



OFFICIAL REPORT
AITHISG OIFIGEIL

Economy, Energy and Fair Work Committee

Tuesday 11 August 2020

Session 5



The Scottish Parliament
Pàrlamaid na h-Alba

Tuesday 11 August 2020

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ECONOMY, ENERGY AND FAIR WORK COMMITTEE

23rd Meeting 2020, Session 5

CONVENER

*Michelle Ballantyne (South Scotland) (Con)

DEPUTY CONVENER

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

COMMITTEE MEMBERS

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

*Rhoda Grant (Highlands and Islands) (Lab)

*Alison Harris (Central Scotland) (Con)

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

*Richard Lyle (Uddingston and Bellshill) (SNP)

*Gordon MacDonald (Edinburgh Pentlands) (SNP)

*Andy Wightman (Lothian) (Green)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Tracy Black (Confederation of British Industry Scotland)

Professor David Blanchflower

Liz Cameron (Scottish Chambers of Commerce)

Russell Gunson (Institute for Public Policy Research Scotland)

Helen Martin (Scottish Trades Union Congress)

Barry McCulloch (Federation of Small Businesses)

Mairi Spowage (Fraser of Allander Institute)

CLERK TO THE COMMITTEE

Alison Walker

LOCATION

Virtual Meeting

Scottish Parliament

Economy, Energy and Fair Work Committee

Tuesday 11 August 2020

[The Convener opened the meeting at 09:37]

Decision on Taking Business in Private

The Convener (Michelle Ballantyne): Good morning. I welcome member, witnesses and those joining us online to the Economy, Energy and Fair Work Committee's 23rd meeting of 2020.

Before I introduce today's witnesses, we will consider agenda item 1, which is a decision on whether to take item 3 in private. Are members happy to do that? As no member objects, we agree to take item 3 in private.

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

09:38

The Convener: Item 2 is consideration of the impact of Covid-19 on Scotland's businesses, workers and economy. Our main item of business is to take evidence in this inquiry.

I welcome our first panel of witnesses: Tracy Black, director, Confederation of British Industry Scotland; Barry McCulloch, senior policy adviser, Federation of Small Businesses; Helen Martin, deputy general secretary, Scottish Trades Union Congress; and Liz Cameron, chief executive, Scottish Chambers of Commerce. I am glad that you can all join us.

Alison Harris (Central Scotland) (Con): Good morning, everybody. I want to address my question to Liz Cameron or Barry McCulloch in the first instance. The furlough scheme has been excellent for employers across the country but, obviously, it cannot go on for ever. What will happen to unemployment when the scheme tapers off? Will we see mass redundancies?

Liz Cameron (Scottish Chambers of Commerce): Good morning, committee members. I am delighted to be involved in this morning's meeting.

Let me respond to Alison Harris's question. The business intelligence and data—we have evidence from the ground from 30 chambers in all parts of Scotland, as well as evidence from our economic quarterly survey and our most recent tracker, which closed on 30 July and had 500 responses—leave us in no doubt that the furlough scheme has masked and continues to mask the unfortunate position that we will experience over the next two months, which is a high number of redundancies and individuals losing their jobs. There is no doubt in our minds about that.

Our tracker is not yet published; it will be published in the next few days. We asked the 500 businesses where they are right now, whether they are making staff redundant, what their plans are and what the impact of the furlough scheme has been. You will see the detail of the report at the end of this week, but I can give you some statistics from it now.

As at 30 July, which is fairly recent, 89 per cent of respondents had not yet made staff redundant, and 11 per cent confirmed that they had done so. At first sight, we might think that that is quite positive. However when we dug a little deeper and asked what will happen when the furlough scheme ends, we found that 38 per cent of respondents

intend to bring back 76 per cent of their furloughed employees and 9 per cent might bring back 51 per cent of their employees. It is clear that 35 to 40 per cent of businesses will struggle to bring back all their employees at that point and are already planning redundancy consultations and packages. The unfortunate position is that a lot of redundancies will be coming our way in the next few months.

Barry McCulloch (Federation of Small Businesses): Without a doubt, the job retention scheme has been a lifeline for employers and more than 730,000 staff in Scotland. In Glasgow and Edinburgh alone, something like 150,000 people are furloughed.

As we prepared our thoughts ahead of today's meeting—as all the witnesses probably did—and in light of today's figures, which show a sharp increase in unemployment and a sharp drop in employment, we found much cause for reflection. The FSB's view is that the United Kingdom Government urgently needs to review the plans for furlough after the end of October, because if there are very large increases in unemployment while the furlough scheme is in place, we can assume that, when the scheme ends, many businesses will, unfortunately, have to make their staff redundant.

We will talk more about redundancy later; as Liz Cameron said, there are already signs that businesses are finding it very difficult to keep staff on, even with Government support.

The Convener: Helen Martin, what is the STUC's view?

09:45

Helen Martin (Scottish Trades Union Congress): We take a very similar position. It is clear that the furlough scheme saved a lot of jobs when it was introduced, and it is extremely welcome. It is also clear that, as the employer contribution element of the scheme has risen, that has started to put pressure on jobs, and we are now seeing redundancies coming down the line.

Like the other organisations that are represented on the panel, we are concerned about what happens when the support is withdrawn. We have to think very carefully about what we do in future. The STUC has argued strongly that certain sectors will be particularly in need of furlough support. For sectors such as hospitality, tourism and perhaps aviation, which have seen a complete drop in demand for their services and a fundamental crisis in their industry that is difficult for even strong companies to weather, targeted Government support would be very useful.

We also need to consider the way in which we think about support. We perhaps need to change the focus of support away from employers and towards workers so that workers' pay can be maintained throughout the transition. Sectoral support is still important, but it is important to think about how to help workers perhaps to move from employers who are struggling to employers who are weathering the storm better. That involves our social security system. I have made the point previously to the committee that, in other European countries, it is fairly normal for unemployment support to be linked to wages or to be a percentage of wages, which is similar to the approach taken in the furlough scheme. That would be a tweak to how support is delivered, but it could help us to weather the storm and get back to the strong economy that we can potentially still have in future.

Tracy Black (Confederation of British Industry Scotland): I echo everything that Helen Martin, Barry McCulloch and Liz Cameron have said. Unfortunately, all the signals from our members are that we are facing redundancies. The particularly challenging thing with the crisis is that it affects all sectors and all parts of the country—it affects rural and urban areas and large and small sectors. In considering support mechanisms, although we must focus on supporting young people, who we know are often disadvantaged in a recession, we must also consider how to tackle the issue of older people being made redundant. I am sure that we will come on to consider that issue further today. People of all age groups will be affected, and we must learn from past experience. There has to be as much upskilling of existing workers as there is of young people.

Redundancies have already started and they will continue. That is being compounded by the need for social distancing. That is essential, but it has a huge impact on our manufacturers in particular. They cannot bring back 100 per cent of their workers and are probably operating with around 65 per cent of their workforce, which means that they can get to only about 80 per cent of output. Even companies that have order books and are looking to fill them cannot do so because of those constraints. That cannot go on indefinitely. There are some real challenges there, while we are still in the middle of a health crisis.

The Convener: Alison, do you want to come back in?

Alison Harris: No. I am fine, thank you, convener. That was very interesting—the answers were helpful and honest. Tracy Black's point about how we go forward while maintaining social distancing highlights significant problems. I am happy with those responses, convener.

The Convener: In that case, I will go to Gordon MacDonald.

Gordon MacDonald (Edinburgh Pentlands) (SNP): I agree with what the witnesses have said about unemployment. In fact, the Office for Budget Responsibility has said that UK unemployment could surpass the peaks of the 1980s and, at the end of July, PricewaterhouseCoopers said that roughly 17 per cent of the 9.4 million workers who are currently furloughed probably do not have a job to go back to.

Why is the UK Government, which is in charge of the fifth biggest economy in the world, according to what we are being told, withdrawing the furlough scheme at the end of October, given that France is continuing its support mechanism for two years and Germany has said that it is going to continue its support mechanism until mid-2021? If the UK Government is not prepared to continue a support mechanism for people who are currently furloughed, should the Scottish Government have borrowing powers to enable it to introduce its own tailored employment support scheme?

Liz Cameron: You are right with regard to what you say about the furlough scheme. As a business organisation, we have been calling for that support to be extended, but that call did not land well and we did not get a win from the UK Government in that respect. Therefore, we have changed our focus towards the question of whether the Government might look at the potential of having not a furlough scheme but some other element of financial support that could be customised to help different sectors.

Tracy Black is right to say that this issue is affecting all sectors and all sizes of companies in all areas. That said, as a result of the phasing approach that has been adopted by the Scottish Government, some sectors have had a longer lead time to being able to trade and have money coming back in the door to pay their employees. We will continue to ask the UK Government to consider having a different type of scheme that will help with the costs that are being incurred by businesses of certain sizes in certain sectors and which will enable them to get support over a longer period of time.

As I said, that is still on our agenda, and we will continue to make that point, particularly for those sectors that need additional help and in relation to the situation with the lockdown in Aberdeen, where businesses voluntarily closed their premises immediately when they discovered the unfortunate situation in some of the pubs and bars. Support must be ready to be provided quickly to businesses in such a situation.

I do not feel competent to answer your question on borrowing powers. I do not have the knowledge to say whether the Scottish Government should have them. That is something that the politicians in the Scottish Government and the UK Government should sit down and either negotiate or renegotiate, with due consideration of the impact and the value of borrowing powers that the Scottish Government could use to help businesses and the jobs market.

Barry McCulloch: When the job retention scheme was designed and launched, we were probably all anticipating a shorter, sharper crisis. However, in reality, we know that certain sectors are looking at a much longer, more uncertain return to normality. In May, the FSB was looking ahead to the summer with the hope that, as we moved through the route map and economic activity resumed across parts of the economy, the economy would pick up. There has been some uptick in productivity but, as was alluded to in the discussion around the job retention scheme, things are fairly grim out there.

As Liz Cameron said with regard to redundancies, our small business index, which we published recently, contained a fairly startling statistic, which was that 17 per cent of our members are thinking of reducing their head count over the next few months. Many businesses face a long journey to get back even to viability.

