few weeks and continue to consult. We have already had several meetings on that issue, and

the advisory group has had two meetings specifically about it.

Colin Beattie is right to say that the dynamics have changed somewhat and there is increased uncertainty. Brexit is still very much around, and it is clear that we need to see what passes on trade. Covid has made many markets and countries think about the way that they will choose to trade and the basis on which they are happy to trade from a policy point of view. There is also the price of oil. Those things come together to make the situation incredibly challenging.

We have worked very hard with the Government to look at the current position on inward investment and trade. Just over a year ago, we published "Scotland: a trading nation", which was a strategy and plan to look at export markets and how we can create growth therein, and we have also done work on inward investment. As members can imagine, we need to understand that there will be an impact and that there will be huge challenges. On Benny Higgins's point, with all the issues that are coming before us, inward investment and trade remain two critical levers.

Lest we forget, we have an extraordinary product to sell. Benny Higgins alluded to tourism as an area that has been hit incredibly hard. We have to work as hard as we can to get the tourism industry back, not just because it is incredibly important to jobs in this country but because of the contribution that it makes to the wider economy, economically and fiscally.

As you can imagine, we have many companies that make products that we believe many markets will continue to want to buy from us. It is important that we face up to the challenges, but we must not lose sight of the importance of inward investment and trade. We should do all that we can to focus on the markets, in the product sense, in areas where we have an advantage and can realise that opportunity. We have previously spread ourselves quite far and wide, and perhaps we need to be a bit more forensic and do a bit more fly fishing in the markets where we believe the real opportunity exists.

Colin Beattie: I am interested in your comments on Brexit. I assume that Brexit will be factored into the recovery recommendations when they come out. It takes two to tango with internationalisation. Obviously, on the one hand, we have the enormous issue of our relationship with the European Union and how trade will develop with overseas countries in light of Brexit, and on the other hand we have all the uncertainties as a result of Covid-19. It seems that we are in limbo to an extent at the moment. Is that correct?

Charlie Smith: There is a huge amount of uncertainty because of coronavirus. People are making judgments and Governments, companies and institutions across the world are having to work dynamically to look at the position.

I am not sure that I would characterise the situation as limbo. Personally, and from the representations that have been made to the advisory group from the business community, I feel that inward investment and trade remain an incredibly important part of our economy and that we have to continue to pursue jobs, intellectual property, innovations and research and development and bring them to our country. We must also work with indigenous organisations and help our huge exporters to do all that they can, because they in turn create significant jobs and wealth in this country.

I would not describe the situation as limbo; I would say that we have a stacked set of challenges, but we have to continue to work hard and forensically to see our way through them.

Benny Higgins: We must avoid limbo at all costs, because it will not get us anywhere. We must confront the challenges, because they ain't going away. Brexit is not going away, and there is now a much higher risk of an exit on World Trade Organization rules in January, which would present its own difficulties. Let us not forget the most important thing, which is that Scotland has to play to its strengths, whether that be within the country or as we face out into the international domain. Any effective strategy that I have ever seen in the business world, where I have spent my career, has been based on strengths and has not been about trying to make up strengths that you do not have. We have incredible strengths. We have talked about tourism and hospitality. I am not saying that those cannot be better, but there are grounds to believe that we can make them truly world class. Our university sector is the envy of the world in some cases, although we could get more from it in terms of its ability to develop and commercialise.

As we come out of the crisis, rather than chasing down every opportunity, we need to be better at being more focused and choiceful and ensuring that we present a prospectus for Scotland that is as good as it can be. I think that it can be truly exceptional.

The Convener: I have one quick question. Tourism has been mentioned a lot as one of the major areas that we could revive, and we have heard that premium tourism is likely to be a focus. I am concerned about the coach companies, on which Scottish tourism is fairly dependent, due to the rural nature of the country and the difficulties of getting around to visit many of the features that premium visitors, in particular, are likely to want to

see. The coach companies have not had much support during the crisis. Shearings, which was a big company where I live, has disappeared.

When the advisory group is looking at all the issues, will access to our tourism opportunities be in your sights? Have you had any views or thoughts about the lack of support that has been available and how that might impact on our recovery? Does anyone have any thoughts or comments on that?

There is deathly silence. I can see that Benny Higgins wants to come in—you are a good volunteer.

Benny Higgins: I need to be. You make an extremely good point. I have a very close personal friend who runs a tourist bus company in Edinburgh, and the prospects for that business are daunting. The development of the social distancing rules will have a big impact on such companies, as it will on most parts of the hospitality sector. I make no comments on a subject that I am not equipped to speak on, but the consequences will be quite significant.

