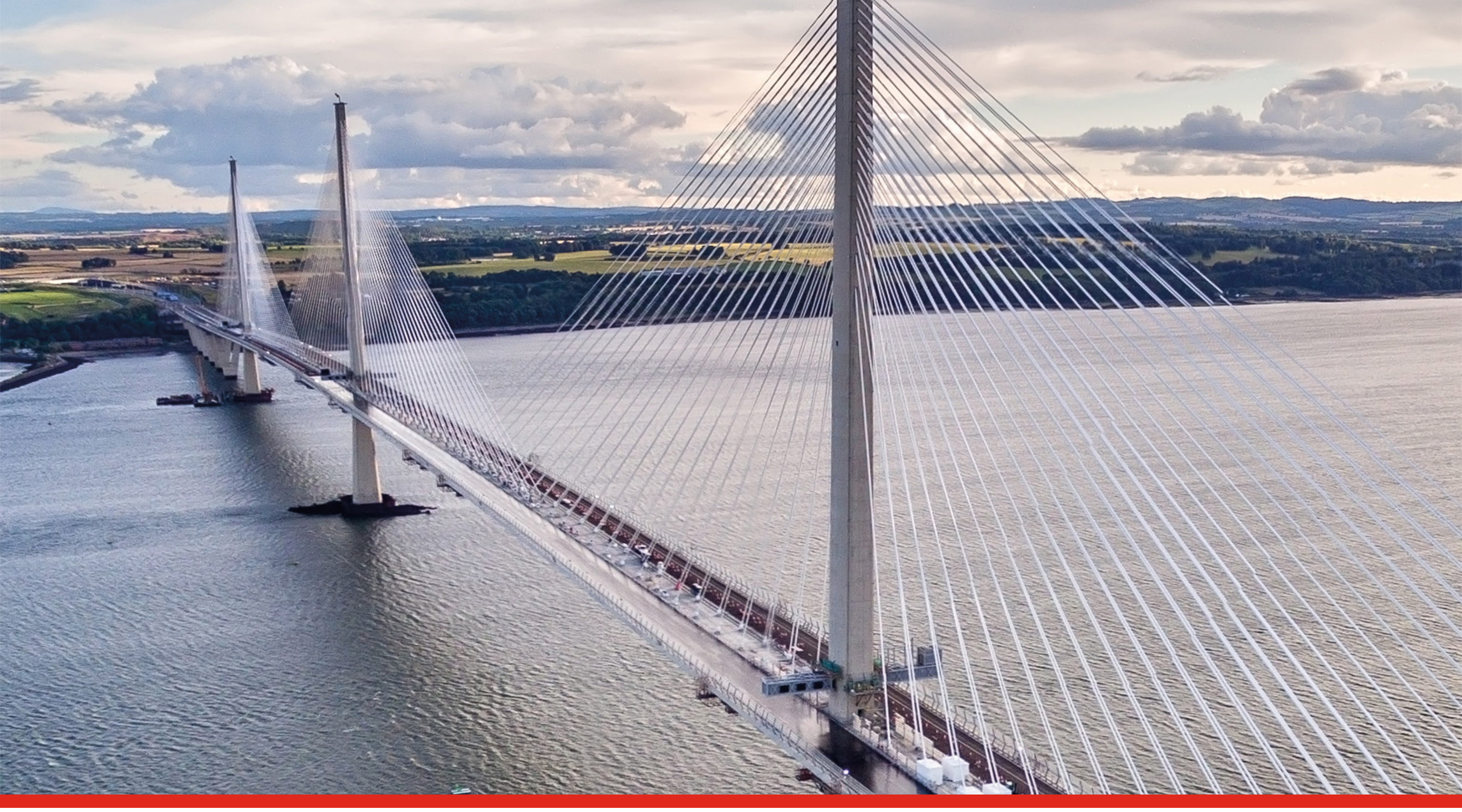

UNIVERSITY of STRATHCLYDE
FRASER OF ALLANDER INSTITUTE

We asked a diverse mix of experts on their opinion on the current economic implications of the coronavirus pandemic and how our economy and society may be impacted in the future.

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Introduction

In this latest Commentary, we reached out to a number of Scotland's leading economists, business leaders and poverty experts to get their views on the outlook for the Scottish economy and policy priorities. We are grateful for their time and insights. We explored 3 questions:

i. How do you view the immediate outlook for the economy over the next 12 months?

ii. What permanent changes to our economy do you see emerging from the crisis?

iii. What should be the key area for policymakers to focus on at this time?

Please read-on to see those who contributed and read their invaluable insights.

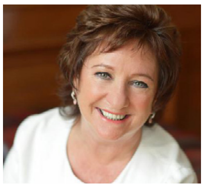
Contributors

Tracy Black, CBI

Tracy is the CBI Scotland Director. She has previously held executive roles at UBS Investment Bank and Goldman Sachs, as well as running the London-based consultancy Interactive Partners, which she founded in 2012.

Stephen Boyle, Fraser of Allander Institute

Stephen Boyle has worked as an economist for more than 35 years including in banking, universities and government. He is the former chief economist of the Royal Bank of Scotland and Head of the Analytical Unit for the Scottish Government's Enterprise and Skills Strategic Board. He is now a visiting research fellow at the Fraser of Allander Institute.



Liz Cameron OBE, Scottish Chambers of Commerce

Liz is the Director and Chief Executive of the Scottish Chambers of Commerce. Recognised as one of the most influential forces in Scotland's business community; Liz has spearheaded business growth initiatives including Scotland's very first education/business partnership, a National Graduate Recruitment Initiative and the innovative International Trade & Exporting Partnership.

Craig Dalzell, Common Weal

Craig is Common Weal's Head of Policy & Research and has been part of the team since 2016. His background is in laser physics but has been involved in economics and statistics since the 2014 referendum. Common Weal is a 'think and do tank' campaigning for social and economic equality in Scotland.

Professor Mike Danson, Heriot-Watt University

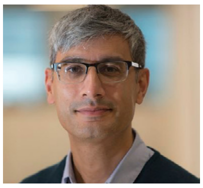
Mike is an Emeritus Professor of Enterprise Policy within the School of Social Sciences at Heriot-Watt University and is leading on several projects and networks. He has been involved in many learned societies internationally over the last thirty years and has worked extensively with a range of disciplines.

Professor Julia Darby, University of Strathclyde

Julia is a Professor in the Department of Economics at the University of Strathclyde. Her research is predominantly in the field of applied macroeconomics, particularly focusing on labour market issues and on aspects of fiscal policy.

David Fenton, TSB

David is the Chief Economist for TSB Bank, with over 15 years experience in the financial services industry. Previous roles have included a Senior Economist at RBS and Finance Executive at Ernst & Young.



Mubin Haq, Standard Life Foundation

Mubin is the Chief Executive of Standard Life Foundation. He was previously the Director of policy and grants at trust for London and has also been chair of London funders and on the boards of Community Foundation Network, the London Strategic Migration Partnership and the Homelessness Transition Fund.

Peter Kelly, The Poverty Alliance

Peter joined the Poverty Alliance as Policy Manager in 2002, becoming Director in 2004. He is responsible for the overall day-to-day management of the organisation, ensuring that the Alliance is delivering the objectives set by the board and members. Peter also represents the Alliance in a variety of forums and networks, including Scottish Drugs Forum and the Living Wage Foundation's Advisory Council.

Claire Mack, Scottish Renewables

Claire has been Chief Executive of Scottish Renewables, the representative voice of Scotland's renewable energy industry, since October 2017. She is responsible for leading the organisation's work to grow Scotland's renewables sector and sustain its position at the forefront of the global clean energy industry.

Helen Martin, Scottish Trades Union Congress (STUC)

Helen Martin is the Assistant General Secretary at the STUC for policy and parliamentary affairs. Her responsibilities include running the STUC's policy and research function and the STUC's political engagement at both Holyrood and Westminster. Helen was a Commissioner on the Widening Access to Higher Education Commission and was a member of the Health and Work review.

Jim McCormick, Joseph Rowntree Foundation

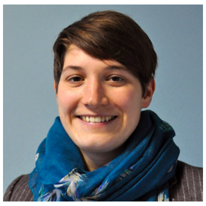
Jim is an Associate Director for Scotland with JRF. He is chair of the independent Disability and Carers Benefits advisory group reporting to the Cabinet Secretary for Social Security in the Scottish Government and chair of the Edinburgh Poverty Commission.

Professor Catia Montagna, University of Aberdeen

Catia joined the University of Aberdeen in June 2013 as Professor of Economics. She was awarded the Jaffrey Chair of Political Economy in 2018. She previously held appointments at the University of Glasgow and at the University of Dundee where she held a Personal Chair in Economics.

Jeremy Peat, Royal Zoological Society and Royal Society of Edinburgh

Jeremy is at present Chair of Trustees of the Royal Zoological Society of Scotland (who own Edinburgh Zoo and the Highland Wildlife Park) and Vice Chair of the Economy and Enterprise Committee at the Royal Society of Edinburgh. Previous roles have included Group Chief Economist at RBS, Senior Economic Adviser at the Scottish Office) and Director of the David Hume Institute.



Rhiannon Sims, Independent Commentator

Having worked in policy and research roles at Citizens Advice Scotland and Oxfam for the last decade, Rhiannon is currently undertaking an MSc in Applied Economics at the University of Strathclyde and is volunteering with Heriot Watt University's I-SPHERE, as a contributor to the Homelessness Monitor series.

Rachel Statham, IPPR

Rachel joined IPPR in 2018 as an Economic Analyst working across the Centre for Economic Justice and IPPR Scotland. She specialises in economic and social policy, gender and devolution. Rachel is an experienced quantitative and qualitative researcher, and has worked on social security, inclusive growth, and the economic impacts of automation and technological change.