What has happened in Aberdeen has put into sharp focus the need for us to plan for such eventualities now. We thought that we had time before additional lockdown restrictions would be put in place, but it turns out that we do not. Therefore, we need to think now about how we retain as many jobs as possible and how we support businesses to do that.

The job retention scheme—perhaps in a different form—will have a part to play after November. In addition, there is a lot to be welcomed in the Scottish Government's development of the Scottish jobs guarantee scheme and in the UK Government's kick-start job scheme.

Helen Martin: We absolutely agree with the points that have been made so far. Given that the job retention scheme seems to be playing such a critical role in holding up our economy, it seems nonsensical that the UK Government is going to take it away as we move into the winter, which will probably be a critical time from the point of view of the pandemic. There is a significant chance that major lockdowns could be imposed, with a lot of pressure being placed on businesses. That might not happen across the entire economy in the way that it has done over the past few months, but it is likely that there will be pockets where issues need to be dealt with. I would ask the UK Government

what plans it has to support businesses and workers through that. It cannot simply be down to individual businesses and individual workers to muddle through, because resilience in the economy has already been weakened.

We were disappointed by the UK Government's announcements on stimulus and believe that there is so much more that could be done on that. Given the need to transition to a low-carbon economy, perhaps it is time for large-scale investment in transformative projects in that area that could help to kick-start the economy and give us something to build on.

In addition, we need to recognise that, although individual sectors are struggling, we are talking about businesses that are fundamentally sound. Tracy Black's point about manufacturing was a good one. It is clear that manufacturing is impacted by social distancing, but we cannot simply remove social distancing, because if we did that, it is likely that there would be other, wider impacts on the economy as the virus started to surge. We need to find a way to square that circle. Unfortunately, it comes back to the Government to provide Government support mechanisms; we must realise that there is no other option.

The STUC is supportive of the UK Government agreeing to the Scottish Government receiving greater borrowing powers, and we would be interested in looking at issues to do with local government's borrowing powers. The writing off of historical debt for local government, which could be done now, would free up a lot of money at local level that could be used to support businesses and to support stimulus. We were also supportive of the calls by the Scottish Government and local government for changes to be made from capital spend to revenue spend.

We thought that those were sensible things that could be done in the short term as emergency measures to help us through the current situation. We need to look much more widely at the package of measures that could be put in place to weather the storm, because the idea that we will be back to business as usual after October is fanciful.

The Convener: Thank you. One of the big challenges that we will talk about is the fact that the supply chains of many businesses are breaking down, and not having access to their supply chains affects their ability to function. If we cannot keep businesses afloat, furloughing will not save employees' jobs. There is something more going on here.

We move to questions from Willie Coffey.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): Could the panel offer a view on the impact that the pandemic has had on women in particular, especially the impact that it has had on women

who work in the care sector and other areas of the economy that have high representation of women? The committee has had quite a number of submissions on that, so I would appreciate the witnesses providing us with views on the matter.

The Convener: Who would like to go first? Helen is waving at me.

10:00

Helen Martin: I am happy to discuss that. The pandemic has exposed some problems that already existed in our economy; the systemic undervaluing of women's labour is one of the problems that has been brought into stark relief. Nowhere is that better illustrated than in the care sector. Care jobs are quite highly skilled and are predominantly done by women. Workers are paid the minimum wage, or the living wage if the worker is lucky, and that is only because of the work that the Scottish Government, employers and unions have done on trying to implement the living wage through procurement. Prior to that work, the care sector was very much a minimum wage sector, which meant that the workforce was particularly undersupported and underprepared for the pandemic.

The care sector had difficulty accessing personal protective equipment and testing, and employees had difficulty accessing sick leave because they did not necessarily receive anything more than statutory sick pay, which is set at such a low rate that it represented a barrier to workers on low pay taking sickness leave. That turned out to be a catastrophic combination of issues for the workforce. As a result, there has been a crisis in our care homes during the period.

We knew that there was a problem in social care before the pandemic; we knew that it was very fragmented and underfunded, and that we needed to look at the system under which that key public service was being delivered. The pandemic has shone a light on it.

Other elements of women's labour have also been impacted. We know that women are more likely to be front-line workers, and that they are more likely, when they work from home, to have also to take the lead on care responsibilities. That has taken a huge toll on women during the pandemic. The balance between work and care is often difficult, and has been extremely difficult throughout the pandemic.

I hope that we can learn lessons from that and take forward some of the good elements of working from home and working flexibly—many employers have learned that those things are much more possible than they previously thought they were—and that we can build business models that are better for women, that value their

labour better and that increase pay across the key sectors in which women are on the front line, but are often very low paid.

Tracy Black: I want to make a couple of points. First, the issue is why schools going back and childcare provision being available are essential. The majority of children are looked after by their mothers, and caring responsibilities often fall on women. Therefore, it is excellent that schools are going back.

The Guardian published a survey last week, which was carried out by the University of Oxford. The survey's results showed that more women than men were furloughed, even when the men and women were doing the same job. We do not know whether that was through choice; it could be that because of their responsibilities at home women put themselves forward more than men.

We have to ensure that our focus during the recovery does not have unforeseen consequences. Much of the focus so far—which we support—has been on shovel-ready projects in construction and infrastructure. However, such projects lend themselves to male-dominated industries. When the Scottish Government is working on the recovery plan, it should think about how it supports women in sectors that are particularly vulnerable. Care homes have been mentioned; retail is another vulnerable sector.

Reskilling and upskilling will be critical—helping women who have been made redundant from retail jobs to pivot into new digital jobs, for example. We agree that women are particularly vulnerable in this crisis, but there are opportunities out there through reskilling and upskilling, which must be supported.

Liz Cameron: I think that we all agree that the subject of Willie Coffey's question is a major issue. In fact, last week or the week before, the Institute of Fiscal Studies said that nearly 47 per cent of women either could lose their jobs permanently or had already quit their jobs because of parental responsibilities which, as we all know, lie with the mother or another female carer in the majority of—but not all—cases.

We are putting women in the box of low-paid and low-skilled jobs. I do not agree that those jobs require a low-skills skill set. The current situation has highlighted the value of women in the workplace: you all have a responsibility to do something about that.

However, the challenge that we all face is in the timing. We cannot go out now and just say that we should increase salaries by X per cent—[*Inaudible*]. There needs to be a phased approach that we all buy into and agree to support—[*Inaudible*].

The care, tourism, hospitality and retail sectors value the talent and skill sets that females bring to the workplace. It is important that we plan ahead—crucially, regarding retraining that women can go into. We should have a close look at the care sector, in particular—at creating new opportunities and higher-skilled positions. People across the patch have been doing those jobs for a substantial period and their positions require a set of skills at a higher level.

Let us revisit jobs in those sectors and look seriously at retraining females who might be working from home right now, but would rather be out in the workplace. The Scottish Government has announced that it will look at the retraining allowance. Let us begin to reprioritise and focus on women, in particular, to retrain them for positions and jobs that suit their environment and other commitments, and which bring their labour back into the marketplace. That needs to be phased and prioritised.

Barry McCulloch: I will build on the previous comments. The issue has not received anything like the attention that it deserves. Until this week, due to schools and childcare providers for non-key workers being closed, childcare responsibilities have been shared unevenly in households around the country. That has had a huge knock-on impact for women who run or work in small businesses.

What has disappointed us—I am sure that we will come on to this—is that the Higgins report and the Government's response to it did not acknowledge the economic importance of the care, early years and retail sectors, which are vital. It did not contain much on those sectors, which provide a lot of jobs for women and a lot of opportunities for women to start or maintain businesses.

The Convener: Indeed. Willie—do you want to add anything?

Willie Coffey: No, thank you. The panel's answers were helpful. If there is a chance to come back later to working from home, it would be useful to explore the issue, but we should move on, so that colleagues can ask their questions.

Richard Lyle (Uddingston and Bellshill) (SNP): We all know that Covid has been a game changer for employment and unemployment. Is there a need for more tailored regional and sectoral responses from the Scottish Government, or would that create a postcode lottery, as some people call it? If there is such a need, what sectors and regions need priority action? What does the panel suggest should be done?

Tracy Black: At the moment, we still do not know exactly how this will play out. All the indicators suggest that we are heading into a difficult and challenging winter. We suspect that

the lockdown in Aberdeen will not be the last local lockdown, but we hope that we will not have another national lockdown. However, we do not know whether there will be a complete second wave or whether cases will be localised.

Support must therefore be developed to be nimble and flexible. It also needs a local element, so that if there is a local lockdown, businesses know where to go for support, whether it is from local authorities, Scottish Enterprise or the Government. There needs to be clear direction towards the support that is available during a lockdown.

We have talked about the coronavirus job retention scheme, and we have suggested that there should be localised JRS support. Clear support after lockdown would also be needed. It is hard to say to what parts of the country support should be applied, if we are to consider regional support, but the support needs to be flexible so that it can come in quickly when business needs it.

We have a good idea which sectors will be most challenged—hospitality, tourism and retail being the obvious ones. We have seen similar challenges in the aviation and aerospace sectors. However, I would not like to say what other sectors might be challenged.

On a positive note, construction and trades that are associated with it have come back pretty strongly, but the sector does not expect that to continue throughout the winter months. The question is whether it will just be catching up with demand that was put on hold for four or five months.

We therefore need tailored support, and we will certainly need localised support if there are more local lockdowns. As we have mentioned, we also need to be careful about women and other groups—[Inaudible]—and do not neglect them.

The Convener: We lost your sound slightly at the end there, Tracy. Does Barry McCulloch want to come in on that?

Barry McCulloch: Richard Lyle asked an important question. Throughout the crisis, the Government has engaged in a lot of work that has focused on preparing guidance for sectors coming out of lockdown or providing business support for specific sectors and places. The Falkirk growth deal and the islands growth deal, for example, were launched recently. The issue is close to the FSB's heart.

The Scottish economy is characterised by significant economic variations between and within places and sectors. That manifests itself in levels of self-employment, economic output, start-ups, quality of infrastructure and empty units on the high street, but they are different in each place.