I am afraid that I will have to stick with the point that I made earlier: we have not paid any attention to the life-support aspects of the response. However, tourism is one of the key sectors that we are focused on. I have had conversations with VisitScotland, which is clear about the opportunity that it has to say what it thinks needs to be considered and curated by the advisory group. The convener's point will be addressed, but it remains to be seen whether there is a good answer to that difficult question.

We have used the dynamic engagement framework in the way that we have done because I take the view that the people who understand the sector best are those who participate in it. I want to lean on the players in the sector for their expertise. I stress to everybody we speak to that, although it is okay to give us context and to describe the problem, this is an opportunity to put into the spotlight interventions that can make a difference. It is hard to do that, but it is worth doing it.

The Convener: I totally recognise and accept the group's remit in looking to the future but, without a doubt, there is a link relating to the recommendations that the group will make about how the future might look and how our economy can recover, because they should probably inform the actions that we need to take during the crisis to ensure that the building blocks are there. However, if the group makes a recommendation but, meanwhile, all the building blocks are being undermined and disappearing, that recommendation becomes pretty irrelevant, does it not?

Benny Higgins: Earlier in the conversation, I said that the nature of the transition from crisis emergency action to the restart will have a clear and unequivocal impact on the longer-term development, recovery and rehabilitation of the economy, so I take your point. However, in the time that we have available, we just have to try to find our way through this as best we can.

Dean Lockhart: I have a brief question for Charlie Smith that follows on from Colin Beattie's discussion about increasing Scotland's international trade. What steps are being taken to help Scottish businesses to increase their online trade and e-commerce activities?

I also have some brief follow-up questions for Benny Higgins. In what capacity will the advisory group sit once it has presented its recommendations to the Government at the end of June? Are there any plans to have formal parliamentary scrutiny of the advisory group?

Charlie Smith: The issue of our digital capabilities and skills and all that goes with that has been a live one for many years. In my previous career, fifteen years ago, we were looking at e-commerce and what we were selling online. There has been continuous investment from across Government and the enterprise community. A number of programmes across sectors and sub-sectors have induced people to acquire the skills that will enable them to deploy platforms and capabilities that will allow them to trade online. However, Dean Lockhart's question is particularly pertinent at the moment, because e-commerce is in some cases—or in most cases, probably—now the predominant channel through which companies are doing business.

10:45

As a channel, e-commerce will gain more prominence over time. We are actively talking to Government about how we can maintain the current efforts and help companies to trade, not just in relation to the deployment of technology that enables them to do that, but by helping them to understand what is required in the markets where they believe there are opportunities. Having the capability is one thing, but being able to use it efficiently and well is another. To do that, businesses need to have an acute understanding of the dynamics in the market and how they can deploy e-commerce to generate income and sales both safely and securely.

A lot of work on that has been going on across the agencies and Government, but I think that they need to step up those activities given the exponential growth in the e-commerce channel. We need to consider what is likely to sustain that, and we are actively looking at what programmes

we can introduce, in addition to those that we already have, to support all the sectors and sub-sectors that could benefit from increased e-commerce trade in Scotland.

The Convener: Benny, do you want to answer Dean Lockhart's other question?

Benny Higgins: Yes. One of the oldest clichés is that, when you have a complex problem to solve, you have to get a busy person to help you. The current problem is very complex, and I have asked some of the busiest people that I could find to help, including Dame Julia Unwin, who is with us today. They are incredibly able people, and I asked them to help on the basis that the piece of work will last until the end of June.

Once we have made our recommendations, it will be up to the Scottish Government to decide which ones to proceed with and how. That is beyond the role of the group. That is not to say that there might not be a role for some of the group or whatever, but that is beyond the scope of what we are doing at present.

On the question about parliamentary scrutiny, I am not sure whether Dean Lockhart was asking about scrutiny of the process. Is that what you meant, Dean?

Dean Lockhart: I suppose the question was about scrutiny of the recommendations and, if the advisory group will exist beyond June, possibly further committee scrutiny of the group's work.

Benny Higgins: I answered the first part of the question about where we stand in relation to the group. Its work will be done at the end of June, so we would need to restart it in some other shape or form.

In relation to scrutiny, I am unaware of how we will proceed. I think that parliamentary scrutiny of the group's recommendations would be a lot more productive than scrutiny of how we have gone about our work, to be honest, but that is not for me to decide. With the group's support, I need to get the recommendations out by the end of June, and I hope that they will make a difference.

The Convener: Your report will go to the Government. Do you think that it will be made available for the committee to have a look at?