Robert Zymek, University of Edinburgh

Robert is an assistant professor at the University of Edinburgh. He is also an affiliate of the Munich-based CESifo Research Network, a visiting researcher and consultant at the Bank of England, and the executive director of MacCaLM.

How do you view the immediate outlook for the economy over the next 12 months?

How do you view the immediate outlook for the economy over the next 12 months?

The impact of the COVID-19 crisis has already been substantial – a contraction of the UK economy by over 20% in April, firms in Scotland reporting drops in turnover in most sectors, an increase in unemployment despite the furlough schemes which have protected jobs (and the employment status of those affected) – but the crisis is not over yet. There still is a lot of uncertainty, both on the health front and in how the economy will respond.

I do not have a crystal ball, but I am pessimistic about the speed of the recovery. Some analysts argue that because the crisis was triggered by a 'temporary' non-economic shock, otherwise solid firms and sectors will recover quickly once production can restart, particularly in light of the unprecedented government support that was put in place.

But the sharp and short V-shaped recession/recovery predicted by many (e.g., Morgan Stanley) assumes that activity can restart quickly as restrictions are relaxed. Crucially, this requires that the COVID-19 crisis does not have long-lasting 'structural' effects on the economy.

I am not sure that will be the case. Some of the changes we are witnessing will compound the effects of other processes already in action (such as automation, Brexit/protectionism, developments in the oil and gas markets) and result in inevitable structural changes in the economy. These are not necessarily all going to be negative and will also give rise to opportunities, but adjustments will take time and will be accompanied by potentially highly disruptive dislocations in labour markets. I think the employment effects of the crisis are yet to be fully felt: many businesses, particularly small firms, may not be able to survive the lockdown and many others will have taken the opportunity to restructure and scale down (as is happening in Oil and Gas).

We already see a dramatic drop in vacancies that will make it hard for displaced workers to find jobs. This is bound to have a negative knock on effect on consumer spending, with a contraction in aggregate demand, and on firms' and investors' outlook.

Catia Montagna, University of Aberdeen

How do you view the immediate outlook for the economy over the next 12 months?

It seems clear that while there are things we can do in terms of economic boosts and stimulus, the scale of the downturn we are currently experiencing is so vast that even if we recover most of the lost ground, any delta between where we end up and where we were three or four months ago will be difficult since we were only just starting to see better news anyway. The sectors that were shut down can of course be brought back but a number of them – notably food, retail and education – are going to be subject to such serious constraint in business practice they won't recover quickly. This is a key risk and how to overcome it needs to be a priority since those sectors are relatively jobs rich. Consumer sentiment will be a huge driver of recovery in those sectors too and it will be hard to predict. There may be an initial bounce but if the recession really bites then the effects will be felt. After the financial crisis the programme of austerity was considered prudent by some but has come with high inequality and social impacts that don't look bearable in any future context, so the path needs to be different. In previous times we have pursued heavily fossil-based stimulus packages through big infrastructure, so we saw China's coal power station build programme after the FC, but times have changed. Climate risk (and future cost) climbs every year and the long development time of major projects mean that we can't afford to fall back on short term stimuli that might lock in fossil assets for a new investment cycle.

Claire Mack, Scottish Renewables

How do you view the immediate outlook for the economy over the next 12 months?

To view this crisis as an exact copy of any of the previous economic crises of the past century would be an error. It isn't due to a sectoral collapse such as a banking crisis, a dot-com bubble or an asset collapse or a supply or demand shock. We deliberately shut down our economy because the alternative was to cause massive loss of life and possibly all of the above simultaneously.

This deliberate shutdown has led some to speculate (or hope) that we'd be able to just switch everything back on again and go back to normal once the virus goes away – that the downturn would be "V-shaped, with no scarring". It is exceedingly unlikely that this will be possible across the whole economy. Partially because the virus has not and may not go away any time soon and partially because the economy wasn't in the greatest health beforehand so there are broad areas of the economy that simply cannot withstand a prolonged hibernation where their income drops to zero but rents and other outgoings – even if reduced – still persist. It would be a mistake to turn this hopeful speculation into a wishful target and to reopen the economy too quickly without first eradicating and controlling the virus, otherwise we face further loss of life, future lockdowns and even more prolonged disruption.

On the other hand, there are positive lessons to be learned from previous crises. One being our very natural tendency to fix the proximate causes of the previous crisis without regarding the wider system. It's very possible that the reforms resulting from the 2008 Financial Crisis have left us with a banking sector that so far appears to be weathering this storm better than many others. The lesson to take away from this is that as we rebuild, we need to make the whole economy more robust and more resilient so that each individual sector can survive future local storms as well as the whole economy can withstand another global storm like the climate emergency or next pandemic when (not if) it comes.

Craig Dalzell, Common Weal

How do you view the immediate outlook for the economy over the next 12 months?

There can be no doubt that there are tough times ahead for the Scottish economy. Unemployment is already rising and sectors of the economy including aviation, hospitality, tourism, parts of manufacturing and oil and gas are all likely to see high numbers of job losses over the next 12 months.

Coupled with this there is a growing crisis for young workers, particularly those in apprenticeships. Early indications suggest that employers are unlikely to provide apprenticeships at anywhere near the same level and apprentices are increasingly reporting uncertainty about the future of their placements.

Previous crises have fallen heavily on the young, particularly those just entering the labour market. These workers are shown to have worse employment outcomes which leaves a lasting impact on their earnings for years to come. It is essential that economic support is targeted at young workers and that the level and quality of apprenticeships is maintained.

The Scottish and UK Governments must also focus on stimulus to kick start the economy. There can be no return to the politics of austerity, our public services cannot survive further cuts. The Scottish Government should work with the UK Government to develop a stimulus package that aligns with Scotland's ambitions on greening the economy. A specific jobs guarantee for young workers could also form a part of this package, providing a degree of protection for those most at risk.

Helen Martin, STUC

How do you view the immediate outlook for the economy over the next 12 months?

It is difficult to be positive or indeed to see how we learn from past crises, as this one is so different in so many ways. But there are two clear major risks which need to be identified in order to set the context for thoughts on the outlook.

The first of these is that the pandemic will take a long time to dissipate and/or that we will have another spike, just in the UK or globally. At present nations are forming their own views as to the balance between moving as fast as feasible to restore economic activity and remaining cautious with controls in place to limit risks of resurgence. We all no doubt have views as to whether 'lockdown' in the UK came too late. But we are where we are and must now edge our way upwards while remaining risk averse.

If there were to be a major second spike, leading to the necessity of another strict lockdown then the economic consequences (for business, employment, household incomes and the public finances) would be horrendous. It is difficult to envisage that public finances of substance would be available to extend the furlough system for more months and/or to provide further finance to prop up businesses. As a consequence there would be many more business failures and a dramatic and extended increase in unemployment – with limited funds to support struggling households or enterprises.

Jeremy Peat , Royal Society of Edinburgh

How do you view the immediate outlook for the economy over the next 12 months?

More than 600,000 workers in Scotland are on the furlough scheme. We don't know how many will be returning to their jobs when lockdown ends and how many will be made redundant. The Scottish Government Chief Economist's report shows the level of exposure to economic risk across the country. In terms of job volume, it's no surprise that Glasgow, Edinburgh and the biggest urban authorities are most at risk, but in relative terms it's a mix of mainly rural areas - like Moray, Aberdeenshire and Scottish Borders - plus urban areas with weaker employment rates pre-pandemic – like North Ayrshire and Clackmannanshire – that see well over four in ten jobs in exposed sectors. With vacancy rates on life support, workers made redundant will be facing the most brutal job prospects in decades. We will need a strategic approach to public and private investment to stimulate job-rich and low-carbon activity in sectors like housing and energy and a means of targeting support to emerging patterns of need – young people as an absolute priority, but also women faced with impossible options around care and employment and sector-specific approaches for tourism and hospitality.

Jim McCormick, Joseph Rowntree Foundation

How do you view the immediate outlook for the economy over the next 12 months?

Not good. The immediate outlook critically depends on the extent to which current restrictions remain in force, which in turn will rightly depend upon evolving evidence on risks of infection.

How deep the downturn will ultimately be, and indeed how reliable preliminary estimates of GDP for March onwards are, is extraordinarily uncertain at present. Statisticians at the ONS have been clear that there is scope for more substantial revisions to initial estimates than usual. Nonetheless, if preliminary estimates are close to correct, and provided it proves feasible for restrictions to be relaxed progressively without further waves of infection taking hold, perhaps the best we can hope for is a cumulative decline in monthly GDP estimates that will bottom out at somewhere of in the region of 30% down on the pre-crisis peak. We can then reasonably expect a rapid rebound in some types of economic activity as more businesses re-open and previously furloughed workers return to work at least part-time. Unfortunately, I see no realistic prospect of a rapid and symmetric V-shaped recovery for the economy as a whole. Still, there's some chance of a very partial recovery by the end of the year, followed by a further protracted period of slow growth. The possibility of additional episodes of downturns, resulting in a lengthy W shaped recovery, cannot be ruled out.

There are some positives: in particular, the need to act quickly and decisively shows through in the initial support packages announced by the UK's chancellor of the exchequer and his willingness to modify and extend some aspects of this support when presented with reasoned argument.

The Coronavirus Job Retention Scheme (CJRS) is a primary example of a lesson learnt; the design of the scheme draws on numerous OECD countries' experiences of implementing similar policies during previous downturns and on research that has evaluated these experiences systematically [iii].The emphasis on job retention aims to preserve normally viable job matches. Without the CJRS there would have been more extensive job losses by now, with wide-ranging negative impacts on both individuals and companies continuing through the eventual recovery. To the extent that CJRS enables the 'right' jobs and helping the 'right' businesses return to viable trading should avoid some of the long-lasting scarring effects, including the weaker job matches that have followed past recessions.

Another positive is that the Scottish Government has used its devolved powers to fill some of the gaps they have identified in the UK schemes.

But the biggest challenges are still to come. The biggest risk is that a second (or subsequent) wave of infections necessitates returns to stricter lockdown rules.