We are highly concerned about the impact that the crisis will have on businesses and areas that were already struggling before Covid hit. The Higgins report made clear the difference before the crisis between economic output figures in the Edinburgh economy and Ayrshire economies, for example—it showed that there was a £30,000 per head difference in output. Obviously, the crisis will just exacerbate that difference.

The question is how we target action to ensure that the places that will be worst affected by the pandemic have a sustainable route out of it. I do not think that we have cracked that problem yet. The Scottish Government's implementation plan talks about aligning resources to a regional level for Scottish Enterprise. To be honest, I am not sure what that means.

In addition, we are doubling down on city growth deals without there being a particular appreciation of the framework in which they operate. That is agglomeration economics, which is based on the hope that activity in one place will have a wider economic impact. With people now working from home and the economy changing completely, we need to take stock of what the economic strategy will be, not only for Scotland but for local economies across the country.

10:15

The Convener: I could not agree more. Richard Lyle wants to come back in with a supplementary.

Richard Lyle: Barry McCulloch touched on the next thing that I want to ask about. I suggest that we need to think outside the box. Should any rules or regulations be relaxed in order to stimulate employment?

The Convener: As Barry McCulloch touched on that subject, he might want to respond first.

Barry McCulloch: To be honest, we are already seeing that. At the start of the crisis, the Scottish Government's chief planner introduced a temporary relaxation of the rules for planning developments, which has recently been stretched to cover the months ahead. The Government and its agencies are already contemplating what they can do to make things easier for businesses. It is not necessarily about rules and regulations; it is also about putting a stop to other interventions that might increase the costs of doing business.

I know that the committee has talked extensively about the deposit return scheme. The Government also paused the introduction of low-emissions zones, given that air-quality levels have dropped below the target levels. That is not to say that those schemes are not important—they are incredibly important—but we need to think about

how we give the economy time to get back to a level at which it can contribute to wider objectives.

The debate about the green economy is incredibly important. However, from our conversations with small businesses, we know that many of them are in survival mode and are not in a place where they can have conversations and discussions about wider Government objectives.

Colin Beattie (Midlothian North and Musselburgh) (SNP): I would like to cover a couple of areas. First, the committee has taken a lot of evidence that suggests a fairly gloomy outlook for operational capacities, staff levels and viability. A lot of businesses are questioning how long they can survive.

The Fraser of Allander institute has said that the average Scottish firm

“expects to only operate at around 50-75% capacity over the next 6 months.”

That is quite a broad guesstimate, of course, but even if only the most optimistic part of that prediction comes true, it will put considerable pressure on jobs and the economy.

Does the panel agree with the sentiments that the committee has heard? You could start by responding to the figure that I quoted from the Fraser of Allander institute.

The Convener: Who wants to come in? It brings us back to the first question on the likely level of redundancies if businesses continue to operate at a lower capacity. Do we think that the figures from the Fraser of Allander institute are right?

Liz Cameron: Yes. The economists and all the think tanks are more expert than we are at making projections, and I agree that the estimate that Colin Beattie quoted is the ballpark figure.

We are already seeing a fall in capacity. In the manufacturing sector, which was mentioned earlier, some businesses are already working at only 50, 60 or 70 per cent capacity, and our hospitality industry is operating at 20 or 30 per cent in some cases. The figures from the Fraser of Allander institute are therefore probably pretty accurate, if things stay as they are right now. Of course, we do not know what lies ahead in the next few months—there might be a second wave or whatever. The question from committee members is, “What can we do about that?”

The previous question concerned local and regional flexibility, and focused on customised support. I have 30 chambers of commerce and, believe you me, they all put their hands up and say that they deserve other support.

There is a case to be made for looking closely at local support mechanisms and customising support from Government into the areas concerned. That worked previously with the oil and gas industry, and we should consider that option closely. For those of you who have not already seen it, I understand that the Scottish Government has done some analysis on that. Referring to the economics of all this, there are predictions about which areas of Scotland are more at risk. It is worth taking an exploratory look at that to see if we can start considering some development plans.

Barry McCulloch made a point about city deals and urban and rural town centre deals. Perhaps the committee might want to consider all those issues in the one pot to bring things together. There is funding within city deals, and there is also funding in some of the other UK and Scottish Government town deals and urban deals. If we can begin to co-ordinate that funding a bit better than we are doing now, it might help to support businesses in the areas concerned. We should examine closely the city deal applications that have already been made and whether they are still relevant in the crisis that we are in? That is the question. Do they need to be tweaked or perhaps resubmitted to the UK and Scottish Governments?

As for costs for business and how we can help to support business, we have talked a lot about the job retention scheme and employment costs, which tend to be the higher costs for business. Can we look a little bit more at the total cost of doing business here in Scotland? I am referring to non-domestic rates, and you will hear about that from me again. That was the number 1 concern at the start of the Covid crisis, and it remains among the top three concerns. It is a massive cost to all businesses in all sectors, even with the support from the Scottish Government in the form of rates relief. We have had reviews and recommendations, but can we just close that off and begin to focus on reducing the cost of business rates?

The planning system has been mentioned, and we might also look closely at that. We have indeed had some flexibility in planning, but the system is still not good enough. Can we revisit that? The national planning framework is there, and things will take time. Can we consider a short-term action plan, particularly on planning, to make it easier for construction and other major projects to get up and running quickly across all parts of Scotland? Differentiation can be a disadvantage for many businesses, depending on the interpretation being implemented by local authorities and the planning authorities.

My final point is about procurement. We have included some suggestions in our briefing about how we might better utilise procurement

opportunities to support small and medium-sized businesses in particular.

As a package, all that could go quite a way towards helping to retain businesses and indeed jobs.

Colin Beattie: I know that other members of the panel wish to respond, but I point out that what we are discussing is not whether we are going to have a decline but how steep and sharp that decline will be. Do we have any feel for that? What will the impact be on our business base at the end of the fall-out?

The Convener: Tracy Black, Barry McCulloch and Helen Martin all want to come in. I am looking at the time. Can we try to keep our answers fairly succinct? Otherwise, we will struggle to get through to get through all the questions that members want to ask.

Tracy Black: If we look at the figures and the economic predictions, the situation looks dire. It looks like there will be no quick turnaround, and that there will be a long-lasting impact on the business community in Scotland during the next two to three years.

As we have discussed internally, we have a large number of family firms in Scotland. I know from talking to people in those firms that they have always taken a fairly conservative, cautious approach. Those firms have had three years of Brexit planning and a number of them have sat on cash: they have not borrowed, and they have not scaled up using alternative finance. It can be hard to predict how much those family firms can tighten their belts. We hear about companies owned by a family, and members of that family not paying themselves a salary for three months. Economists cannot really predict that. I think that those are more isolated cases, rather than general. However, as I said, in Scotland we have a large number of successful conservative family firms, and some of them have cash that might see them through the crisis.

We are also strong in some sectors that should weather the storm better than others, such as financial services, the creative and digital sectors and, of course, our renewables sector, which also has a really good future.

We are also looking at our manufacturing base in particular, and asking whether companies that are in the automotive or aerospace sectors could pivot into renewables? For example, could an aircraft turbine engineer focus on wind turbines? There are potential opportunities. It is hard to predict, but, if companies can flex, they could see a way through the situation more successfully than what the numbers on paper show at the moment.

The key thing that we want to get across is that a lot of the recovery work is focused on the mid to long term, and it is absolutely essential that we focus urgently on the next 12 months. We need to put plans in place in the next few weeks—not months—for how we help people who are being made redundant; how we will help to support our youth who are made unemployed; for the green recovery; and for business survival. We need to split recovery into that long-term vision, which is important, and the urgent action that we need to take on what will happen to support businesses in the next six to 12 months.

There is lots to welcome in the Scottish Government's response to the Higgins report, but it is called an implementation plan and, at the moment, there are no timelines in that plan for when the support will come. I know that we will hear more on that in the next few weeks, but our concern is that we need that help now, not in spring or autumn next year.

The Convener: Barry McCulloch can answer quickly.

Barry McCulloch: No problem. It is always difficult to summarise the concerns of a diverse business community, but I will try to do that by using a survey that we closed just last week. It provides a useful summary in addressing some of the issues that Colin Beattie raised.

Fifty-three per cent of respondents are confident that they will survive; 31 per cent have taken on more debt, but they think that it is manageable; 25 per cent are fundamentally changing their business model or are planning to do so; 5 per cent are likely to seek temporary employment until their business gets back on its feet; and 4 per cent will likely permanently close their business and move into employment.

The Convener: That was succinct. Thank you, Barry

Helen Martin, very quickly: what do you think should happen?

Helen Martin: I will build briefly on Tracy Black's points. She talked very succinctly about the idea of flex, and businesses moving into opportunities, particularly in the green economy. The important thing is to build opportunities for firms to do that through Government procurement and sourcing of contracts, making sure that there are opportunities for British and UK firms to receive work through that, and that it provides employment here in the UK.

We also urge some caution against throwing the baby out with the bath water, in terms of regulations and standards. It is really important that we continue to have high aspirations for the sort of economy that we want to see. Building fair

work outcomes into the recovery is really important, and could help us to design an economy that has a much stronger worker voice, and much less in-work poverty, as it comes out through the other side.

The Convener: Thank you.

I know that some are using it already, but I remind all witnesses that they can put any further comments in the chat box; they will be picked up.

That is really helpful; thank you. Colin, are you happy if I move on?

Colin Beattie: Yes, I am happy.

10:30

Andy Wightman (Lothian) (Green): Barry McCulloch mentioned a recent survey, which showed that 31 per cent of businesses have taken on more debt that they believe is sustainable. The Fraser of Allander institute was also considering the issue of businesses taking on debt. Will the witnesses give us an indication of whether the vast majority of that debt is sustainable and prudent, or whether any of it is born of rather desperate circumstances?

I have another question. Some businesses that I have spoken to appear to regard their best prospects as going into some form of hibernation. They do not want to lose their assets, but they want to hibernate as they do not think that it will be profitable to come back in the next three to six months. Have the witnesses heard anything from their members about that issue, and what are their views?