Benny Higgins: I do not know the answer to that. It was commissioned by Fiona Hyslop. I am sure that others will be able to give you a better answer than I can.

The Convener: I am sure that we will put that question to the cabinet secretary when she comes to see us next week.

I do not have any further bids from members, so that completes our questions. I thank Benny Higgins, Dame Julia Unwin and Charlie Smith for

their time. Their evidence has been helpful. No doubt we will see them all again.

I will suspend the meeting briefly to give members a comfort break. We will resume in a couple of minutes.

10:49

Meeting suspended.

10:51

On resuming—

The Convener: Welcome to the second part of our meeting. I am pleased to welcome James Smith, research director at the Resolution Foundation. He joins us as the only member of our second panel—therefore, all our questions are for you, James.

As we did earlier, we will move straight to questions from members. I ask everyone to keep their questions and answers succinct and to ensure that they allow a couple of moments for their microphone to come on before they start speaking.

Alison Harris: Publications by the Resolution Foundation suggest that households and businesses face the largest economic downturn in living memory, with even benign forecasts suggesting that we will have the highest unemployment rate in more than 25 years. What scale of downturn is likely to be experienced in Scotland over the next two to three years?

James Smith (Resolution Foundation): I thank the committee for having me.

Ms Harris is probably referring to work by the Office for Budget Responsibility and the Bank of England, both of which have produced scenarios for the impacts of coronavirus on the economy of the UK as a whole. Both bodies consider that those impacts will be very large. The Office for Budget Responsibility foresees a fall of 35 per cent in gross domestic product in the second quarter of this year, which would be a completely unprecedented downturn, let alone the largest in living memory. For the year as a whole, the Bank of England and the OBR, as well as the Resolution Foundation's work, point to falls in GDP of around 15 per cent. If that were to happen, it would be the deepest recession for 300 years for the UK as a whole, based on long-term data that is published by the Bank of England. At the risk of pointing out what is pretty obvious, we face an incredibly large hit to the economy.

To put that in context, every year the Bank of England does a set of stress tests on the resilience of the banking sector, as part of which it puts together scenarios for the impact on the

economy. Those scenarios were more optimistic than what we can see in the work that the OBR and the Bank of England have put out now.

We are talking about a huge hit to the economy as a whole. What makes the situation incredibly difficult from the point of view of policy and planning is the fact that so much will depend on the progress of the virus, which is very uncertain. That is the big factor in the interaction between policy and the impact of the virus. Perhaps we can talk a bit more about that.

On the question of what that means, the OBR and Bank of England scenarios involve the lockdown being unwound from June. Tentative steps are being taken in that direction in different ways across the countries of the UK. In some ways, that is on track, but in the second half of the year, those scenarios show a relatively rapid recovery, and the big question is whether we will see that. That is the big uncertainty. A lot will be determined by the impact of the virus as a whole, how that unfolds and what policy does in response to that. That is the UK situation: a huge, unprecedented hit to the economy.

On the impact in Scotland, a lot of what I have said about the UK will apply. I do not have Scotland-specific numbers to talk to the committee about, but there are several reasons to think that the impact in Scotland could be a little larger, particularly in some respects. For example, the sectoral composition of the Scottish economy is such that the degree to which oil production is a feature is much greater than it is in the rest of the UK. We have seen at least a halving of oil prices. The Investment Association is talking about the largest fall in oil investment ever recorded, so that sector is particularly hard hit.

If we look at some of Scotland's important sectors, we see that around 13 per cent of the economy and 19 per cent of employment is a combination of distribution and hotels and restaurants. That is a little larger than it is elsewhere. The Resolution Foundation has just published details of a survey that we have been running on the impact on the labour market of what is going on at the moment. We commissioned YouGov to survey more than 6,000 people throughout the UK, and that research shows that Scotland has the largest proportion of people who have already lost their jobs—that figure is about 6 per cent. Around a third of people have experienced a major change in their job: they might be on shorter hours, have gone on to the furlough scheme or have lost their job outright. There is a big hit to the labour market. It is not completely outsized in Scotland relative to elsewhere, but it is certainly a big effect.

The other thing to mention about the Scottish economy is that it has a slightly higher proportion

of people working in the public sector. There is some good news there, to the degree that that means that those people's jobs will be safe.

We are talking about a huge hit to the overall UK economy, and there are definitely reasons to be concerned about what is happening in Scotland in particular.

Alison Harris: Thank you for that very full answer.