Gradual exit from current measures will require eligibility criteria tightened for various kinds of support. If restrictions are eased and support withdrawn too quickly, worse scarring effects will follow. Without continued and appropriately targeted support, unequal impacts will be skewed to those already among the most disadvantaged before this crisis.

Julia Darby, University of Strathclyde

How do you view the immediate outlook for the economy over the next 12 months?

These are testing times for the economy and the business community's mood is one of significant uncertainty, weak confidence and with the sense we are very much sailing in "unchartered waters". We should not compare this with any other previous recession. Nor is it unique to Scotland, it is a global crisis. It is already impacting those sectors which Scotland has been both heavily reliant upon and which are inter-dependent, for example tourism, food and drink, hospitality, and of course our export markets. It has fractured globalisation which has resulted in many countries and businesses changing their global economic strategies. Businesses are actively bringing supply chains closer to home, "Local" takes on a completely different interpretation.

Alongside this, there is always opportunity and we must adopt a razor-sharp focus on the assets, and skills we have. We must all up our game in a way we have never experienced before, a speedy and common-sense approach would be a good starter. We all need to change the way we work and the way we think. Strong leadership and a decisive collaborative partnership is the only way we will recover to enable us all to rebuild our Scottish economy.

We have seen many examples of businesses already utilising their skills to diversify into manufacturing new products, or new services. There is proof it can be done. We will create new supply chains, we will remodel our education services to reskill, retrain and in some instances, re-educate, to ensure that our young people, and our existing employees are able to take advantage of the new "jobs" and new "models".

Let's focus on the areas we can change, we have the ability to control, and that will have the greatest impact. In other words, focus on where we will create our own "social capital".

The big risk for Scotland is it fails to adapt and invest quickly enough to a changing global market-place. Government(s), local authorities and all its economic development agencies must work together to create an enabling and supportive environment for us to rebuild. We were already on the path of creating and investing in manufacturing businesses; the low carbon recovery; digital technologies; new models of training and education; and looking outward to expand exports. This must be speeded up.

As we re-emerge from the lockdown with new business models, we will not always get it right – but at least we will have tried. Now is not the time to put the brakes on, but to press the accelerator to top speed.

Liz Cameron, Scottish Chambers of Commerce

How do you view the immediate outlook for the economy over the next 12 months?

Disruption to world trade and integrated global supply chains caused by individual national lockdown policy responses threaten an international recession. Without a coordinated global plan or programme, and with the pandemic and its fallout passing round each country at different times and intensities, this recession will be deeper, sharper and more prolonged than recent crises have been. For the UK, the exacerbating impacts from Brexit, the delayed Westminster Government response to the Covid threat, and the unpreparedness to address the demands of the lockdown and subsequent protection of the economy, collectively mean a weak economy will be facing multiple challenges and objectives with limited instruments to regenerate the economy.

In summary, the UK and Scottish economies will be hard hit, declining rapidly into probably their deepest ever recession (in GDP terms) though unemployment will be masked for some time by furloughing, tax postponements and other short term measures to support effective demand. With few of the traditional policies available to stimulate the recovery, and ideological and market constraints facing the UK Chancellor, room for manoeuvre will be restricted. Putting the costs of recovery onto taxpayers and social security recipients, as the last decade of austerity measures have relied upon, does not seem feasible so further debt building and postponement of hard decisions is likely. The big risks lie as much in terms of trying to square all these competing interests and demands by selecting deeply unpopular choices which further divide an already grossly unequal society or in mortgaging the future through ever rising public sector borrowing and debt hoping that growth can solve all these issues with minimum pain.

Mike Danson, Heriot-Watt University

How do you view the immediate outlook for the economy over the next 12 months?

It is clear this is an unprecedented health and economic emergency. Many of us will have expected the financial crisis which started in 2007 to be the worst we'd ever witness in our lifetimes, but the current situation is at a greater magnitude than a decade ago. The seismic nature is resulting in economic records being broken with such regularity that it has seized to shock.

How long the downturn lasts is unclear. The initial brakes have come off the economy but they have only been slightly loosened. Whole swathes of industry are not working at capacity and some sectors are at a standstill. Our restaurants, hotels, pubs, theatres, cinemas, airports lie empty. Whilst our high streets no longer resemble a zombie apocalypse, foot fall is yet to return to normal levels.

Whether this is a deep prolonged downturn depends on the course of the virus. Do we have a second spike in infections, how soon do we find a vaccine, what medications or controls are found which mitigate its harm, or does the virus mutate into being more/less harmful? On the economic front the measures taken by the Chancellor, especially furlough and the self-employment scheme have been universally welcomed and made a significant difference. However, many are facing severe difficulties and this is set to grow, especially with furlough support being tapered from August onwards.

Redundancies are already happening and will grow. As with the last downturn a decade ago, government intervention is of critical importance. Part of the previous response from governments in many countries was austerity. There is a strong and near universal consensus that a return of this measure would be a mistake. It would stunt growth and lead to extreme hardship for millions.

Mubin Haq, Standard Life Foundation

How do you view the immediate outlook for the economy over the next 12 months?

We have been listening to community and voluntary organisations in our network, as well as to accredited Living Wage employers of all sizes and sectors. They fear a significant downturn in our economy, one that will have a bigger impact on groups of workers and sectors that are already precarious. Women, BAME people, young people are all likely to once again bear the burnt.

Lessons from previous crises show the importance of investing in employability support and training, but there will also be a need to focus on job creation in the months ahead.

There is also a risk that we return to failed economic models of austerity, which have led directly to a rising tide of poverty across the UK over the last decade. Such moves must be resisted.

Peter Kelly, The Poverty Alliance

How do you view the immediate outlook for the economy over the next 12 months?

Assessing Scotland's economic outlook is particularly challenging now given the number of moving parts – changes to any one of a number of core assumptions could drastically change our prospects over the next 12 months. What is clear, however, is that our public health and economic recovery are inextricably linked: there is no such thing as a choice between our economic and public health. While people don't feel safe and confident to go back out into the world and start spending, regardless of government advice, our economic recovery will falter.

There is also no inevitable outcome for our economy: who wins and who pays for this crisis will be shaped by policy responses from Westminster and Holyrood. There's a clear and urgent need for a stimulus package, but where money is spent will matter just as much as the scale of investment. Any recovery plan must have environmental justice at its heart and prioritise economic activity that will serve society – not deliver growth at any cost.

Looking at the prospects for Scotland's labour market, we see a major crunch point as the Job Retention scheme is wound down from October, and furloughs potentially turn into job losses. There are particular challenges here in Scotland given the proportion of economic activity and employment that takes place in the hospitality and tourism sectors (the UK-wide slump in hospitality has already exceeded the OBR's scenario), and the reliance of local economies on these industries. Without intervention, this could lead to the unemployment rate rising even further with devastating impacts for people across the country, and for our economic recovery in the longer term. We're particularly concerned about the impact of rising youth unemployment, including on the 50,000 education leavers entering Scotland's labour market this summer, and have made the case for increasing apprenticeship and education places and establishing a Jobs Guarantee Fund to deliver good quality subsidised employment opportunities for young people.

Rachel Statham, IPPR

How do you view the immediate outlook for the economy over the next 12 months?

We are on the brink of a severe recession, with even conservative estimates from the OBR suggesting a fall of 35 per cent in real GDP and a 10 per cent increase in unemployment to 2 million, the highest unemployment rate in 25 years.

Earlier on in this crisis, economists were predicting a "V-shaped" recovery, with an equally fast expansion when lockdown restrictions eased. Now, the outlook might not be so optimistic, following the publication of OECD's World Economic Outlook, which forecasts the UK to be worse affected by the crisis than other members, due to its relatively large service industry and delayed introduction of lockdown measures. We might be facing more of a "J-shaped" curve, with the economy crawling back and perhaps not reaching pre-pandemic levels for years.

Serving as the initial indicators of how the crisis would affect household incomes, by midnight on 3 May 2020, more than 6 million employees had been furloughed, from the beginning of March to 12 May, DWP had received 2.8 million new claims for Universal Credit, and by 6 April a fifth of adults were already reporting trouble paying bills. But the full extent of the economic ramifications are hard to gauge when the unemployment rate is not yet showing up in the official labour market statistics. The Government's Coronavirus Job Retention Scheme is likely to be masking the true extent of this economic crisis. And as households cut consumption and engage in precautionary saving to try to prepare for whatever storm is coming our way, we're already seeing inflation hit a four-year low.

The UK government has responded to the COVID-19 crisis with a large fiscal stimulus, and to service this mounting government debt, the Monetary Policy Committee has announced further rounds of Quantitative Easing, alongside a further cut in interest rates to almost as low as they can go before we're talking negative numbers.

But despite the rhetoric that we are 'all in this together,' the economic ramifications of the pandemic will not be felt evenly, and some groups are at much greater risk of hardship, destitution, and homelessness. Those on low incomes spend much more of their income on necessities such as rent, bills and food, meaning that any reduction in income will eat into this essential budget.

Housing has been central to our experience of this health emergency: home is now where we work, where we teach our children, where we socialise (virtually). It is also the site of potential crisis as people struggle with affordability and security.

Recessions tend to go hand-in-hand with house price falls, and highly leveraged households and negative equity was certainly the story surrounding the fallout from the Global Financial Crisis for much of Europe (though prices in Scotland stayed comparatively buoyant). It remains to be seen whether we are on the brink of a housing market collapse, but there are major concerns around affordability. As the government schemes and mortgage holidays come to an end, as lay-offs and redundancies begin to be felt, how many people will be forced to sell their homes? More worryingly still, how many renters, no longer protected from eviction, will be unable to afford their rent?

Rhiannon Sims, Independent Commentator

How do you view the immediate outlook for the economy over the next 12 months?