Barry McCulloch: As I said, 31 per cent of businesses have taken on more debt or taken out debt for the first time but, pleasingly, many believe that the level of debt is manageable and sustainable. It is important to note that, as Andy Wightman illustrated, debt in small businesses and high levels of indebtedness are fairly new phenomena. For many decades, policy makers have been encouraging smaller businesses to take on more debt finance and equity finance, and, without a doubt, many businesses are doing so now in order to get through the situation that we are currently experiencing to bridge the period either from April to September, or from September onwards.

The figures from the bounce back loan scheme and the coronavirus business interruption loan scheme show that those schemes have had a huge impact. However, we are unsure what impact servicing that debt will have in the longer term, and whether it will take the place of investing in the business, dampen the recovery when we get to that point, or come at the cost of doing other things that the business would otherwise like to

do, such as investing in or training staff, or upgrading premises.

As Andy Wightman said, some businesses have taken on debt to get them through a very tricky spot and on the assumption that the crisis would be sharp and short. We are seeing that that is not the case, so there will definitely be an argument soon about what other finance opportunities we can provide to get businesses through the next six months or so.

The Convener: Liz Cameron, that is the point, is it not? If an organisation, whether it is a Government or a business, borrows money, it has to be paid back, and that curtails the organisation's choices. What are you hearing from the businesses that you are dealing with with regard to debt levels?

Liz Cameron: We are running out of time, so I will say that I agree with the majority of what Barry McCulloch said.

Is the debt sustainable in the long term? No, in the majority of cases it is not, particularly for small and medium-sized businesses, because they have taken debt to a level that they are not used to managing. If they cannot get out there, open their doors and get the income coming back in, they are not investing in their businesses at all. That is a big challenge for the majority of Scotland's businesses.

On the question of hibernation, Andy Wightman is right. Businesses from across Scotland have said to us, "It is just not viable for me to open the doors again, so I am closing and will not return. I will wait to see what the situation is in three or six months." That is not great for the economy or for the people whom the business employs, but it will cost the business less to stay closed than it would for it to open up, given the reductions in capacity and the lack of consumer and business confidence. The hibernation model, or a bit of both, is being implemented as we speak, and I suspect that it will grow in the next six months.

The Convener: The challenge then is deciding at what point we let the economy run. I see that New Zealand has an outbreak after 102 days of saying that the situation there was fine.

Andy, do you want to come back on any of that?

Andy Wightman: No. I am happy to move on, convener, in the interests of time.

The Convener: Thank you very much. In that case, we will go to a question from Dean Lockhart.

Dean Lockhart (Mid Scotland and Fife) (Con): I would like to get the panel members' views on the Scottish Government's response to the report of the advisory group on economic recovery. I think that we can all agree that, at the end of the

crisis, we want a wellbeing economy that is based on renewable resources. However, is there enough detail and provision of funding in the Scottish Government's response to make a real difference to our economic recovery?

The Convener: Are there any volunteers to respond to that? I can see lots of thinking going on among the panel members. We will hear from Liz Cameron, who put her hand up first, and then from Helen Martin.

Liz Cameron: Dean Lockhart asked whether the report contains enough detail. No, it does not. It contains some strategic and medium to long-term priorities, but as yet there is not the detail, the timeline and the action plans that we would have liked. However, it is our hope and desire that those will come forward.

He also asked whether there is enough funding. The answer is no. Funding is a sensitive issue with all Governments. We need to be clear that, at the end of the day, we have a finite pot of funds at Scottish and at UK level. There should be an exercise to consider what we are using funding for and whether it is being targeted towards supporting businesses in the way that they need. Such a review should be carried out quickly so that we can consider what we are spending our money on and, if there are gaps in funding, whether those offer an opportunity to explore private sector investment and stronger public-private sector partnerships, particularly around our infrastructure and investment opportunities.

Helen Martin: Our response to the report was pretty clear: we felt that it just did not contain the level of stimulus that the economy needs. That is partly because the stimulus coming from the UK Government was not at that level either. We need to be much more ambitious about the idea of kick-starting the economy and the green new deal, and we need to see policies such as raising the levels of social security payments and wages as a further form of stimulus. We must try to get the economy moving again in that way, and in the direction in which we need to go anyway. We need to make the transition to a low-carbon economy, so we may as well marry our responses to the two crises.

Tracy Black: Most of what I wanted to say has been covered. As I have said, our key point about the report is that we need to balance the need to invest in a long-term and sustainable recovery with our response to the urgent challenges that companies face today. Such an approach is still missing from the Scottish Government's response.

We know that the approaches of the UK and Scottish Governments will be critical to Scotland's recovery. They will have to find a way to work together constructively—for example, on the kick-start scheme, infrastructure and green recovery—

but at the moment it is not clear how that will happen.

Barry McCulloch: I will be brief. The advisory group was not tasked with ensuring that as many small businesses as possible survive the crisis, nor was it asked to focus specifically on short-term measures. However, as Tracy Black has mentioned a couple of times, it is difficult to reconcile the aspirations of the implementation plan that was published last week and the harsh commercial realities that small businesses face at the moment—not least those that are affected by the current lockdown restrictions.

Dean Lockhart: I thank the panel members for those answers.

I have a related question, the answers to which might put some flesh on the bones of the issue. How should the Scottish Government enterprise agencies be spending their budgets? For example, the Scottish National Investment Bank has been allocated £500 million over the past two years. What proportion of that money should be spent to help existing viable businesses to survive Covid, as opposed to the bank making more speculative long-term investments, which might address some of the mission statements but might not help the economy during the crisis?

Barry McCulloch: What the Scottish National Investment Bank does, when it becomes operational, is critical. We are on record as supporting many of the mission statements, but we are now five months into the pandemic and we continue to argue that, when the bank gets up and running, it has to supplement its core focus and consider introducing long-term flexible recovery finance. There is a concern that the bank assumes that the private sector will be able to partner and provide that finance but, because of the data that we have at our disposal, we do necessarily share that assumption, so there is a debate to be had about what the bank does in the next six to nine months.

Helen Martin: It is important that the bank continues primarily with its missions, particularly the ideas of patient finance, sustainability and moving to a low-carbon economy. Those are crucial elements, but that does not mean that the bank cannot support the economy that already exists—building from what we have is an important element. Companies that are struggling at present could be supported to play a key role in the economy.

For example, although Alexander Dennis is a world leader in green buses, it is struggling. We would never want to lose that key strategic asset, so the Scottish National Investment Bank could look at that. As Tracy Black said, our manufacturing base might need to pivot towards

different outputs. That might be true in different areas of the economy, but we need to focus on the idea of long-term patient capital, green investment and the green new deal, because they have the longevity to see us through the crisis.

If we are too short-term focused, we might put good money after bad, by giving it to companies that do not have the future that we thought that they had a few years ago. Other actors in the economy should provide that short-term finance. We should see the Scottish National Investment Bank as being there to do what it was designed to do, rather than to shore up the economy in the short term, which should come more from actors such as Government, enterprise agencies and local authorities. However, the message going forward needs to be that we should try to build the type of economy that we want.

The Convener: Gordon MacDonald has the next question.

Gordon MacDonald: The points that I wanted to raise have been covered so, in the interests of time, I have no questions.

The Convener: In that case, we will move on to Rhoda Grant.

Rhoda Grant (Highlands and Islands) (Lab): What are the panel members' views on Scottish Government business support and fair work conditionality? Do businesses understand the terminology? How can it be audited? How can we see that businesses that are getting support are practising fair work?

The Convener: As there is no rush to volunteer to go first, I will pick on Tracy Black.

10:45

Tracy Black: We should start from the position that fair work is a really positive story for Scotland to sell. With coronavirus, there have been great examples of firms that have gone out of their way to support their staff in respect of furlough top-ups, family flexibility and mental health support, and the vast majority of firms are committed to the fair work principles. However, we cannot escape the extreme challenges that many firms face right now. They are fighting to protect as many jobs and livelihoods as possible.

We need to stress the importance of focusing on employee engagement in managing the crisis rather than presenting firms that are already at breaking point with a long list of specific practices that they should all adopt. For us, the clear focus has to be on the importance of genuine communication and collaboration between employers and employees. We think that that will be much more effective right now, as every business will be in a different situation. For

example, we absolutely have to ask and expect our employers to offer an awful lot of flexibility to their staff, particularly workers who have care or family responsibilities, but we have to ask employees to show flexibility as well.

I have talked about the constraints that manufacturing is under with social distancing. We need employees to show flexibility on shift patterns, for example, and we are seeing that. There are great examples throughout Scotland of employees helping firms out fantastically in that way.

Fair work is very important, but I am worried that there is an awful lot of focus on what employers need to do. We really need to focus on how employers and employees can work together during the crisis.

Helen Martin: I agree with what Tracy Black has just said. The root of fair work is and has always been that employees, workers and employers work together to solve issues for the company. Fundamentally, that is the core of the fair work approach. It is about the ideas of social partnership and social dialogue. There is a huge amount that we can do in the crisis that is about building the building blocks more systematically into the economy to give space for workers and employers to shape economic responses and meet challenges together in companies.

When people are faced with the challenge, they see the benefits of the fair work approach. There are things that companies can potentially do when they get together with their workforce to meet that challenge, which perhaps looks insurmountable before they have a conversation. That can be about shift alteration or going to a four-day week. Employers and workers can work through a range of things and come to arrangements on them. If things are done in that way, people can find that their business is more innovative and stronger and rises to the crisis more easily, and that a much more committed workforce comes out of the back end. Because there is a method of communication, people can then start to look at things such as skilling issues.

Tracy Black is right that, through the crisis, we have seen some good examples of that way of working having been built into the response through the sectoral guidance, at the workplace level, and through the risk assessment process. There is a lot that we can build on and that we should be building on, but the core of the issue is hard-wiring into the response that way of working and that commitment. That is why we think that fair work conditionality around Government funding helps to focus the mind and the approach, and helps everybody to get together and understand that that is a positive way to work. It does not necessarily have to be the challenge to

business that some employers worry that it might be; rather, it can be a positive way of working that makes a contribution to weathering the storm.

Rhoda Grant: I would like to explore that further, but I know that we are short of time, so I will ask about a different issue: economic and business support and how the infrastructure in Scotland has responded to Covid-19. Is it fit for purpose? Are people working together, or are there issues that we need to deal with?