11:00

Willie Coffey: Good morning. If you were listening to our previous discussion, you would have heard Julia Unwin make a worrying comment about the prospects for our young people coming out of school and going into the world of work or university, because we are now looking at a different economy. Is the Resolution Foundation sighted on that issue? What might that situation look like? Can you give us examples of what is being done internationally in order to give us a wee glimpse of what might be working elsewhere, particularly with regard to young people coming into the economy as it now stands? I know that we are a few weeks or months behind other economies in terms of the journey back.

James Smith: We have been doing work on the impact on young people, and you are absolutely correct to highlight that issue. One of the big things that we have seen previously is that, if someone leaves school or higher education during an extremely sharp recession, that has an effect not only on their immediate job prospects, but on that key development stage of their career, which means that there is a more lasting effect for that group. That is a particularly live policy issue, which policy makers should be thinking hard about.

To put that in perspective, taking the OBR's figures at face value, our calculations show that we could be looking at an increase in unemployment among people aged between 18 and 24 of around 600,000. That is a really big increase in unemployment for that group.

Potential policies for that group fall into two categories. One involves putting in place measures to keep people in education for longer, such as providing maintenance payments and active career planning advice to people in schools—essentially, helping people who want to take a formal academic route. However, that will not be for everyone, so the second area involves encouraging people to help younger people who are not going into further or higher education with the issues that they will face. For example, you could use the apprenticeship scheme a bit more actively and subsidise it a bit more, and prioritise apprenticeships in sectors that are least likely to be hit by what is going on in the crisis. In general,

you could put in place so-called active labour market policies that help people to search for jobs in the sort of recession that we are facing, because you want to avoid the skills atrophy and the increase in unemployment that can lead to scarring or hysteresis effects on our economy, which can prove to be expensive.

On the international level, I guess that what has been striking, as much as anything else, is the similarity between the big things that are being done across countries. In Europe, across the board, measures have been adopted to keep workers attached to their jobs. That makes sense when you are essentially locking down the economy and almost freezing it in its current form in the hope that you can revive it later. Really big job protection schemes have been put in place to try to achieve that.

What has happened in the USA looks a bit different, on the face of it. There, rather than keeping people in their jobs, unemployment insurance payments have been boosted. Across the board, an additional \$600 a week is being paid to people who are registered as unemployed. That has involved a colossal rise in the administrative measures of unemployment in the US, with something like 40 million people becoming unemployed. However, a lot of those are what are called temporary lay-offs, so people are still attached to their firms but are receiving payments from the Government, which is pretty similar to the furlough schemes that we have seen in Europe.

The initial phase has been pretty similar, and now we are seeing the start of the phase in which countries are relaxing their lockdown restrictions. We have not yet seen large-scale measures to help boost economies across the world. That will be the key policy issue in what is coming.

Willie Coffey: That was very thorough—thank you. I will let other colleagues come in.

Gordon MacDonald: I want to continue the discussion about how we get people back to work. We know from indications from both Governments that social distancing measures will be needed until at least the end of the year to prevent fresh outbreaks of coronavirus. Given the impact of social distancing on the level of unemployment across a whole swathe of our economy, whether we are talking about the public transport, retail or financial services sectors, what sectors should both Governments focus on and why? What type of assistance should be provided?

James Smith: That is an important set of issues. It might be helpful for me to talk about how I think about the overall crisis as a whole. A second ago, I spoke about the lockdown phase. In thinking about the crisis, it is worth keeping in mind that, if you have different types of technology

to fight the spread of the virus—I am thinking of effective test, track and trace programmes such as those that have been put in place in countries such as Singapore and Taiwan, which have been much referred to—you have different ways of fighting the virus. Those countries learned a lot from the SARS—severe acute respiratory syndrome—outbreak a few years ago. However, if you do not have those infrastructures in place, you cannot fight the virus in any other way than just locking down the whole economy and preventing people from interacting with one another and spreading the virus. That means that you immediately have a phase in which you have incredibly big impacts on your economy.

There is then the second phase—the reopening phase—which is the one that we are coming into now. In essence, policy makers are trying to generate as rapid a recovery as possible but without pushing the reproduction rate of the virus back above the critical value of 1 and so allowing it to spread again. Policy makers have those extremely difficult competing objectives. As much as possible, they are trying to get people back working and back to their normal lives in order to re-energise the economy and bring it back to life. However, on the other hand, there is not much certainty about how much any particular measure will do to impact the reproduction rate. Even fairly small changes in the lockdown, such as kids not going to school and implementation of a self-isolation policy, have had reasonably substantial impacts on the reproduction rate on the way down, so, on the way out, we might expect them to have some symmetric effects. Therefore, policy makers are worried about what they can do to unlock the economy.