Based on a range of indicators it seems very likely that the UK's Covid recession reached its trough in Q2 2020. Since the start of April 2020, the UK's temperature-adjusted electricity consumption has – on average – been 15% below 2019 values. (Bruegel, 2020) Historical evidence suggests a one-to-one relationship with standard economic indicators. (Cicala, 2020) It would thus not be surprising for seasonally adjusted UK (and Scottish!) Q2 2020 GDP to be 10-20% below the 2019 value. That would make the recession in the UK worse than what is currently forecast for Germany (ifo, 2020), but better than what is forecast for the US (Atlanta Fed, 2020).

I would expect a "Nike swoosh" recession, with a return to peak GDP in the middle of 2021 or later. The most reasonable interpretation of the data is that the downturn is caused in part by the lockdown, but in part also by behavioural changes in response to the epidemic outbreak. Even if the former were completely lifted, the latter would likely remain until the epidemic is contained. Although the number of new Covid-19 cases has been declining in the UK, it is still high compared with other OECD countries. (ECDC, 17 June 2020) Moreover, the number of new cases is plateauing in the United States (CDC, 17 June 2020), and rising in South America (BBC, 16 June). These regions together make up 20% of UK exports (ONS, 2020), and 21% of Scottish international exports (ScotGov, 2020). Even if the Covid-19 epidemic is successfully contained within the UK over the next months, its impact on other parts of the world economy is likely to exert a drag on UK growth.

With UK public sector debt set to rise above 100% of GDP, and the prospect of a slow recovery, there is a risk that the public policy will repeat the mistakes of the 2008-09 Global Financial Crisis and turn towards fiscal consolidation too soon. (CfM Surveys, May 2020) However, this risk seems moderate since the political landscape has shifted significantly with respect to fiscal consolidation since 2008-09.

Other downside risks to the economy include a disorderly end to the Transition, a private-sector debt crisis in the wake of the lockdown, and an emerging-market debt crisis that impairs the global recovery. On the upside, there remains the possibility of good news regarding the Covid-19 virus (either a medical breakthrough, or the discovery of more widespread-than-expected immunity).

Robert Zymek, University of Edinburgh

How do you view the immediate outlook for the economy over the next 12 months?

The course of the disease and health policy responses to it will significantly influence economic developments. Forecasts are currently of little value, not least because the relationships underlying models may have changed markedly.

A best guess is that demand will be very weak: high unemployment will depress household incomes and it is likely that the saving ratio will rise; exports will be constrained by movement restrictions; uncertainty and precautionary saving will reduce investment. Some supply capacity will be lost. The balance between the two is unclear but it seems likely that weak demand will dominate leading to disinflation.

Monetary policy will be expansionary but may lack potency. Fiscal policy will have to provide substantial additional stimulus. HM Treasury has applied the most important lesson of the past: move swiftly and boldly. It should continue that approach, boosting demand and funding active labour market programmes – for which there should be Barnett consequentials – to minimise the rise in unemployment and limit the extent of long-term and youth unemployment, which are the biggest economic risk.

Keep an eye on the euro area as public deficits widen and loan losses mount. The recession is almost certainly 'over' in the sense that income is likely rising again. That reflects the convention that recessions occur with successive quarters of contraction; the more broad-based US approach would serve us better. But 'better' is not the same as 'good'. A year from now, income will be lower and unemployment much higher than at the start of 2020.

Stephen Boyle, FAI

How do you view the immediate outlook for the economy over the next 12 months?

The Scottish economy was not in a strong position going into the pandemic so that means many of the challenges Scotland was already facing then are still with us and now even harder – sluggish growth, investment and productivity; and the need to upskill and retrain and address regional inequalities.

The job losses are already starting to be announced following the shutdown in economic activity – UK-wide data suggests that the labour market already took a big hit when lockdown began. In addition, more firms are now looking at redundancy plans as the Job Retention Scheme begins to wind down and demand remains elusive across many parts of the economy.

Confidence will play an instrumental part in the recovery and needs to seep through government, businesses, investors and through to customers. As Scotland emerges more slowly from the lockdown of the economy, the government has a crucial role in supporting customers to return, whilst adhering to necessary physical distancing measures.

This public health and economic crisis is not like anything we have seen in the past. But, while there are challenges in drawing comparisons, we know from past recessions that young people entering the workforce at times of high unemployment risk a lifetime of financial and career hurdles. At the same time, if we are facing significant levels of job losses, it will be vital to have an effective system in place to support the existing workforce to retrain, to meet the needs of economy entering a "new normal".

Tracy Black, CBI

How do you view the immediate outlook for the economy over the next 12 months?

Our forecast assumes that recovery will be a "partial V". In other words, there will be a rapid rebound in H2 2020 and H1 2021, but GDP will not return to where it would otherwise have been. Relative to our pre-coronavirus forecast, the economy ends up 3½–4% smaller.

There has been an abrupt, adverse change in the fiscal outlook but interest rates remain low, so the UK can fund itself without too much difficulty. This means that while taxes will doubtless need to increase, there is no pressing need to do so. The speed/extent of the recovery depends critically on people no longer being afraid of catching the virus. For this reason, policymakers will need to support the economy until a vaccine is found.

Recent data releases have tended to surprise on the upside. It looks like the initial downturn might be less severe than anticipated. Even so, the risks to our forecast are skewed to the downside. This could be due to the course of the pandemic, which might be more persistent than we assume in the base case, or because households and companies are reluctant to start spending again even when the coronavirus lockdown is lifted. The Bank of England has been vocal about the risk that furloughed employees might not be fully re-absorbed into the workforce as government support measures are withdrawn later in the year.

David Fenton, TSB

What permanent changes to our economy do you see emerging from this crisis?

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The way we'll live and interact socially and economically is not likely to go back to the 'old normal' quickly and this may well translate into 'cultural change' – e.g. in the way we see work and perform/organise our jobs, or in the type of goods and services we buy.

Alongside this, the international organisation of production may well change forever. In the last decades, international openness has been key to growth, but amid this crisis and the protectionist stances that we are witnessing, it will take time to go back to pre-crisis levels and, crucially, international production chains will shorten posing both challenges for productivity and opportunities for a rebalancing of the economy in Scotland.

But I think there is more than this at stake. The COVID-19 crisis has deepened the fractures of our 'economic model' exposing, in particular, the interconnectedness between the ecological crisis and the socio-economic inequalities that characterise today's capitalism. Addressing these fault lines is a great challenge, but it is also a great opportunity to find transformative solutions.

Catia Montagna, University of Aberdeen

What permanent changes to our economy do you see emerging from this crisis?

Things will look different because the COVID crisis forced innovation and the adoption of new practices in businesses and households which people are recognising the upside of. Working from home full time isn't likely to be the complete future pattern, but neither will full time office attendance which will change the peaks of demand on our transport system and city centre based economic activity. This could help build the foundations of smarter energy systems that balance the supply and demand of energy in more localised zones. Technology use has soared and this too will stay with us and presents the opportunity for efficiency and productivity gains but we need to bear in mind that this will also accelerate automation and some of the consequences of that.

Claire Mack, Scottish Renewables

What permanent changes to our economy do you see emerging from this crisis?

One echo of the previous downturn was the "lost decade" it caused as the economy restructured itself into the new post-Financial Crisis reality. The imminence of the climate emergency – we are almost two years into the final twelve years that the IPCC said we have left to make serious inroads into our climate emission – means that we literally cannot afford to spend any time going "back to normal" only to then restructure our economy again to deal with climate change (especially if we risk being derailed again by another future crisis).

Many of the changes emerging from this crisis are the solutions we'll need for the climate emergency though. More home working and digital meetings for those who can (along with more robust digital infrastructure and more, not less, public transport for those who must still commute) reduce exposure to infection and transport emissions, More localised supply chains secure against transnational border shutdowns and reduce freight emissions, a housing stimulus programme would restart the construction sector but also provide the zero-carbon homes we need to reduce our heating energy demands.

Craig Dalzell, Common Weal

What permanent changes to our economy do you see emerging from this crisis?

Working from home has become the new normal for workers across the economy, with many employers now realising just how much is possible within a homeworking model. It is likely that a higher level of homeworking will continue, and we must get to grips with the mental health and wellbeing challenges that come with this form of working. This includes the tendency to expand working hours as the line between work and homelife fades. However, this crisis also presents an opportunity to expand access to homeworking and increase flexible working models across society – particularly for lower paid workers who are often carved out of such schemes. Done properly the expansion of homeworking could particularly benefit women who often rely on flexible working models to balance work and caring responsibilities.

Helen Martin, STUC

What permanent changes to our economy do you see emerging from this crisis?

One feature associated with the pandemic and lockdown has been that many across the world have been allowed more time to reflect upon society in their state or nation. This has in part been the cause of the present wave of unrest. Going forward there may well be continuing demand for more respect and indeed greater equity of opportunity and standard of life for many disadvantaged groups in society. Goodness knows where this might lead, but we must all seek constructive avenues down which the unleashed energies could best (for all) be directed.

On the economic front the degree of change may be more limited than many anticipate – and indeed hope for. There will be more working from home, more virtual conferences and meetings and less international and domestic travel in many sectors of the economy. On the positive side there may well be significantly more innovation, with a raft of new businesses based upon new ideas. Productivity could start rising again after the decade or two in the doldrums. That would bring a boost to GDP growth in the medium term, with positive impact on employment and the public finances.

As noted above, one opportunity will be to use the pause to reset priorities. But the scope for radical and early change will be severely limited by the stark fact that resources will be historically scarce. Consequently, not everything will be achieved at an early date or at any pace.

Jeremy Peat, Royal Society of Edinburgh

What permanent changes to our economy do you see emerging from this crisis?