The Convener: Liz Cameron has her hand up, so I will come to her first.

Liz Cameron: I wanted to say something on the previous question, but never mind. I agree with everything that Helen Martin and Tracy Black said, but we are starting with the premise that businesses were not operating under fair work principles. In my experience, the majority of businesses in Scotland were already working to that agenda pre-Covid and are doing so during Covid. Not all of them were—I accept that we have a message to get out there—but the majority of businesses already acknowledge that looking after our people is a fundamental part of how we run our businesses, because that will help to achieve the productive outputs that Helen Martin spoke about.

Rhoda Grant's question on business support is a big one to answer in less than three minutes, or whatever. There is no doubt that it has been hard during Covid. The variety of business support mechanisms that the Scottish Government has put in place, such as the pivotal enterprise resilience fund and the sectoral funds, have all been welcome.

Having done it all right historically, moving forward, we should be looking closely at what all the economic agencies are going to do on wider business support. Agencies such as Skills Development Scotland, Highlands and Islands Enterprise, Scottish Enterprise and the Scottish Funding Council need to work more collaboratively. I would like them to not just collaborate but stop and look closely at how they might restructure and identify what the key business support mechanisms need to be for the next three to six months. There have been gaps, and the agencies have enough intelligence to be aware of that. We would like to see that support revisited.

Now is not the time for major restructuring, given Covid and Brexit, but someone somewhere needs to regularly evaluate and monitor whether what agencies are delivering is working for business. I am talking about that being done on a month-to-month basis. If what agencies are delivering is not working for business or meeting its needs, they need to redirect that immediately,

rather than just wait and continue to provide support that is not required by business.

Barry McCulloch: The collective effort from the Scottish and UK Governments, local authorities and agencies has provided lifeline support for eligible small businesses during lockdown. It is unquestionable that that support has prevented mass business closures and redundancies. That is not to say that the support was perfect. There were lots of implementation problems and teething issues, and there are gaps in the support to this day. However, overall, the support played a huge part in repairing business confidence.

As we look ahead, it is clear that there is a policy gap, despite the hard work that has gone into supporting businesses and the work that has gone into the Higgins review and the Scottish Government's response. As we have mentioned, the issue is about how we are going to support struggling businesses, some of which are in survival mode in the here and now. How will they make it to not the end of the year but September or October?

In that context, the debate will have to shift to how we provide financial support to businesses that are hit by local lockdown restrictions, such as those in Aberdeen, and how we support the firms that will be closed as a result of test and protect. We need a shift in business support that will have to move quickly. Otherwise, we are fearful about what impact the next six months will have on small businesses.

The Convener: As Liz Cameron says, a lot of those businesses cannot be saved. It is not that they will not be saved but that they cannot be saved. Their supply chain may have gone or their customers may have disappeared or moved away or may not be spending. Addressing some of those challenges is beyond what a Government can do to provide a solution.

Dean Lockhart: My question is for Barry McCulloch. Some applications from businesses for business support are still outstanding. That is the case across all local authorities. Why are those applications still outstanding?

Barry McCulloch: We took a look at the data that was published last week. It dealt with the pivotal fund and the fund for hospitality and tourism as well as the scheme for bed and breakfasts.

Local authorities have different processes and they approach the scheme in different ways. Some have done very well and have got the money out quickly. They interpreted the guidance flexibly and they got the money to where it was needed. Other local authorities have stuck far more closely to the guidance that was issued. That creates an unacceptable situation in which lots of local

businesses are still waiting to receive support funding.

The scheme has now closed. We must evaluate the impact that the scheme has had and establish the level of underspend. We must then allocate any remaining underspend to other business support packages. As I said, what is foremost in our thoughts is to provide support to those who will face new lockdown restrictions.

The Convener: Before we wind up the evidence session, I want to explore quickly the impact on young people. When I look at the statistics and at what is happening to the way that Covid is managed, I have no doubt that young people will pay the price. Not only will we see a sharp rise in unemployment for young people and a significant impact on their long-term future; they will also pick up the bill for all the support that has been put in place.

I would like to hear from each panel member about what you think we ought to do for young people. Did we learn anything from the previous recession, when it took seven years for employment among young people to recover? There is a question that I get asked, and that I hear mooted. Given that young people are the least impacted by Covid as an illness, are the health steps that we are taking the right ones for that younger generation, or should we allow them to get on with work and to drive their futures? Are they paying a high economic price for this?

I would like each of you to comment on the future for young people. I will pick on Helen, as the youngest, to go first.

Helen Martin: I appreciate being identified as the youngest, although I am not sure that that is true.

That is a key issue. We know from previous recessions that young people are negatively impacted by them. Their employment is impacted in the short term, but their long-term earning potential is also affected. That has a knock-on impact throughout their careers.

We are keen to see targeted support. Both Governments have done the right thing. They have developed a jobs guarantee scheme for young people. We would plead strongly for that to be paid—at the very minimum—at the adult rate for the minimum wage, but ideally at the living wage rate. We think that the youth differentials within the minimum wage rate are unjustifiable. They do not represent young people's living costs.

Housing should also be considered, because it is an issue for young people. Rent controls can ensure that young people's livelihoods can continue, with them having the money to live on.

Those could be built into our infrastructure development plans if we think holistically.

11:00

There might be an opportunity to think flexibly about the provision of apprenticeships between companies, but, once again, let us not throw the baby out with the bath water. Let us keep Scotland's high level of apprenticeship design and provision; we do not want to see a diminution in the fundamental skills that young people are given through the programmes. There are a lot of challenges, but it is essential that we get this right, because it could have such a scarring impact on young people.

The convener's last question was about the health impact of Covid on young people. I am nervous about the approach that she suggested. Although young people might not be impacted as severely as older people, they do not live in a bubble. They live in the community, and community transmission happens asymptotically and there is transmission from people who are not severely impacted by the disease. We are trying to suppress the disease as much as possible to make sure that it does not spread, which requires everyone to play their role, including people who are impacted less severely.

It is important to also recognise that young people can have underlying health conditions. It is not right to set an expectation that they will be fine—which is not necessarily the case—or to ask a young person to risk their life to work because of the idea that they are safe, when, in reality, they may not be safe.

The challenges include how education is delivered in colleges and universities, where it is important to continue to prioritise a high level of skills output for young people. I echo Tracy Black's point that our upskilling agenda cannot simply be about the under-25 age group; it has to go across the workforce, but we need to keep a good focus on the provision of skills for young people.

Tracy Black: I think that Helen Martin has covered the points that I wanted to make. Both the UK and Scottish Governments seem to be putting a lot of mechanisms in place to support young people, which we fully support. The kick-start scheme and expanding the funds for transition training and flexible workforce development and introducing a temporary wage subsidy to support employers to retain their apprenticeships—which we have asked for—are all critical.

However, they cannot be at the expense of older employees. Those who are over 50 are particularly susceptible to redundancy; we expect people to work into their 60s and even up to 70, so they will have 20 years in front of them. We must

make sure that it is not an either/or and that we do as much as possible for people at whatever stage of life they face redundancy. Generally, the older people are, the more financial responsibility they have, such as mortgages and childcare costs. It is critical that we focus on young people, but not at the expense of older workers.

The issues depend on the age group. As I have said, it is essential that young people are back in school today, but people in their 20s and 30s have the biggest percentage of new coronavirus cases in Scotland in the last month or so—I was told that by the Scottish Government yesterday.

I think that the message still has to be clear to everybody that coronavirus is still here and that, whether we are 20 or 50, we all have a responsibility to ensure that we do not spread the virus. I do not think that I would go as far as to say that young people should be allowed to be completely set free to live their lives. They are very much a part of the community and they need to take their role seriously, too.

The Convener: Thank you. Barry McCulloch, you get to have the last word on this panel.

Barry McCulloch: I began my career in 2008, so I know what it is like to find work in an economic downturn. I am fortunate in that I am a graduate.

Have we learned the lessons from the previous recession in policy terms? I think that we have learned some lessons—we can see that in the strong focus on avoiding a lost generation of young people, and in the Scottish Government's response to the Higgins report. However, the FSB has concerns that people are not taking the time to reflect on the deficiencies that are inherent in the implementation of the developing the young workforce programme. We are at risk of making the same mistakes, where we think that we are devising schemes that will work for small businesses when, in reality, we are not. We are in such a rush to respond to the situation—which is completely understandable—but we need to make sure that those schemes do not work only for corporate businesses in the city centres of Edinburgh and Glasgow.

The Convener: I thank all our panel members—Tracy Black, Barry McCulloch, Helen Martin and Liz Cameron—for their time. This has been a useful session and we will no doubt see you again.

We will have a brief suspension before we move to our next panel.

11:06

Meeting suspended.

11:11

On resuming—

The Convener: With our second panel of witnesses, we will focus on the impact of Covid-19 on young people and their employment. I welcome Professor David Blanchflower; Russell Gunson, director, Institute for Public Policy Research Scotland; and Mairi Spowage, deputy director, Fraser of Allander institute. My particular thanks go to Professor Blanchflower: I believe that you are joining us from America, where it is still rather early in the morning, if not the middle of the night—thank you very much for taking time out of your bed to join us.

We move to questions from members, starting with Rhoda Grant.

Rhoda Grant: My question is similar to one that I asked the previous panel. How can Scotland's employment support and new social security powers be used to help young people and women to secure decent jobs? Those are the two categories that are the most badly affected by job losses during the pandemic.

The Convener: Who wants to go first? Russell Gunson looks like he is ready to answer a question.

Russell Gunson (Institute for Public Policy Research Scotland): Thank you ever so much for having me here today.

In some respects, the pandemic has come a little too early for the new social security powers to kick in to provide help. The Scottish child payment—a key intervention—was due to kick in towards the end of this year but has been delayed for an as-yet-to-be-defined time because of the pandemic. That would have been a very useful way of getting additional funding to low-income families who need it during this time.

Because that approach is not available, the Scottish Government has run a lot of the additional support either through existing payments, such as the carers allowance supplement, or via the local level, for example through the free school meals payments and the wellbeing and welfare funds. On social security, that has been the approach.