Governments—both here and around the world—are taking very slow steps. There is an asymmetry in how we unlock the economy, in the sense that, if we go too quickly and have a second wave, we will need to lock down again, which would erode confidence and might even be difficult to achieve, given the fatigue that exists, so there is a big downside risk.

On the upside, as we open the economy, people will inevitably go back to work, but they will still be worried about the virus, so they will not live life in exactly the same way that they did before. They will not go to restaurants or do other things that involve social consumption in exactly the same way. It is important to keep that in mind.

That applies particularly to sectors that cannot be opened up quickly. In the context of social consumption, great swathes of the hospitality sector and the tourism sector, which is obviously important to Scotland, will open up quite slowly, and we want support for those sectors to continue for a longer period. We need to be clear that we

want bars and restaurants to be viable businesses in the future. We want tourism to still be a major part of the economy, although it might be slower to recover, and it might be a smaller sector in the future than it has been in the past. Those will be important sectors of the economy, so they will need additional support.

We expect to hear from the Chancellor of the Exchequer today about the future of the job retention scheme. There has been some briefing on what he might do, but we do not have the details yet. The big risk is that support in key sectors is withdrawn too soon, or that we ask too much of firms in contributing to people's wages, which could lead to a big shake-out in those sectors and a lot of people becoming unemployed. As I said, that could become entrenched and it could take a long time for unemployment to come down. That is the big issue when it comes to thinking about different sectors.

Gordon MacDonald: Earlier, you said that the UK could be facing the deepest recession in 300 years. The level of unemployment and the fact that companies are not able to trade will result in a substantial reduction in Government revenue, and there will be an increase in the support that is required for social security benefits. If I understand it correctly, last month set the record for the most borrowing by the UK Government, at £62 billion, which was up £51 billion from the same month last year. How much room for manoeuvre has the UK Government got to kick-start the economy, given that it is facing those three problems relating to its finances?

James Smith: That is a great question. The Resolution Foundation has done a lot of work on that issue, and, as I mentioned earlier, the Office for Budget Responsibility has also thought about it. If we have a relatively short period of lockdown—about three months—the OBR says that there could be something like £300 billion of borrowing this year, which would be a colossal increase and much higher than the level during the financial crisis. Debt would rise extremely quickly in that situation so, straight away, we would be worrying about the fiscal position.

Our work shows that big falls in the costs of servicing, such as the one that we have seen in interest rates on Government bonds, mean that measures of Government solvency such as the amount that is paid on debt relative to revenues look set to fall gradually, even as debt spikes up. That is because, certainly as new debt is issued, the fall in the cost outweighs what is happening with the increase in debt.

11:15

The big thing is that the Government can afford to do more through policy. It can afford to provide support during the first lockdown phase, and it has a huge role in pushing a sharp recovery. We have to bear in mind that recessions tend to have scarring effects. We saw an extraordinarily weak recovery from the financial crisis around a decade ago. The Scottish economy has grown on average by about 0.5 per cent in that post-crisis decade, whereas after the previous three recessions it grew much more rapidly, by more like 2.5 per cent on average. There is that context of weakness. There is a big risk that we fall into the same trap and end up with an extremely big fall in GDP followed by slow and sluggish growth. The Government should be pushing hard to achieve the recovery.

On the face of it, the Government can afford to do that, but the critical point in that regard is that the cost of servicing the debt when it issues in the financial markets does not rise sharply. Even modest rises would put the UK Government in difficulties with the sustainability of its public finances. That is the big risk. So far, the Bank of England, with its monetary policy and purchases of gilts as part of its quantitative easing programme has helped to keep yields low and to facilitate the role that fiscal policy plays. The big thing to keep in mind is that, in past recessions, the Bank of England, through its interest rate policy, played the lead role in supporting the economy through the recovery, but that cannot happen this time, because rates are already pinned more or less as low as they can go. Therefore, it will be down to fiscal policy to do more in that space.

The Convener: James, you obviously have a lot of information and a lot of good stuff to give us, but I ask you to make your answers a little more succinct. At the end, I will give you a bit of time to add in anything that you feel is important and that you have not covered. Is that okay?

James Smith: That is okay.

The Convener: We will move on to Colin Beattie.

Colin Beattie: There is a huge variety of financial measures to support businesses, but nevertheless firms have overheads to meet, and the longer the shutdown goes on, the longer they will have to meet those overheads, which are simply not met by Government financial support measures. It is likely that firms will run out of cash at some point and will not reopen. Is it likely that there will be a major restructuring of the business base?