It is hard to identify the long-term signals in the current noise. The burden of hardship and heartache caused by the pandemic will cast a long shadow over the physical and psychological health of many in the workforce. While there may be a gap between what's desirable and what's feasible, now is the time to plan for much greater flexibility in employment patterns, an increase in security (for example, working with business on the 'living hours' target of at least 20 hours work a week for those who want it) and stronger conditionality by the state in return for standing by employers. The social enterprise sector is a barometer of whether we are moving in a new direction. Those organisations that succeeded in diversifying their income base through trading have been among the most vulnerable in this crisis. Grant funding won't make up the shortfall in their revenues. Stabilizing this strand of the economy matters if we are to rebuild local economies able to retain wealth.

Jim McCormick, Joseph Rowntree Foundation

What permanent changes to our economy do you see emerging from this crisis?

This crisis has intensified some pre-existing directions of change, many of which will persist. Government deficits and debt are going to be much higher than had been expected in most countries; there should be widespread understanding of the need for this. I hope there is little appetite among policymakers as well as voters for a return to further rounds of austerity. (In the absence of a robust recovery austerity would surely again be self-defeating.) Central banks' balance sheets are going to contain substantial amounts of government debt. Real interest rates look set to remain very low for longer. The monetary policies we used to refer to as unconventional have already become the norm.

The accelerated adoption of automation in some areas (spurred on by improved cost-effectiveness given that robots don't have to observe social distancing) looks likely to continue.

We're told that 'take-up of tech' has advanced ten years in a matter of a couple of months. At least part of the shift to video consults with GPs; the elements of working from home that work well; the search for, and retention of the best innovative education solutions are all likely to continue in any 'new normal'. The greater shift to shopping on-line and the consequential need for innovative repurposing of high streets and city centres will also continue. The future for the worst hit sectors - bars, restaurants, entertainment etc. seem set to face protracted uncertainty and precarious futures. Business and some kinds of leisure travel and tourism are only likely to pick up very gradually. Large scale restructuring is necessary here and remains necessary within the oil and gas sector .

The shift away from globalisation that started during the global finance crisis also looks likely continuing.

The need for governments and businesses to take crisis planning seriously will not be forgotten quickly. We can expect more major lessons will to be learned with the benefit of hindsight and by observing the consequences of diverse approaches across countries.

Julia Darby, University of Strathclyde

What permanent changes to our economy do you see emerging from this crisis?

There will be new, more productive and hopefully more satisfying business models for all of us.

We will and are shifting – for example, an increase in shopping online means rethinking our logistical and distribution, warehousing points and our international distribution routes. Telemedicine is another great opportunity to alter how we live and work.

For many SMEs, Covid-19 has accelerated innovation and the use of technology, whether by entering e-commerce trading or rapidly initiating work from home models.

Many of us have already adapted to working from home. But this is only suitable for a part of the economy. The workplace will need to be adapted if we are to see the return of hospitality, leisure, manufacturing, construction, engineering and other sectors.

Working practices in lock down have also revealed the extent in Scotland of what has been called digital poverty. These are the people who don't have smart phones and laptops or broadband. They won't have been on Zoom calls with their friends or colleagues. Roughly 60% of Scottish households owned a laptop, around 50% a tablet, and circa 20% a desktop computer.

Scotland cannot afford to leave significant parts of the populace who lack sufficient digital skills and tools behind. This was always the case but the requirements of a post Covid-19 world makes it even more necessary that the whole population is connected.

Liz Cameron, Scottish Chambers of Commerce

What permanent changes to our economy do you see emerging from this crisis?

Against the background of Brexit and the Climate Emergency – two massive challenges for the UK and Scottish economies – this and 2nd waves and future pandemics threaten the viability and feasibility of many existing supply chains, traditional market relationships and the capacity of national governments and international institutions to manage transition to a new normal in just and realistic strategic ways. These are both highly concerning times, therefore, but also a period of great opportunity to accelerate along the path to net zero emissions to an economy and society that is much more resilient to pandemics, disruptions to global trading patterns and relations, climate changes. The overwhelming proportion of the Scottish population, consumers, parents, workers, employers, young and old have revealed behaviours unexpected in models of reactions to the current lockdown measures.

There is a real opportunity across the various groups and commissions established by the Scottish Government to construct a coherent programme for a just, sustainable economic renewal and recovery that addresses the deep challenges revealed and caused by the pandemic, climate emergency, inequalities and by Brexit. Under a series of guises, the possibility of moving to a new normal under a 'Green New Deal' offers Scotland in particular the prospects of regeneration based on a resurgent manufacturing sector focused on renewables, house building/retrofitting, food & drink and advanced manufacturing; on primary sectors of agriculture, forestry and fishing for local/national needs and for high value-added exports; and the services (public and private) that have been recognised as undervalued until the Covid crisis.

The limitations of GDP as a measure of economic activity should also have become much clearer this year as many un(der)recorded areas of the economy and wellbeing have proven critical to maintaining living standards and quality of life indicators. As the revealed preferences of the population have been made during lockdown and in planning its gradual relaxation, so more appropriate instruments to measure the outputs of 'the economy' are needed. The continuation of caring, housework, home education, etc. during this period means that an objective appraisal of the true economy – rather than just what is provided through the market – would show less of a downturn in what makes and delivers happiness, wellbeing, security, health and the other basics of live; the population recognise this, commentators politicians and economists need to revisit some of these fundamentals.

Mike Danson, Heriot-Watt University

What permanent changes to our economy do you see emerging from this crisis?

There are many who hope the pandemic will lead to some lasting changes, that it will be a wake up call. But there is a strong possibility we will go back to a similar model as before. It doesn't have to be this way and government action, and the pressure exerted on them, will be key.

The changes and permanence partly depend on how long the pandemic lasts. If this were a drama, we might be in episode three or four. What is unclear at this stage is the time period of this programme. Are we in the midst of a one-off series, a box-set, or a long-running saga? This has huge implications for the economy and for living standards as well as possible responses from governments and business. The longer the pandemic lasts, the less capacity to respond generously. Conversely, it increases the likelihood of greater reforms, including those once considered to be off the table. Large scale disruption often leads to large scale change.

The pandemic and the murder of George Floyd have also highlighted existing social and economic inequalities. The response from government and business could either address these issues and result in some levelling up or the pandemic could exacerbate inequalities.

There are some real potential gains. For example, greater investment in activity which reduces carbon emissions including through greater spending on infrastructure. The pandemic has highlighted vulnerabilities to our way of life and that rapid change is possible. It has made more tangible the problems that are likely to arise from climate change and therefore the urgency with which this issue must be addressed.

Another important gain would be valuing the under-valued. The pandemic has highlighted the importance of key workers. Not just nurses and doctors, but social care workers, cleaners, delivery workers, supermarket staff and many more. It may be that a longer term change results in greater pay for those on lower incomes, that we move beyond clapping and celebrating and offer some real tangible benefits.

It is also likely there will be greater working from home, but we are unlikely to see the end of the office. One area we should strongly consider, given the high levels of unemployment expected, is reducing working hours. This change could keep many more in work and the benefits, including to our mental well-being, which we derive from employment.

Mubin Haq, Standard Life Foundation

What permanent changes to our economy do you see emerging from this crisis?

There are choices to be made - there is no path ahead that is inevitable. In the last three months we have seen dramatic changes in the way that some businesses operate, in the ways that we support people who are at risk of unemployment, and levels of state intervention that would have seemed impossible at the end of 2019. But the risk of the future looking like a worse version of the past, with higher unemployment, more insecure work, greater inequality, is high. However, the opportunity for us to build a just and sustainable economy based on what is important to local communities, that delivers the services they need and meets the needs of everyone is certainly there too. The outlines of that economy have been traced by our response to covid-19. Now we have to fill in the content.

Peter Kelly, The Poverty Alliance

What permanent changes to our economy do you see emerging from this crisis?

Long before Covid-19 unfolded, IPPR were making the case for a new economic model. As we emerge from this crisis it's clear that we cannot go back to business as usual. Our recovery efforts must not focus on growing GDP at any cost. While the tendency of governments in previous crises has been to see job creation primarily as a means to boost GDP, this time we must focus our efforts on creating good quality, high paid jobs that can provide ordinary people with secure incomes. In doing so, we have an opportunity to build a new economic model that enables people across the country to share in the gains of growth, promoting social, economic and climate justice.

This crisis has provided the opportunity to rethink how we measure economic value, and to reflect on who our economy serves. In this period of unprecedented disruption there is also a valuable opportunity to rethink who bares risk, in this crisis and in the future. The UK government's unprecedented intervention in the economy, including through the Job Retention Scheme, has created space to reconsider the gaps in our social safety net and the role the state has to play in protecting against risk during hard times. As we look towards recovery, there are opportunities to consider how we can develop a stronger social safety net and better ways to pool risk across individuals, businesses and the state – protecting those who can least bear it.

Rachel Statham, IPPR

What permanent changes to our economy do you see emerging from this crisis?

As the downturn begins to be felt, there could be major shifts in the housing market, as first-time buyers are unable to get on the property market, and home-owners face challenges keeping up with mortgage payments. Data from the mortgage market already shows that the availability of mortgage products at higher loan-to-value ratios have plummeted, as cautious lenders respond to uncertainty. Despite low interest rates, this could price-out a generation of would-be first time buyers, which not only risks reinforcing existing inequalities in access to housing but could also increase the reliance on an already inflated Private Rented Sector (PRS).

The last few decades have seen a huge tenure shift towards the PRS, which is characterised by high rents and insecurity of tenure to the extent that the bulk of the increase in homelessness since 2010 has been associated with the ending of an assured shorthold tenancy in the PRS. In fact, one of the key factors preventing Scotland's after housing costs poverty statistics from matching those of the rest of the UK has been the retention of its social housing stock. Now, the pandemic has shown the fragility of the PRS to weather a crisis of this kind, and the costs and consequences of relying too heavily on a fragmented private sector. As Lord Richard Best, the Chair of the Affordable Housing Commission recently said: "while the social housing sector has the capability and organisation to rise to the challenges that the crisis brings, the position for many private tenants and private landlords is much more fraught."