As we move into the next part of the crisis, we want to see far more being done in this territory. As you heard from business representatives on the previous panel, that cannot wait until spring; support must come as soon as possible.

On jobs, the issue is less about social security and more about the work of the advisory group on

economic recovery and the Government's response to that. We pushed hard for a job guarantee scheme in Scotland. We welcome the UK-wide kick start on such a scheme and await detail on the job scheme that will come to Scotland.

Beyond that, we need to get people back to work, and—crucially—not just in any job. We cannot go back to an any-job strategy; we must maintain our laser focus on the long term, which is about job quality and career progression. No scheme or intervention can be about people just treading water; clear progression and flexibility must be built in, so that not just young people but all the groups who are likely to be shed from the labour market are able to access the help that they need.

11:15

Mairi Spowage (Fraser of Allander Institute):

As Russell Gunson said, of the range of social security powers that the Scottish Government was due to take on, the main one of relevance is the new Scottish child payment. That has been delayed, which is unfortunate, because that could have gone a long way to helping families during the crisis. Consequently, existing measures have been used and a lot more money has gone through local authorities and the welfare funds to target particular families in need.

The key area through which young people can be helped is by looking at jobs and skills. I agree with Russell Gunson's point that we cannot just focus on that being any job or on getting people into employment without thinking about the wider skills that they will develop. Obviously, young people could be scarred in the long term by suffering unemployment, but they could also be scarred by being in a job that does not utilise all their skills. If they are in a long period of low-skilled employment, that could impact on their employment prospects for many years to come.

The job guarantee schemes that both the Scottish and UK Governments have announced are welcome. We are yet to see all the details of the schemes and how they might work together to ensure that all young people are helped and that people do not fall through the gaps.

The Convener: Do you want to come in, Professor Blanchflower?

Professor David Blanchflower: Obviously I am not a great expert on what Scotland has been doing. In a sense, the points that were made by the previous two speakers and the points that were made by the previous witnesses have not quite got the fact that we are in an absolute crisis for the young. Consider who is being furloughed. Who will get hired next time around? The answer

is those who are furloughed. We have a bunch of 16-year-olds just leaving school. The situation looks like it will be a disaster, and people have sensibly said that you need to do something about the situation now.

Also relevant is the PowerPoint presentation that I did earlier in the week, which I sent to committee members. I encourage people to consider that we do not need to reinvent the wheel. We have done huge amounts of work on this area—all the great labour economists in the world have worked on the issue. We know what will happen and we know that the consequences of young people not being able to get a foothold into the labour market will be long lasting. You should think about it in this way: it will generate permanent scars, not temporary blemishes. If there is one group that we need to focus on right now, it is the young. I want people to have on their minds the 16-year-olds who have just left their high school in Glasgow, for example, and to consider what they are doing.

Another aspect that you ought to have on your mind is what we are seeing in America, including in Chicago yesterday and in Portland. There is unrest on the streets. Why? A lot of that has to do with young people. The surprise in the past has been that the young have been compliant.

This is an emergency; this is a crisis. We should be considering what we can do in the early part of September. A lot of people have been trying to think about that. This week, the Royal Economic Society had a big meeting. Anton Muscatelli and I have been trying to think about what we could do. One of the big measures that we could take relates to the big role that universities could play. If Chinese students are not coming to Scotland, the worry is that the required number of students will not come. The view of Anton Muscatelli and other university principals is that universities could do something. If no such students are coming, universities could potentially step in. We should talk about that. Anton Muscatelli's view is that we are well placed to do that. Someone will have to fund it. You do not need to set up a new bureaucracy—it is sitting there, ready.

If I wave a flag, it is to highlight that, if we do not do something about the young, we will be in big trouble. We do not need to do lots of research, because we know the answers. Those answers are that we need to take locally targeted actions for the young. If we do not do that, the consequences will be enormous.

I am waving my flag, but I have worked on the issues for 30 years and we know the answers. The time to do something is now. Universities are probably the places that can help the most. Let us go do something.

Rhoda Grant: What is that something that we should be doing? I guess that that is the bottom line. I would like to hear ideas about what we should put in place, or urge Government to put in place, straightaway in order to help young people.

Professor Blanchflower: You are absolutely right, and we have examples of that. David Bell and I recently wrote a column in *The Guardian* in which we talked about the evidence from the civilian conservation corps in the United States in the 1930s. That involved hiring very large numbers of people who went around planting trees. Such an approach could be co-ordinated with the green programme. One of the great outcomes of the conservation corps was that it took people out of unemployment and put them into worthwhile activity, which turned out to have very positive effects, not the least of which was that people's height rose. The people on that conservation programme planted millions of trees, and the impact was that they grew taller compared to others.

The idea is that you can step in and do green things. In a sense, the answer is that, if you do not do that, the consequences will be dire.

Russell Gunson: I agree with Professor Blanchflower on the urgency and on the level of the crisis and the scarring that could happen, not just in the short term but in the long term, if we do not get the approach right. As I said, there is a need to act as soon as possible and not to wait until the next financial year, for example.

On the scale, if the central projections for unemployment more broadly are correct, we are talking about hundreds of thousands—into the six figures—of young people unemployed. We should keep in our head that figure of around 100,000 young people in Scotland, as well as the individual 16-year-old, and consider how we can get opportunities for them. Directly, the Government can fund increases in university places and in college places, which also deserve a mention. Apprenticeships are absolutely crucial, although they will be difficult to maintain. All three of those are absolutely part of the mix. Job schemes, which we have talked about, can also be directly funded. David Blanchflower is right that there are big learnings from past interventions around 10 years ago.

More broadly, there is fiscal stimulus and directing Government funding into the economy in a way that boosts the economy, which I am sure we will come on to discuss more. It is difficult for the Scottish Government to do that at any great scale through its existing powers, but we hope that the UK Government will have more to say on the issue in the November budget—the chancellor has signalled that that will be the case. That stimulus needs to be of a scale to match the scale of the

crisis that we are in, not just on youth unemployment but more broadly across the economy.

The Convener: We move on to Alison Harris.

Alison Harris: My question has been covered substantially, so I am happy if we just move on.

The Convener: In that case, we move to Richard Lyle.

Richard Lyle: Professor Blanchflower, in June you wrote in a certain Scottish blog that

"The increase in unemployment comes on top of a secular decline in the prospects of the young."

You were referring to a lowering of living standards for the young compared to those enjoyed by their parents, more precarious employment and higher costs related to higher education compared to those faced by previous generations.

I want to explore that statement with you.

Professor Blanchflower: I sent some charts to the committee on that. I have a couple of points. The first is that, prior to Covid, we were already starting to see a deterioration in the employment prospects of the young. The second is that we should focus on what I call the double whammy.

The problem has been with making the transition from school to work and entering the job pyramid. People normally enter the job pyramid at particular places, but there have been issues around graduates entering it at a much lower level than is normal. Underemployment is also a big theme that we should talk more about. Thinking about what witnesses on the previous panel discussed, if firms are at only 30 per cent capacity and people are working only one or two days a week, that means that both their hours and their income are less than they would like.

David Bell and I have written a lot about the important aspect of the double whammy. Youth unemployment rates tend to be relatively high and young people enter lower down the job pyramid than they traditionally would, but the double whammy is that they do not get as good a job as they would like or enough hours. The consequence is that their incomes are lower, they have less ability to step out on their own and their ability to form their own household away from the parental home is impacted. For example, the proportion of 28-year-olds who live with mum and dad has risen because they cannot strike out on their own.

We know that the people who do best in the boom do worst in the slump. However, the problem is that during the boom, as Richard Lyle's question rightly indicated, young people did not do that well, which means that in this crisis they are

not in a very good position. That includes graduates coming out of university, but it applies particularly to inner-city youth, minorities and so on.

The consequences of what Richard Lyle outlined are extremely serious. As a labour economist, I have seen lights flashing red in the past, but I have never in my lifetime seen lights flashing as red for the young as they are in this crisis. If that is not a wake-up call, I do not know what is. We have an opportunity to grab a little time, but if we thought that the previous recession was bad, this one is going to be incomparably worse.

Richard Lyle: No one can dispute that Covid-19 has been a game changer, although young people might also stay at their parents' home because of house prices. What do you think we should do to tackle the current crisis?

Professor Blanchflower: We should throw everything that we have at it, including the kitchen sink and maybe the kitchen as well. The first priority has to be the kids who are coming out of a Glasgow or Edinburgh high school, for example. The committee might think about what 16-year-olds who have come out of school are going to be doing, because that has traditionally been a big problem. My view is that we should focus on them and try to think of programmes for them. For example, the committee might go to Anton Muscatelli, who might say, "Take 10,000 kids into programmes." Maybe we should also just forget about grades and admit to Scottish universities every person who has applied. That would need money, but the payback and rate of return for that would be huge.

To return to an earlier point, fiscal stimulus is obviously a big idea, but there is another. I was on the Bank of England's monetary policy committee and I know that the issue is not just fiscal policy but monetary policy too. However, this is an occasion on which we have to act first. If anybody tells the committee that they know where we are going, they do not, because that will depend on lots of things. However, the mistake would be to do too little rather than too much. I thank Richard Lyle for his questions, which were spot on.

Richard Lyle: Maybe that allows me to quickly—

The Convener: Russell Gunson and Mairi Spowage want to add some comments, so we will hear from them first.

Richard Lyle: I will come back in if there is time at the end. Thank you.

Russell Gunson: To back up the kitchen sink analogy, we have to act quickly. I mentioned some of the things that we can do around that, such as

increasing the number of college places, apprenticeship places and university places in order to get to the scale that we are talking about: 100,000 opportunities for young people in Scotland over the next quarter. I therefore back up what has just been said.

11:30

Mairi Spowage: We talked a little bit about the place of young people as we came into the crisis. This crisis has particularly impacted young people. Many crises do that, but this one has been particularly bad because the sectors that have been worst affected, particularly tourism and hospitality, are much more likely to employ young people, and also to employ people—and be major employers of young people—in rural areas of the country.