James Smith: That is a difficult question and it is the key uncertainty as we look forward. So far,

the Government has provided a lot of loan support, but that can tide companies over for only so long. Loans saddle companies with more debt and ultimately hit their value. In the context of what I said earlier, for the reopening phase to have very rapid recovery we have to think about what the corporate sector is doing about things such as investing and generating jobs. I think that we will see some of that support take the form of grants, as a way of reducing firms' debt. That will be important in generating rapid recovery and in having firms invest in, for example, jobs, plant and machinery, and new output, which will be a key driver of growth in the recovery.

Colin Beattie: Is there any sign that loans will be converted into grants? I have heard nobody talking about that, so I assume that it is speculation—a hope that it might happen in some cases or sectors.

James Smith: There are a number of ways in which it could happen. There are examples from past big financial crises, for example in Iceland and other Nordic countries in the 1990s, when Governments offered cheap lending to, and then took stakes in, private sector companies. If we get to a position in which the debt becomes a burden and slows recovery, something similar may happen in the UK. I do not think that we are yet at that stage, but we should definitely think about it, in the context of pushing for a rapid recovery, and we can learn from examples that have involved debt write-offs and a role for Governments in taking stakes in private firms.

Colin Beattie: Is there any way to avoid the restructuring of the business base?

James Smith: A lot will depend on the extent to which we need to keep social distancing in place in the long term. If a vaccine is put in place, antivirals are developed or, like the great flu of the early 20th century, coronavirus simply dissipates over time, we would expect the economy to go back to its previous structure. The big thing hanging over us is the extent to which we might have to develop lots of new technologies to help with social distancing. That would inevitably have an impact on the overall structure of the economy and efforts to keep the existing structure.

The short answer is that it could be avoided but, in the meantime, we have to deal with uncertainty. The objectives of policy should be to return as much activity as possible and to boost the economy as much as we can, without increasing the spread of the virus. That is the tension that policy makers face.

Colin Beattie: I mentioned that some overheads may not be covered by the various Government schemes. Are there any business

overheads that you feel the Government should have picked up but has not done so?

James Smith: No. The initial focus of the lockdown policy has been on the cost of capital and paying workers, whereby the Government has in essence tried to freeze the economy in its current state, given the uncertainty over the future. That has been the key policy so far. The big question will be how that support get withdrawn and what happens to the support on the capital side.

To generate a strong recovery, we will need people to go out and spend again, and firms to invest in jobs and in increasing their output, and so on. That will definitely be a big part of what is needed. I do not think that there are any major gaps at the moment, but the question will be how that support evolves as we start to open up the economy.

Colin Beattie: Clearly, at some point—

The Convener: I am going to move on now, Colin, because we have time constraints.

Rhoda Grant: I will ask a quick supplementary on furlough. You talked about whether employers will be asked for too big a contribution when the chancellor changes the furlough system today. There is a danger of people becoming unemployed, but is there a way of stopping that other than keeping the job retention scheme as is? Is there a difference in the economic cost between the furlough scheme and people going on to universal credit? Both of those have a cost to Government, but one imagines that the furlough scheme protects spending in a way that universal credit does not.

James Smith: If we see that big shakeout and see people move from the furlough scheme on to unemployment benefit, it will be a lower cost to the Exchequer in a lot of cases, but there will be more people in unemployment and that will have big economic costs. That is definitely something to be avoided. We need to think about how different sectors will respond to all that. If you tell someone operating a holiday company, which is in one of the last sectors of the economy that will be able to get back to business, that they need to start paying the wages of their furloughed workers, they will probably start laying off workers, so there is an argument for having a different approach for different sectors. The sectors that are most likely to see a shakeout are those that we should be looking to protect. Under the current plans, most of the economy will be up and running by the time employers have to start to pay more of the support; if that is not the case, having some flexibility will be important.

Rhoda Grant: You talked about things that we could do to protect younger people who are in

danger of having their careers scarred—I think that that is the term that has been used. Women are also at risk, as are lower-skilled workers, although maybe that is not such a good phrase any more because the people who are termed lower-skilled workers are the ones holding us all up at the moment. What do you suggest that we do to protect those two other groups that you had not mentioned before?

James Smith: The Resolution Foundation's work has focused on that issue. Three groups are bearing the brunt of the crisis: the young, women and those on lower pay. Those groups take the biggest health risks; a disproportionate number of them are key workers and they take the biggest risks in terms of the economic hit—particularly those in the younger age group, as we talked about. The policy should cover all those groups. We talked a bit about the younger group, but for those on low pay, we are doing work on the future of key workers; the experience of the past couple of months should renew questions about whether the pay of some of those workers is at the right levels. It is possible to think about those groups in relation to the future of public sector pay settlements—that is something that we might see some policy on. More generally, particularly for those most affected by all this, it will be key to ensure that they get financial support throughout the crisis in terms of benefits, the furlough scheme and all the rest of it, and are able to access training and active labour market help as we come out of the crisis. Those are the big things all round.