Considerably different levels of protection have been extended to different tenure types with regards to managing housing costs. Owner-occupiers have been offered mortgage holidays by lenders, but no such payment holiday has been offered to either social or private renters. Just three weeks after lockdown began, results of an Opinium survey published in the Guardian suggested that a fifth of renters were needing to choose between paying for food and bills or paying rent. Similar research by Shelter found that a fifth of private renters believed they were likely to lose their jobs within three months of the lockdown beginning, leaving many struggling to pay rent.

Risk is not associated with tenure type alone, however. Three groups are particularly at risk of eviction due to struggling to keep up with rent payments: migrants, young people and large families (particularly single parent families). IPPR analysis of Labour Force Survey suggests that migrants are significantly less likely to own their own homes and are much more likely to be renting – 54 per cent of migrants rent their property (61 per cent of EU migrants and 50 per cent of non-EU migrants), compared to 29 per cent of the UK born. Those with no recourse to public funds are likely to be particularly at risk, such as EEA migrants with no right to reside or asylum seekers.

Young people are at particularly high risk of struggling to maintain tenancies for three main reasons. Firstly, low earners are more likely to work in a sector that has been shut down. Secondly, young people receive less support from the benefits system because of their age; single people under 35 are only entitled to the Shared Accommodation Rate to cover housing costs, even if they live by themselves. Thirdly, we know that young people are one of the groups at higher risk of homelessness in normal times.

Finally, in addition to the higher outgoings that households with children may have faced during the lockdown, putting a strain on household budgets, those with children are more likely to be affected by the benefit cap – especially large families and/or single parents – because despite the uplift in the standard rate of Universal Credit, the Benefit Cap has not been altered, and the two-child limit still applies.

Rhiannon Sims, Independent Commentator

What permanent changes to our economy do you see emerging from this crisis?

The crisis may accelerate a number of trends that were already apparent before the onset of the epidemic. First, shifting politics and international tensions had already set in motion a deglobalisation trend in the decade since 2008-09. (Irwin, 2020) Global value chains, which had added a sizeable portion of the growth in world trade between 1980 and 2008, were being re-shored before Covid-19 – and the uncertainty about restrictions on international trade and travel caused by the pandemic will likely add further momentum. (Kilic and Marin, 2020) For the UK, this comes on top of Brexit which is now set to deliver markedly higher barriers to trade with the EU. If we can put any store by international economics, this trend will reduce income growth going forward. However, it also offers an opportunity – especially for the UK – to reset trade policy in a manner that benefits those who had seen few benefits from the post-1980s wave of globalisation. (Dhingra, 2019)

Second, and relatedly, the crisis looks set to hasten a reduction international mobility. Despite the fact that there is a large consensus in economics that there would be significant gains from increasing international mobility (Dustmann and Preston, 2019), the politics in Europe and North America had already taken a distinct turn against open borders before the crisis. Moreover, there had been a growing backlash against international travel and tourism on environmental and cultural grounds (e.g. DW, January 2020; Economist, October 2018)

Fears of disease transmission and new habits formed during the lockdown will likely fuel the drive to curb international mobility. In addition, consolidation in the aviation industry and new public-health measures are liable to increase the cost of international travel in the short run. On the upside, this development may benefit the environment and boost greener modes of travel in the long run.

Third and finally, the crisis has tangibly shifted the prevalence of tele working/commuting. Among other benefits, this may offset some of the economic costs of reduced international mobility – but it also presents challenges for cities. In the UK, (some) cities have been key drivers of regional economic growth over the past decade through the exploitation of "urbanisation economies" (Zymek and Jones, 2020) It remains to be seen of this trend can be sustained if the residential choices of workers are increasingly disconnected from the location decisions of firms.

Robert Zymek, University of Edinburgh

What permanent changes to our economy do you see emerging from this crisis?

'Permanent' is a long time. It may be that a version of Amara's Law applies to Covid-19: that its economic consequences are over-estimated in the short-run and under-estimated in the long-run.

Health considerations will condition economic actions. Health regulations and regulators may become as influential as central banks and competition authorities. These considerations will affect demand (less international trade and travel; increased demand for insurances against risk; lower demand for close-proximity services; increased demand for health-related innovation; increased willingness to pay for care?) and supply (higher costs for resilience; shorter supply chains; more home working?). These changes will prompt as yet unknown innovation.

Public debt will be high; the proposition that sovereign nations that can create money are unlikely to face debt crises will be tested. Despite higher public debt, weak private demand and low investment will likely mean that the Rachel and Summers world of low interest rates and weak growth persists.

The shift to online retailing will intensify. Depressed disposable incomes will hit discretionary spending, including on restaurants. With more home-working, demand for office space will likely fall. There will be less need for student accommodation. Already, property values have fallen. At a time of economic weakness, this could blight town and city centres. However, with adequate resources, rapid action by councils and effective community involvement, cheaper real estate could be the opportunity to revitalise communities and provide needed affordable housing.

Shorter supply chains and a desire for greater resilience will offer domestic production and restoring opportunities.

Stephen Boyle, FAI

What permanent changes to our economy do you see emerging from this crisis?

While more flexible working, rapid adoption of digital technology and more focus on people's mental health have been positive changes brought about by the crisis, this must also be seen together with the potential economic hit brought about through job losses and damage to otherwise healthy businesses.

As past recessions have shown, economic downturns have a direct impact on people's health and wellbeing. Public health and the economy are not an either/or but need to be addressed together.

Digital adoption, reduction in carbon emissions and more focus on flexible working were all areas that needed action prior to this crisis and what we are now facing is accelerated urgency for action.

The pandemic has shown that the economy and government can pivot towards solutions very quickly, as exemplified through the speedy implementation of various economic support schemes, manufacturing activity pivoting towards supporting the NHS and overnight remote working across businesses large and small.

The question then becomes how we can maintain that agility and urgency as we build a recovery and use it to minimise structural damage to Scotland's economy, as more people are affected by the aftermath of the economic shutdown. Ensuring that existing government support schemes remain responsive to the evolving economic situation is one near-term example.

Tracy Black, CBI

What permanent changes to our economy do you see emerging from this crisis?

Customers have adapted to the limitations of lockdown and more are choosing to try digital banking. The number or people downloading our online banking app each day has more than trebled during this crisis. And the number of customers aged 65+ registering for online banking has doubled.

We have responded to the crisis with vastly increased use of remote working and more regular use of videoconferencing and technology to run the business and serve customers. As lockdown is relaxed, we will continue to review this approach as we make the transition to the new normal, ensuring we slowly restart operations in head office locations to protect the public and not put too much pressure on public transport services.

As Scotland emerges from the crisis of the pandemic and into economic recovery it is clear there is going to be acceleration towards a digital economy. We will need to move quickly to adapt to this, ensuring we have a talent pool of trained, equipped and workers who are able to take these opportunities and drive the economy in this direction.

Part of this shift towards a digital economy should focus on helping more small businesses compete online. This will make local economies more resilient with small businesses better placed to compete with larger operators who already have a strong online presence. Businesses that fail to engage the digitally will have a slower and much more difficult recovery. Some may not recover at all.

One of the lessons from Covid-19 is that reactive costs of dealing with the aftermath of a crisis can be much higher than the proactive costs of dealing with it upfront. Countries that were quick to enact preventive measures seem to be faring better than those that delayed.

This lesson probably applies to climate change. Similarly, Covid-19 underlined the importance of collective responsibility when resolving some challenges and has proved that companies and households are capable of greater/quicker change than they might previously have thought possible. With a different mindset, then, the opportunities for a Green recovery are arguably greater than they were previously.

David Fenton, TSB

What should be the top priority areas for policymakers at this time?

What should be the top priority areas for policymakers at this time?

Health needs to be invested in and recognised for what it is – a public good. The unpreparedness of our health system in the face of something that was heavily expected is difficult to come to terms with. But health goes beyond the narrowly defined health system. It depends on 'good' and secure jobs, the quality of housing, social services and a clean environment.

There needs to be a strengthening of social insurance – so far, the emphasis in policy intervention has been to protect jobs by propping firms up. But structural changes may mean that some jobs will need to disappear and then it may make more sense to protect workers and their ability to move across different sectors. Clearly, central to this will be education and training.

Fundamentally, there needs to be a rebalancing of power in the industrial relation system alongside a quest for better jobs. Many of the dire consequences of the crisis on households (and the associated costs in terms of policy intervention) would not have occurred without the level of economic insecurity and in-work poverty that has characterised developments in labour markets in recent decades.

The nature of international cooperation also needs to change, putting at its centre health and the environment.

So, we can 'build-back-better'. But we need to go beyond reforming our policy agenda. There needs to be a change in the paradigm that drives it. Currently, the most enlightened policy strategies talk about 'inclusive and sustainable growth'. This means posing inclusiveness and sustainability as 'constraints' to growth: they should not be constraints but objectives. Only by setting them as the objectives of policy, shall we be able to identify the ways in which what to 'produce', how to produce it, and where investment should go should change. Moving from 'constraints' to 'objectives' is not a subtle academic distinction. It requires a fundamental change in culture – and a new social pact capable of 'internalising' the consequences of policy and private decisions on society and the environment.

Catia Montagna, University of Aberdeen

What should be the top priority areas for policymakers at this time?

Undoubtedly skills and re-shaping our workforce for the changes that technology, climate response and the energy transition will mean for them needs to be a priority. We also need clean infrastructure projects that are jobs rich in the short to medium term and there are number of renewable energy projects such as solar rollout and renewable heat deployment that lend themselves well to supporting not only jobs but also businesses to create a cleaner, healthier and more resilient economy that is less susceptible to volatility and shock. We need to accelerate our decarbonisation programmes and renewable heat projects provide a perfect mix of manufacturing potential here in Scotland alongside civil engineering heavy work programmes which we know can provide a real boost to the economy.

Claire Mack, Scottish Renewables

What should be the top priority areas for policymakers at this time?