As well as thinking about kids in Glasgow and Edinburgh, we need to think about the opportunities that exist for young people across the country, including for young people who would typically have been employed in tourism and hospitality in rural areas where those sectors are among the main employers. That is one reason why the crisis has hit young people particularly hard. As Professor Blanchflower said in relation to the scarring effects, the lights are really flashing red for young people.

A whole package of measures is required. Universities are obviously part of the answer, perhaps with more funding in order to make more places available to Scottish students. However, there has to be a package of measures, with businesses offering employment opportunities and, as Russell Gunson said, maintaining apprenticeships. It will be challenging to maintain the current level of apprenticeships given business priorities right now. That is a serious matter, and we must also not forget about college places.

There has to be a package of measures to ensure that young people at different stages of their lives can progress and do not experience the long-term scarring effects that would be so damaging for our economy.

The Convener: Absolutely.

Richard, do you have a specific point or are you happy to come back in at the end if we have time?

Richard Lyle: Coming back to the whole panel, I note that we have more apprenticeships in Scotland than we have ever had, but we need to have more fiscal autonomy in order that we can throw the kitchen sink at it. I agree with doing that—nobody should be left behind, and everybody should be helped. In the 1980s, when I was a councillor, we had a work programme for the young, which may have to be reintroduced.

The Convener: We will move on to a question from Willie Coffey, because we do not have much time.

Willie Coffey: Are the UK and Scottish Governments—and, indeed, Governments across the world—thinking big enough and quickly enough to solve this? Will our furlough scheme, and even extending it, solve this? I do not think so. What bigger things do the Governments need to do? Do they need to borrow much more over the next few years to try to fund some of that, or do we need to think more about income tax—is there a solution there? Do we need to think about pension age, given that people are working and retaining their jobs for longer because they have to do that in order to survive in the economy?

Should the Governments be sitting down and thinking about some of those bigger issues and how they can help to get our young people into work and ensure that they stay there?

The Convener: Who wants to go first on that question about the big picture? Mairi, what are the IPPR's thoughts on that?

Mairi Spowage: I am sorry—do you want to hear from Mairi or from the IPPR?

The Convener: I am sorry—I got that the wrong way round. Mairi, what are your thoughts, speaking for the Fraser of Allander institute?

Mairi Spowage: Those are very big questions. Willie Coffey touched on a lot of the major challenges that are facing us and were facing us before the crisis—for example, our ageing population, our shrinking working-age population and how we will support the older people in our society with a smaller workforce in the future. We had many of those challenges before, and they are likely to be exacerbated by the current crisis.

The chancellor has made it clear that the furlough scheme will not be extended past October. The key thing now is not to keep people attached to employers when there is unlikely to be a job for them in the future. We need to move on to policies that help people to move into new industries and get reskilled and so on in order to introduce into the economy the dynamism that we might need to recover in a more agile way.

There might be a case for wage support and for helping people between different jobs, and there is definitely a case for training and upskilling to ensure that people are able to participate in different jobs. All those things can be looked at to introduce that dynamism into the labour market again. Nevertheless, we have a really big crisis here, and there will be a key role for Government in spending money to keep the economy going until we are in a better place to recover.

The Convener: Thank you—I have you the correct way round now. Russell Gunson can give us the IPPR's view.

Russell Gunson: Thank you, convener. I promise that I will not try to give you the Fraser of Allander institute's view, although in many ways it overlaps with our view.

At the broadest level, we are going to have to borrow more. We should not repeat the mistakes that were made, in our view, following the 2008 crash, when support for the economy was withdrawn too early. As we heard from the previous panel, there are absolutely costs to borrowing, but sometimes—often, in fact—there are bigger costs to not borrowing, which result from underinvestment and damage to our economy and the people in it.

We are at a point where we need over the next period of time to borrow even more than we have borrowed already, despite the large numbers that are involved, in order to sustain demand in the economy so that there are opportunities not just in the skills and education system, but out there beyond that. Ideally, we should do that in a way that addresses the challenges that Scotland was already facing prior to Covid, such as automation, Brexit, climate change, ageing and economic inequalities. We had good words and priorities around all those things as we went into the current situation. Rather than pressing pause and coming back to those areas when the crisis is over, we need to double down on them through the current period.

Wage support is an interesting idea. Although the furlough scheme has been incredibly important and incredibly welcome up to now—for some sectors and local areas in lockdown, we may need something in place beyond now—other things, such as short-time working, can come into play over the longer term. The committee heard from the previous panel that the French Government's support scheme will last until the end of 2022. That may be a little more helpful to young workers than the furlough scheme—after all, furlough may protect people's incomes and keep their jobs open for them to go back to, but all the while it exists, people's skills will be diminishing. We do not want people to be on furlough for a long time, albeit that it has been better than the alternative up to now.

At the broadest level, it is about borrowing more and not withdrawing support too soon, because that may cost us more money over the longer term.

Professor Blanchflower: Willie Coffey's point is well taken. I will give you two perspectives on it.

First, it might help if I go back to when I was sitting at the Bank of England in 2008, and we were discussing quantitative easing and trying to

provide stimulus. During that conversation, we were trying to think about how big the coming drop in output would be. In some sense, the calculation in your head will be as follows: a drop in output is coming, and you want to try to replace that with stimulus so that you can get back to where you were. That is a good thought to have in your head. However, what is fundamentally different from what was true in 2008 is that it seems very likely today that there will be long-term change in people's behaviour, which makes it very hard to understand what is going on.

What do I mean by that? Well, I am a professor at Dartmouth College, which is basically closed. I have not been to the university since—in fact, I cannot remember when. I am going to teach classes in the fall, but I will not go into class. Some of the kids will come in, but I am going to teach from my house. There will be students four miles down the road, but I am not going there. The question is whether I will not go back into the university at all, or will not get on a plane again, go to a shopping mall or get on a cruise ship.

In a sense, the problem is that, although the furlough scheme buys us time, there may be a long-term change in behaviour. Have you, the members of the committee, fundamentally changed what you do? You probably have. The difficulty for us lies in whether we are able to simply say, "We'll just take this nice V-shaped recovery." The more that you and other people change your behaviour, the slower the recovery will be, and the greater the consequence for the Chancellor of the Exchequer of removing that stimulus. The assumption of recovery is based on the idea that there will be no permanent, long-term changes in behaviour. If there are such changes, it will be disastrous.

I call it the "reverse square root recovery": if you think of the square root sign and turn it round, the line goes down, it comes up, but then it stops. That is the danger, and that is sort of what we are seeing in the United States. There has been a pick-up, but Covid has come back and everything has turned back round again.

Your question was well put, but there is a difference from anything that we have seen since 1930. The situation is different because people have potentially changed their spending patterns and their behaviour. If people are spending less, it means a big drop in output. Anything that errs on the side of caution is in error. We should be throwing the kitchen at it, as I said earlier. In a sense, the Bank of England is trying to do that. The problem for the chancellor is that the Bank of England does not have that many weapons—whereas we had them in 2008—and it cannot make up enough. The risks are all to the downside.

The Convener: I seek clarification of that. You anticipate that people have fundamentally changed their behaviour and they are not going to spend or go out in the way that they did. We might borrow to support businesses on the basis of survival, but they might not survive as and when we stop the support. Businesses might have borrowed a lot of money to keep things going, which then has to be paid back. If people cannot keep them going, how does that equation sit?

Professor Blanchflower: That is very good reasoning, but suppose I said to you that Scotland was at war. What would we do? We would not say that we could not defend our beautiful shoreline and that we had to throw up the white flag because we did not have the money. We would invest to save, and to save ourselves. In these special circumstances, we might think of the situation as a war, so we defend ourselves—we keep going.

You are right to say that we have to pay the money back, but if this was a war, you would not say, "We can't fund this." What would happen in a war? People took their pots and pans and melted them down. There were savings bonds. People lowered their standards of living and protected themselves. Your reasoning is perfectly sensible for normal times, but we should perhaps think of things as they might be in wartime. Survival is the most important thing, and we then have to deal with things down the road. We buy ourselves time for a vaccine and for immunity.

It is a matter of extending things for longer, but our reasoning has to be different. I think back to my experience in 2008 as a central banker. Nobody would ever have thought that rates would be cut to zero, that there would be quantitative easing, that there would be negative rates in places around the world, that central banks would be buying exchange traded funds or that the Bank of England would be buying American corporates.

What I am trying to say is that, in these times, we have to think in ways that we have not thought in before. Your reasoning is completely sensible, but I think that we are out of the sensible; what you said is completely sensible, but the point is that we defend ourselves.

The Convener: This session is about challenging all ideas and trying to understand why we are doing what we are doing. Thank you for that.

Professor Blanchflower: Absolutely—I understood that, of course.

Colin Beattie: I would like to broaden the discussion a little bit. Scotland is not tackling the present crisis on its own, and neither is the UK; it is a worldwide problem. Countries around the world are responding to the crisis and addressing

their labour market challenges—particularly those that are faced by young people—in a variety of ways. What can Scotland learn from what is happening elsewhere? Where should we be taking best practice from, and what should we be avoiding?

Russell Gunson: This will follow almost the same pattern of response as was the case for some of the earlier questions. In the broadest sense, there are countries that are investing much more and borrowing much more even than we are across the UK. It seems that the big numbers in the UK are being endorsed by other countries across the world, and we need to address that quickly. Our first step is to consider what we need to do and what we can learn from elsewhere. We have probably not yet got the scale of the response across the UK right.

11:45

As for what is being done elsewhere, I have already mentioned the French short-time working scheme, which is focused on the labour market as a whole rather than on young people in the labour market. It is a much more suitable intervention for an on-going period, as compared with the furlough scheme, which, with the exception of local lockdowns and some sectors, needs to be shorter term. It might be that we need to extend the furlough scheme for a bit, but we should not extend it indefinitely.

In a way, the short-time working scheme is about how to spread work around everyone rather than knocking out a portion of the people in the labour market for a short period. It subsidises people's hours by up to 40 per cent if they are working shorter hours than they are contracted to work. That is an interesting innovation.

Beyond that are some things that were already in place in other countries. There is a different focus in the skills system even in the UK, never mind around the world. We have already covered that, so I will not repeat it, but we absolutely need to expand that to delay people's exit from education and skills into the labour market while also skilling them up for whenever the labour market comes back.