11:30

Andy Wightman: Welcome, James. I have a couple of questions on the more substantial economic challenges that we face.

In recent years, there has been a lot of talk about new measurements of wellbeing, and about a universal basic income. We also have older long-standing problems in inequality, especially wealth inequality. How separate will those things be from the recovery, and how confident are you that the Government will be brave, bold and imaginative enough to be able to incorporate some of those big challenges?

James Smith: Those are, obviously, huge areas. As I said, the larger impact of the crisis on people who are on lower pay has put income inequality at the centre.

You are right about wealth inequality. We do not have data on that yet, but we will see that those at the top end of income distribution will have made a lot of savings during the period because many things on which they would normally have been spending money cannot be accessed. At the other end of income distribution, where people have

been really affected, we will see that their savings and wealth will have been hit because they will have drawn on savings, accessed costly borrowing and borrowed from friends and family.

We will see more of wealth inequality and income inequality, so Government policy will have to address those issues. Protecting those who are most vulnerable in the face of the crisis will form part of the collection of Government policy.

Looking forward, policy will also be involved in how to pay for the crisis; we have talked about the impact on Government borrowing and debt in general. Whatever happens, we will see an incredibly large rise in those things, so there is a question about how quickly the Government will want to pay them down and bring debt back to a more sustainable level. My sense is that the Government would want to take quite a long time to do that. There are strong arguments for doing so.

The idea that that could be achieved by cutting spending in the way that we have seen it being cut in the past is extremely tricky, given where things are, and because of challenges that are coming up to do with demographics, environment and what has happened previously with spending.

Taxes will play a big role in how debt will start to fall, so it makes sense to think about the issues that Andy Wightman has mentioned. Considering what has happened in terms of wealth—some of the big gains that people have accrued and the big increases in savings that they are acquiring throughout this crisis—we should start to think about broadening the tax base. Andy Wightman is right that those are big issues; there should be policy on them. The Government will, naturally, have to think about those things. They are things that Resolution Foundation work has already focused on.

Andy Wightman: I have two supplementary questions to ask. First, we tend to focus on the people on the lowest incomes by trying to boost their income. An alternative is to reduce their expenditure, but we have seen the Government being very resistant to ideas such as rent freezes, debt write-offs and the things, in addition to lifting their income, that would give people a bit more headroom. Will you comment on that?

Secondly, we are still seeing from the latest Her Majesty's Revenue and Customs data that the poorest 20 per cent of people pay a higher proportion of their income in taxes—all taxes—than the richest 20 per cent pay. That is mainly because they are disproportionately exposed to VAT and other such flat-rate taxes. Your comment about tax was interesting, so I am interested to know whether you have any specific ideas about how we could change the fiscal regime.

James Smith: I will answer the second question first. There are definitely big issues around marginal rates of tax and marginal levels at which benefits are withdrawn. The impact of those factors will be high at the bottom of income distribution, so policies that would affect those areas are definitely ones to think about.

I have in mind what has been happening in terms of the big shifts in housing and financial wealth over the past 30 years or so, and how some of the trends that we have seen in recent months are likely to exacerbate and increase the differences. Some countries—Switzerland, for example—have small taxes on financial wealth. We do not have the same sort of thing here, and we have capital gains tax, so we could think about policies in that area that could broaden the tax base in a way that would take into account the big changes to the economy that we are seeing.

I have forgotten the first of your two questions.

Andy Wightman: The first question was about reducing people's liabilities for meeting basic costs such as rent and energy, which form a disproportionately high element of poor people's expenditure.

James Smith: That is obviously a big part of what is happening in relation to wealth. The people at the top of wealth distribution tend to own property and to face proportionally lower housing costs and other associated costs of living.

This is a tricky area. During the crisis, steps have been taken to give people mortgage holidays and, on the renting side, to prevent evictions. Obviously, associated issues play into the wealth and income differences that we have been talking about. There is scope for policies that would do something in that respect, although coming up with them would be tricky. One of the key things would be to provide more low-cost housing. That would make the biggest difference, but we are in a world in which it is tricky to do that, given high spending elsewhere on the Government balance sheet. Progress on that will be reasonably slow. I agree that the issue will be a big one, as we go forward.