The first priority is to deal with the immediate problem. The pandemic has not gone away and Scotland and the UK are very near the bottom of the global league table of response effectiveness. The temptation to reopen the economy quickly is strong (especially given timetables dictated by education or seasonal business demands) but doing so without adequate suppression of the virus or adequate local outbreak suppression will cause greater harm if we cause a second spike in infections.

Beyond this, we cannot treat the reopening of the economy as we have previous crises where we dealt with individual failing sectors almost in isolation to each other. Our entire economy needs to be restarted AND rebuilt. This crisis, like no other, has shown the interconnectedness of the whole economy so the whole economy needs to be made more resilient to future shocks. I am reminded of Aneurin Bevan's 1946 speech to the National Federation of Building Trades Operatives when he said with regard to his housing programme "Before you can start building on any scale, every single industry in society has got to be organised and stimulated into production". He was as right for housing as he was for each of those other industries. If we want to "Build Back Better" then it has to be everything, everywhere at the same time. Doing otherwise will leave people behind and leave them even more vulnerable to the next crisis than they were to this one.

Craig Dalzell, Common Weal

What should be the top priority areas for policymakers at this time?

In the face of such an enormous economic challenge it is important not to lose sight of the importance of Fair Work and the wellbeing economy. Prioritising Fair Work will protect job quality and the incomes of the lowest paid. It is also likely Scottish Government will need to invest directly in businesses to ensure their long term viability and the STUC believes Government should prioritise key strategic assets within the economy, particularly those that support Scotland's wider low carbon ambitions and all public support should embed Fair Work principles.

The foundation of Fair Work remains workers, employers and government working together collectively, and every opportunity should be taken to build Fair Work structures. Ultimately the ambition should be to have sectoral forums in every sector of the economy. These forums would allow employers and unions come to the table to discuss areas of shared concern, to find creative solutions for the sector and ultimately to agree minimum terms and conditions for workers, stopping the race to the bottom on job quality that has grown up in too many parts of our economy. Driving up standards and embedding Fair Work will push up living standards for people in Scotland and create a stronger more innovative economy in the long term.

Helen Martin, STUC

What should be the top priority areas for policymakers at this time?

The top priority will be to get business up and running across the board as soon as feasible – with associated positive effects on employment. Securing business recovery will unleash public and private sector resources to help secure the NHS and an appropriate education system (see below). These latter may be the key ends, but getting businesses up and running will be the key means to these ends.

Many businesses will have failed. Others will be on the brink of failure and facing immense challenges servicing the debt taken on in extremis, when their markets and hence revenue flows had collapsed or even disappeared.

Businesses in some sectors will face a rapid bounce back in demand. For the lucky ones this could include a period of above normal level of sales to compensate for some of the sales not made during the lockdown period. But they will be the lucky ones. Many others, including those in the tourism and hospitality sectors, will see a very slow pick up, with no catch up and full recovery delayed for some months – e.g. until the next peak season for demand for their goods or services.

These less fortunate businesses will need extended support. A plan will be needed, hatched between Government, the banks and the entrepreneurs/private investors amongst us, to ensure those businesses with genuine prospects of sustained viability, once 'normal' business is resumed, are supported to survival. Some debts will have to be written off; some rescheduled; and some converted in part to equity. Selecting which businesses merit which form of continuing support will be time-consuming and require sympathetic but strong minds. Some businesses will be best allowed to fail, to be replaced by better focused and more efficient 'phoenixes'.

Further key and complex choices will be required on the public finance front. HM Treasury must exhibit patience to return finances to good order at a manageable pace. But not everything can continue as was. Tough times mean tough choices. Some beloved subsidy arrangements will have to go. The affluent and wealth holders will have to contribute – at least for a while - more than will be comfortable for them or for politicians.

Inter alia a fresh look at education will be essential. This must include looking at where future priorities lie for tertiary education in such a finance constrained world; how to cost-effectively deliver key skills over working lives with a view to the rapidly changing context; and who pays, with those gaining most from skills in terms of enhanced incomes contributing to the costs of their skill development as and when those enhanced incomes come into being. Further moves are essential to ensure inequalities contract rather than expand at primary and secondary levels, with the public system adapting effectively and speedily to the new challenges.

The key word looks to be 'TOUGH'. All involved will face tough times and tough decisions if we are in the fullness of time to return to clear blue skies and smooth economic waters.

Jeremy Peat, Royal Society of Edinburgh

What should be the top priority areas for policymakers at this time?

Governments at each level will need to collaborate quickly around the long-term response. Preventing mass unemployment should be the top priority. As the furlough scheme is unwound, support should target at-risk workers and sectors and move at variable speeds reflecting the real-world nature of economic recovery. For example, if tourism has barely recovered over the summer, it faces a long winter of low demand. We should enable innovation in how businesses deliver their services. We have learned a lot from previous recessions and from other countries about how to design active labour market programmes, but we will still have to test out the best way to invest in individual skills and incentivise employers to retain and hire staff. Getting back on track with affordable housing supply should be another high priority. Housing demand is on hold. Thousands are stuck in unsuitable temporary accommodation. There is a strong desire to ensure people I the most vulnerable positions don't return to the streets. And protections from eviction may well need to be extended while incomes remain under intense strain. Protecting earnings and controlling housing costs can go some way to easing the pressure on social security budgets. But until we are fully underway, governments need to do more to stand by citizens and avoid a public health crisis becoming a financial crisis for families.

Jim McCormick, Joseph Rowntree Foundation

What should be the top priority areas for policymakers at this time?

First and foremost, promote and foster international cooperation in the search for a vaccine and effective treatment of the virus and commit to ensuring wide availability and take-up as quickly as possible.

Secondly, and provided further relaxation of restrictions is feasible, move on from broad coverage support to appropriately targeted support to facilitate necessary restructuring, and help displaced workers and new entrants to the labour market gain new, sustainable and fair jobs. I hope the UK and Scottish governments will follow through and expand on the kind of investment in infrastructure and skills development that had already been promised and are essential redress the persistence of disadvantage and being able to deliver on a more sustainable and inclusive recovery. Now is not the time to renege on the commitment to the levelling-up agenda.

Finally, ensure that government infrastructure investment and business support are conditional on environmental targets. It remains crucial to prioritise renewable energy and clean technologies. To the extent that use of public transport is being discouraged and distrusted, radical ideas that incentivise feasible greener alternatives are necessary.

Julia Darby, University of Strathclyde

What should be the top priority areas for policymakers at this time?

The top priorities for policymakers and a central focus for all they do – should be on preserving businesses and jobs; create an environment at local and national level which is supporting businesses to invest, reducing our cost base which will enable us to compete, and ensuring our people at school, college or university have the skills and are learning in the areas that our economy needs. Enabling us to create the opportunities for our young people and retrain our existing employees. The Scottish and UK Government have played a central role in providing critical business support throughout this crisis. This role will have to continue through the recovery period and beyond. Both Governments should pursue strategic economic policy decisions to support business recovery.

The experience of the economic lock down has changed the way, not only that we work, but also our personal and professional priorities – the “human factor”. We have been focusing on growth of GDP, which should remain a measurement, but so also is the “partnership” approach which will be strengthened between business leaders, political parties and our employees. We need to be truly the “one team”. However, this will require complete change of attitudes, approaches, processes.

A radical change to the myriad of advisory groups and committees set up to advise and work in partnership with the government on economic development and business strategies is necessary. A radical amalgamation and a rethink are required. Too many resources are being spent by both the public and private sector to engage in hundreds of different committees, with “grey smoke” as to ultimately who is responsible and accountable for quick decisions to be made.

The focus of such decisions should be on preserving jobs and activity within the economy, including measures to provide no or low-interest bridging help; trade finance; working capital loans with flexible and deferred terms; tax relief; loan payment relief; rent/lease relief; grants; wage subsidies for SMEs; skills and training; business support interventions; and fast-tracking infrastructure investment projects. We would recommend that the geographical economic impact needs to be carefully considered in relation to local sectoral impact to local economies.

The predicted “jobs recession” will have a long-lasting impact on the economy and society. Preventing mass unemployment through jobs guarantees must be a priority for policymakers.

Liz Cameron, Scottish Chambers of Commerce

What should be the top priority areas for policymakers at this time?

From the foregoing, if the economy is really one-fifth smaller than it was before lockdown, then this is an ideal time to move Scotland onto a different path. Many of the activities, goods and services, imports that were seen as absolutely critical to the health of the economy have been forgone during these months by a population willing to make sacrifices for the common good. The willingness to ‘build back better’ can be constructed on firm foundations at this very time of demonstrable altruism, community and common good. Fundamental to such a strategic programme is both the cooperation and engagement of all partners of the quadruple helix of industry, government, universities/colleges and people and also leadership to realise such crucial and profound changes. Recent experiences suggest the ground is prepared for such strategic and dynamic developments to be put in place.

Simply reopening the economy by releasing the lockdown measures, however flexibly done, will not return us to 'normal' in a balanced and sustainable way, indeed existing inequalities and unsustainable activities may be encouraged and privileged without stronger interventions and regulations in the economy. For Scotland to achieve a fairer, more equal, healthier and more competitive and efficient economy and society - therefore displaying the characteristics of the Nordic countries: the most successful economies and societies in the world - requires a coherent set of policy and strategy instruments. That in turn means the transfer of powers over essential levers and powers of policy and process than presently; the UK Government is unwilling and unable to adapt to the challenges of the C21st in terms of the threats of Covid, Brexit and Climate. A programme of innovative interventions to build a more resilient national industrial and economic system based around a Green new deal means the transfer of powers and fiscal capacity to create a coherent and achievable future.

Offering a realisable set of outcomes, making business support dependent on building Scottish supply chains through local procurement and re/upskilling and apprenticeships, a basic income to encourage a just transition and to confirm the value and entitlement of all to a social dividend from our joint ownership of the intangible capital of the nation, enhanced community planning, management and control through asset transfer of land, local resources and decision making all have roles to play in building a better future for all which is resilient, sustainable and contributing to a global good.