Richard Lyle: Good morning. Can you provide us with examples of initiatives that the Scottish Government could, within its devolved powers, introduce to kick-start recovery and recreate demand?

James Smith: I will not rehearse what I have said before, but the biggest factor for the economy will be the overall strength of the recovery. The key priority is to ensure that recovery is broad based and helps all the sectors that we know will have problems. All the devolved Governments and the UK Government should be addressing that. That relates to what I said about fiscal policy

having to do more for this recovery than it has in past recoveries.

I will reiterate some of the things that we have touched on already. On training, we must help to reskill workers and bring them back into the labour market quickly. That will be a key aspect in a rapid recovery. We must also think about whether there is anything that we can do about key workers' pay as part of the recovery effort, and we must think about housing policy and whether we can reduce some of the costs that are faced by low-income and low-wealth households, in particular.

A key point to emphasise is that putting money into the hands of people who are towards the bottom of income and wealth distribution will tend to have a bigger effect in that that group is more likely to spend more of any such stimulus. That should be a key principle in what is done.

Richard Lyle: I know that our time is short. Thank you.

Dean Lockhart: Concerns have been raised about a potential lack of alignment between the approaches of the Scottish Government and the UK Government to reopening for business, and there are concerns in the Scottish business community that that might put it at something of a disadvantage. Do you recognise those concerns and the need for a consistent approach across the UK?

James Smith: I am certainly not the best person to talk about health policy—I generally focus on the economic side.

The key issue is that there will be different effects on the virus reproduction rates in different parts of the UK: the virus will spread at different speeds in different places. The estimates that I have seen put Scotland's rate a little higher than that in other parts of the UK, which are seeing a bit more relaxation of lockdown. In the grand scheme of things, the differences will probably end up being small. The key issue will be the balance in the lockdown policy being eased in a way that allows the economy to come back to life without a return of the virus in a damaging second wave.

I do not have anything to add about the specific health aspects. A degree of localised policy makes sense, given the virus's localised conditions.

Dean Lockhart: I have a couple of supplementary questions, which I will try to keep brief.

We have heard about various policy initiatives to support the economy, including project birch, which is to recapitalise companies. Am I right in thinking that the fundamental question is the size of the UK Treasury's balance and the fiscal support that will be injected into the economy? Do you have an idea of the ultimate size of the fiscal

and monetary injection that will be required from the Treasury?

You have spoken about the shape of the recovery. Equity markets seem to be pricing in a very quick V-shaped recovery. Do you think that that is right or do you think that there is a much more prolonged recovery to come?

James Smith: Obviously, that is incredibly uncertain at the moment. Equity markets have rebounded very sharply. There are a lot of issues going on not just with their expectations of growth, but with what central banks are doing and how that affects asset prices.

There is a growing sense that the crisis will perhaps not dissipate as quickly as we had hoped. Maybe it is too early to say that it is completely plausible that we will see only a short lockdown and then a rapid recovery. That looks unlikely, if we end up having some social distancing measures in place at least until the end of the year—if not into next year, which people have talked about. There is a growing understanding that developing vaccines takes a while and that the process is uncertain. There is definitely concern that we could be in for a much longer period of social distancing measures.

Our work at Resolution Foundation shows—this is not rocket science—that the longer social distancing measures last, the more debt there will be. We could have periods in which the measures are slightly eased, but are then tightened again. Based on our work, we think that if that lasts for a year, we would see war levels of debt, with a huge rise in debt up to about 170 per cent of gross domestic product. That would be a level of debt that we have not seen since the second world war.

11:45

The good news is that the cost of financing that debt is low. As I said earlier, as long as that remains the case, the UK Government should be solvent and should be able to provide active large-scale support to the economy. The key thing is that withdrawing support too quickly will be costly in its own right, because that would reduce the size of the overall economy in the future. There are big risks; we will probably see a not unprecedented but very sharp rise in public sector debt on the balance sheet. However, that debt will be affordable, and the priority should be rapid recovery—or, at least, recovery that is as quick as possible, when it is safe to bring the economy back online.

Dean Lockhart: That is very helpful. Thank you.

The Convener: I do not have any further bids for questions or supplementaries. James, I said that I would give you the opportunity at the end of

the meeting to add anything that you felt had not been covered.

James Smith: I have nothing to add.

The Convener: In that case, I thank you very much for your time this morning and for your answers, which were very comprehensive.

That concludes the first item on our agenda. The second item is to consider the evidence that we have just heard. Is the committee content to take that item in private?

Members *indicated agreement.*

11:47

Meeting continued in private until 12:26.

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