Mike Danson, Heriot-Watt University

What should be the top priority areas for policymakers at this time?

There is a need for further measures by government, especially in relation to sectors particularly hit hard by the pandemic such as hospitality. There will also need to be a concerted effort on job creation and skills development, as unemployment looks set to increase to 1980s levels. There will need to be many components to a recovery plan and not necessarily a return to normal but building back better. Ideally we will be investing in activity which also leads to other gains, such as reducing carbon emissions, tackling inequalities and improving living standards. This shouldn't be seen as a nice to have, but a must have.

We need a similar scale and vision to what happened in the US in the 1930s - more of the New Deal type policies to help stimulate growth. This wasn't just large infrastructure projects like the Hoover Dam but investment in the creative sectors too. There are lots of ideas out there. For example, greater insulation of our homes would create thousands of jobs, reduce carbon emissions and reduce living costs.

We must also ensure that those facing financial hardship are protected and supported. Standard Life Foundation's financial impact tracker found seven million households (a quarter of all households in the UK) had lost a significant part of their earned income as a consequence of the pandemic. 4 in 10 of this group did not think they of their partner would benefit from either the Job Retention Scheme or the Self-employment Income Support Scheme. Many will be falling through the safety net including those with no recourse to public funds. This is unacceptable.

Mubin Haq, Standard Life Foundation

What should be the top priority areas for policymakers at this time?

If there is a single lesson we should take from the response to this crisis, it is the critical importance of a secure minimum income to underpin individual wellbeing. What many people looked like losing in March was any sense of security. Jobs they considered safe were suddenly under threat. Many of them will be still when furlough ends. But a secure, adequate minimum income is the foundation upon which we need to build a better economy and society. So investment in our social security system – as an economy stabiliser, as an aid to participation and inclusion – will be central to efforts to build back better.

Alongside this will be the need to redouble efforts to address low pay and insecure work by further embedding the real Living Wage and the concept of Living Hours in our labour market. With low pay and insecure work disproportionately impacting women and BAME workers, this will also help to address the structural inequalities that exist in our labour market and that the pandemic has shone so clear a light on.

Peter Kelly, The Poverty Alliance

What should be the top priority areas for policymakers at this time?

Our recovery should focus on locking in an economic model hardwired for social, economic and climate justice. This means a focus on structural economic reform, shaping our recovery through sector-level social partnership, and driving a stronger and fairer economy through a focus on high-skilled, high-paid jobs in low-carbon industries. This will require a sustained focus on delivering structural economic reform through recovery, and an honest public conversation about how we pay for the crisis fairly – prioritising progressive taxation and developing a clear understanding of who has been most and least exposed to the economic fallout in the immediate and medium term. It also demands a foundational focus on a green recovery, supporting Scotland's transition away from carbon-intensive industries by forging good new jobs in areas like retrofitting houses for energy efficiency and sustainable transport. Attaching conditions to ongoing government support could be a key mechanism to incentivise much-needed change across our economy.

As we look towards the serious jobs challenge coming down the track this year, we must learn from the lessons of the financial crash and avoid short-termist solutions that deliver employment gains through low-quality, insecure work. This crisis is a test of the Scottish Government's commitment to a vision for economic prosperity that is broad based and widely shared – and for agendas focussed on fair work, inclusive growth, climate justice and child poverty. These are priorities that are all the more pressing during a crisis that is widening existing inequalities, and creating pressure to reach for short-sighted responses that could push greater numbers of people into insecure, poor-quality work and to de-prioritise our climate crisis that is not going away. While the temptation to pursue GDP growth at any cost will be strong, the promise of measuring economic value in terms of human outcomes is even greater. Holyrood will need to stretch its powers to the limit between now and elections next year, and then into the next parliament, to emerge with a fairer and stronger economy on the other side.

Rachel Statham, IPPR

What should be the top priority areas for policymakers at this time?

Scotland has introduced some protections, such as a six-month moratorium on evictions as opposed to the three-month ban in England, which is due to come to an end at the end of June. The Scottish Parliament has also established a loan scheme for landlords whose tenants are unable to pay the rent. However, these emergency measures are a sticking-plaster for a much greater problem which existed before the pandemic. Now, we may be experiencing the calm before the storm as the extent of this deep recession begins to be felt.

We are at a juncture where we could see an increased reliance on the PRS, and the concentration of property wealth in fewer hands. More concerning still, if landlords do issue eviction notices due to build-up of rent arrears or introduce retaliatory rental increases which even new LHA rates are unable to cover, then we may see a spike in homelessness.

On the other hand, however, this crisis presents an opportunity for a radical re-investment in social housing and other policy changes to protect tenants. For example, with the shut-down of tourism, this crisis has also caused the short-term holiday let sector to collapse, with reports of a new glut of rental market properties in AirB&B hotspots. The Scottish Parliament has already taken tentative steps toward regulating this market, and now might be the time for policymakers to use whatever levers are at their disposal to ensure that the majority of these properties stay within the longer-term housing market.

As has been argued elsewhere, investing in home-building, specifically homes for social rent, could be the perfect counter-cyclical "shovel-ready" investment projects that are needed. Having come at just the right time, the new SFHA, Shelter and CIH report Affordable Housing Need in Scotland Post-2021 makes a strong case for Scottish Government to prioritise social housing and be even bolder in its annual targets, calling on the Government to commit to delivering 53,000 affordable homes over the next Parliament (2021–2026).

Housing has always been the keystone of anti-poverty policy. Now, in any debate about "building back better," what better to put at the heart of the debate but buildings themselves?

Rhiannon Sims, Independent Commentator

What should be the top priority areas for policymakers at this time?

The top priority for policy makers at this time must be to reverse the lockdown while containing the Covid-19 epidemic. This involves building up an infrastructure to detect new outbreaks of the disease and intervene in a targeted manner where necessary (e.g. by isolating small regions or select groups). The evidence from other countries suggests that this requires ample testing capacity combined with fast and effective contact tracing. (WHO, May 2020) The UK is severely lagging behind other European countries in this respect.

Aside from this, policymakers should avoid unforced damage to the economy which will dampen the prospects for a speedy recovery from the recession. For example, UK exports and imports are currently in freefall. (ONS, June 2020) This is to be expected given the severe recession – and trade and trade-facing employment typically bounces back quickly in the recovery. (Zymek, 2020) However, the UK is yet to define the nature of its trade relationship with the EU and other major economies from January 2021. Policy-makers would do well to ensure that the resulting uncertainty does not cut off the UK's trade-dependent jobs from the eventual global recovery.

Robert Zymek, University of Edinburgh

What should be the top priority areas for policymakers at this time?

The urgent priority is to minimise the increase in unemployment and to limit the scale of long-term and youth unemployment. Equally important is educating young people. The private return to a year of schooling is around 10%. That is, each year of schooling boosts future earnings by enhancing productivity. Time out of school now means lower income growth in future; Covid would be casting a long economic shadow. Students in Scotland have lost around one-third of a year of education and will lose more. Restoring pre-school and school education will also allow parents to return to work and will reduce the risk of inequalities intensifying, including gender inequalities.

Governments face hugely complex challenges in dealing with a health crisis and an exceptionally severe recession. These will stretch governmental capacities for some time. On the economic front, there should be a singular focus on tackling unemployment and restoring incomes, difficult enough tasks in normal recessions. While the desire to do more than this is understandable, it is not clear that governments have been able to achieve such intricate tasks as delivering inclusive or sustainable growth. No one dissents from a desire to build back better. If that is what governments decide to do they should be very clear about how complex outcomes will be achieved – what's the logic model? – and give certainty that the core task of tackling unemployment will not be compromised. The best should not become the enemy of the good.

Stephen Boyle, FAI

What should be the top priority areas for policymakers at this time?

Policymakers need to focus on how to revive economic activity in the safest possible way, with government applying the same degree of agility and urgency demonstrated so far. That will mean collecting and listening to real-time feedback from businesses that are doing their upmost to come through to the other end of this crisis. It will also require working with the rest of the UK to come up with solutions that can be scaled-up and boost international competitiveness, at a time when global economies are in flux.

Initially, supporting business and consumer confidence, and taking necessary measures to stimulate short-term activity will be critical. Thinking to the longer-term, government in Scotland should play its part by using its procurement and planning policy to encourage 'shovel-ready' infrastructure projects to get off the ground. Accelerating digital transformation to support users, including business, is also key.

This is an opportunity to 'build back better' by increasing action across areas that were already identified as crucial for future growth: upskilling and retraining, green transition, and digital connectivity. But also building resilience into our existing infrastructure, including housing and transport and use that to kick start economic activity and growth, and spurring job creation.

Tracy Black, CBI

What should be the top priority areas for policymakers at this time?

As Scotland emerges from the crisis of the pandemic and into economic recovery it is clear there is going to be acceleration towards a digital economy. We will need to move quickly to adapt to this, ensuring we have a talent pool of trained, equipped and workers who are able to take these opportunities and drive the economy in this direction.

Part of this shift towards a digital economy should focus on helping more small businesses compete online. This will make local economies more resilient with small businesses better placed to compete with larger operators who already have a strong online presence. Businesses that fail to engage the digitally will have a slower and much more difficult recovery. Some may not recover at all.

One of the lessons from Covid-19 is that reactive costs of dealing with the aftermath of a crisis can be much higher than the proactive costs of dealing with it upfront. Countries that were quick to enact preventive measures seem to be faring better than those that delayed.

This lesson probably applies to climate change. Similarly, Covid-19 underlined the importance of collective responsibility when resolving some challenges and has proved that companies and households are capable of greater/quicker change than they might previously have thought possible. With a different mindset, then, the opportunities for a Green recovery are arguably greater than they were previously.

David Fenton, TSB

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