These points echo the pattern of previous responses. Have we got the scale of the overall response right? Are there individual labour market schemes that we can consider, including the targeted skills and labour market interventions that were mentioned just now and earlier?

Mairi Spowage: I agree with everything that Russell Gunson has said. In some other countries, as well as schemes that have been introduced during the crisis, there were existing schemes that are quite different from the set-up in the UK. For

example, some Scandinavian countries have schemes that protect wages during periods of unemployment. However, we must remember that those countries are different from the UK in terms of the level of taxation—there is a higher level of public spend, but there is also a higher level of taxation than we are used to.

The job retention scheme was a necessary and welcome emergency measure, but it looks like some of the existing schemes in other countries. Whether such schemes could be introduced in the UK is another question. They would be expensive, but they would be transformational in relation to how our labour market works. Such schemes could help people to transition to different careers.

The Convener: Professor Blanchflower, do you want to add anything?

David Blanchflower: Those two contributions were excellent.

The one thing that you want to avoid is what has happened where I live. The chart that I sent to the committee refers to that. Here, black youth unemployment has reached levels that we have not seen in 50 years. The black youth unemployment rate is 30 or 40 per cent right now, which is not irrelevant at a time when there is social unrest on the streets of America.

From now, you will see what happens as the fiscal stimulus that was helping people who were unemployed is cut. There are 30 million people in the US who are unemployed and on benefits, and in the past couple of weeks those benefits have been cut by \$600 a week. There will be an explosion of unemployment, and there is already an explosion of people trying to get help from food banks. You have heard the idea of looking at the French and other short-term schemes. America is an exploding disaster, so I would avoid the US approach.

Colin Beattie: I have not heard about any instances of good practice from other countries that could be translated successfully to Scotland. Do they exist or not? We have had warnings from Professor Blanchflower, but I have not heard anything positive that we could consider, learn from and adapt for here.

The Convener: Does anybody have one thing that they have seen abroad that we could bring here? Professor Blanchflower has his hand up.

Professor Blanchflower: We do know something, and I want to be helpful. We have learned that we do not have to create a giant bureaucracy like the Manpower Services Commission. We do not have to put up schemes like the youth training scheme or the youth opportunities programme.

Jim Heckman, who is a Nobel prize winner, has done work on this. Basically, what we need to do is fund things locally, because employers and others will like that. If it turns out that what works in Glasgow does not work in Stirling, a masterplan that takes for ever to implement is of no use to anybody. Praise the Lord that we do not have to do any of that.

In a sense, the answer is that you, who are all Scottish members of Parliament, should give money to your town, let the town decide what to do with it and monitor very closely what works. We know how to do that. The evidence is that local is best, so I am not going to say to you, "Here is a plan for Scotland," because if there were one plan, it would be a disaster. Each of you should say, "I am going to bring money to you to help the young", and work out what works, because what works in Clydebank does not work in Nairn, for example. What we have learned is that we should give local people and local MPs money, and tell them to find schemes that will work. Those schemes could be for the boot and shoe industry in one place, and for steel and shipbuilding in another.

The answer is that we know the answer. Our research shows that all of that stuff was nonsense. MPs play a big role, and so do local towns and councils. You could say, "Here is the programme." Maybe you should use your community college or university and people could go there. One size does not fit all.

Therefore, I have a really good answer for you, and you folks play a big role in it. It is that you should go to your constituency and sit down with your people, and the process should be monitored centrally to ensure that a good investment is made. That is a good business plan. Therefore, I think that I have the answer.

The Convener: That is good. Russell, is that the answer, or is there another one?

Russell Gunson: I echo that. Looking for big shiny things in a time of a crisis might not be the right route to go down. We have mentioned a few of those, though, such as job guarantee schemes. We did those 10 years ago. I think that we need to do them again for this crisis, and learn the lessons from last time.

I have mentioned short-time working schemes too. However, to echo Professor Blanchflower's point, we have systems in place that can get opportunities to people quickly, and that is exactly what we need to do. A brand new system or set of systems is not necessarily going to be the best at doing that. Therefore, it is about expanding and refocusing what we have.

If it is done in the right way, the regional or local approach could be very good, too.

The Convener: I am now going to go to Andy Wightman. Do you think that localism is the answer?

Andy Wightman: I am here to ask the questions, not answer them. However, I totally agree with Professor Blanchflower that local authorities—[*Inaudible*].

I want to move on to some questions on how we can support young people better. The Institute for Public Policy Research published a report in May that demonstrated that there was going to be an exacerbation of inequality between the working poor, which includes a lot of young people, and the asset-owning wealthy. A lot of people who are receiving business support are using it to pay their landlord. Renters in the private sector have to pay their landlord first, and those costs are quite significant. What role can driving down the costs of living—the big costs of rent, energy and transport—play, particularly for young people who want to be mobile but also to have a secure place to call home?

Secondly, Russell Gunson raised the question of the shorter working week initiative in France. I am very keen to hear whether any significant work is going on to ensure that the number of hours that there are in the economy are shared out more fairly. It seems to me that that is one key way in which job guarantees and the work of the University of Glasgow, which Professor Blanchflower mentioned, can absorb the talents, time and energy of young people.

Russell Gunson: In essence, our report from May looked at where the emergency funding that goes into the economy has ended up, and at who is losing the least, versus who is gaining the most, through this part of the crisis.

As a country, we have emphasised speed, for all the reasons that we have talked about—for good reason. Some of the schemes have therefore been designed in ways to get money out quickly, rather than by necessarily thinking through the distributional effects.

For example, on furlough, we found that around 45 per cent of the funds that have gone through businesses to employees will end up with lenders and landlords. Of course, it is good to keep a roof above people's heads and to keep their debts manageable but, although debt holidays and mortgage holidays exist for landlords, and although creditors offer such holidays to debtors, ultimately we have not seen landlords and lenders being asked to take a hit in the way that renters and debtors have, and will. I am not suggesting that we need to do anything about that now but, certainly, when it comes to paying for the crisis, we need to keep it in mind. Looking at things such as rent caps and write-offs for debt that has been

built up during the crisis, whether that is through council tax, housing association rent, or more broadly, could be as important as looking at the income side.

I want to emphasise that that is not for the next week or two; it is something for the next few years and for the next parliamentary session. How do we make sure that we pay for the crisis in a way that is fair and which respects the fact that we owe a debt to a huge number of people who have got us through it? Equally, there are whole sectors of the economy that should really owe a debt to us all for helping them to get through it. How do we get, at the other side of this, an economy that respects that, which is fairer and which has climate justice at its heart?

We need to be getting our heads around those questions soon, while also juggling some of the short-term, crisis and kitchen sink issues that we have already talked about during this session.

Mairi Spowage: I will build on the point about debt that Russell Gunson has made.

We hear from quite a lot of businesses about the amount of debt that they have taken on during the crisis. Overall, we hear from the business base a story of fragility, which make one worry about the recovery and, if there were to be more local lockdowns, or second waves, about business survival through the crisis.

We hear that those who have taken on debt are more likely to have done so if they are more worried about things such as their cash flow. That suggests that, if people have deferred rent, and have that debt on their books, whether those businesses can survive when it comes to be paid might be an issue. That is a further issue to worry about in the coming months, as well as the unemployment that is coming.

The Convener: Very much so.

Professor Blanchflower: There is an issue of inequality. David Bell and I have written several papers on it.

It turns out that, prior to the recession, the wellbeing of the young was disproportionately diminished because, first, they could not get the jobs that they wanted, and secondly, if they had a job, it had fewer hours than they would have liked. They were unhappy because they had fewer hours.

However, there is another side. It turned out that the old wanted fewer hours. We should be mindful of what happened with the old. In the great recession, people had planned on retiring but could not, because their assets fell, so they continued to work. They were forced to work for longer; for example, they were forced to work 25 hours when they would have liked to work 12.

There is some evidence that some kind of reallocation can happen. However, bearing in mind both points, David Bell and I had a paper that came out recently in which we showed that both things make people unhappy, because, as an economist would put it, people are off their labour supply curves. One person would like to work X, but they work more than X or less than X. In equilibrium, that makes them less happy. There are things that we could be doing to try to make the allocation of hours better. That was prior to the recession.

However, be mindful that, during this period, there will be people who are unhappy because they wanted to retire but now they cannot; that also has an implication. At Dartmouth, from 2008 to 2012, nobody in the faculty retired, because they had defined contribution plans and, all of a sudden, their plan to retire had gone. We should be mindful that that other group will be impacted, too. Those people will have to stay in the labour force; if they have retired, they will be out looking for work. We know that that bit of unhappiness is now going on.

12:00

Dean Lockhart: I will follow up on the discussion on policy response. In the past, as the panel will know, the Government has drawn the attention of the committee to shovel-ready projects as a means to create employment, including for young people. Now, in the digital era, should we be looking at large-scale digital projects as a means of employing and training young people, as well as taking into account the revolution in terms of business and services moving online? That would match a supply of young people in the employment market with the demand to move business and other services online.

Professor Blanchflower: Not every kid will be ready to do the digital stuff, but universities are extremely well placed to do so. Think of the people graduating from the universities of Stirling or Aberdeen who have been having trouble getting into the labour market. Those are obvious people we could use in universities to help train people in the digital age. Some of the civilian conservation corps and programmes will be fairly high tech; you illustrated one. If we think of the green debate, some of that could be people out planting trees, but it could also be across the whole digital perspective. High-tech things could be going on as well. Your point is well made.

To go back to my local point, it might be more of an issue in a town that has a university than in a town that does not. In Scotland, Edinburgh, Glasgow, Aberdeen and Stirling—or towns where there is a local community college—will be good at it. I completely agree with you, but it is just one of

the things that can be done on a local basis, and universities and community colleges will probably be central to it. It is also possible to partner with firms, which are often located in those places around the universities. You are right that it is a way in which you can use universities and act in a local way.

Russell Gunson: In trying to direct funding centrally, we need to set broad parameters, priorities and missions—as the lingo would go—and see what, at the local and regional level, fits within that and build it at that point, rather than centrally. Having said all that, I will repeat what I said about the challenges that we faced going into this situation. Even before Covid, we had a big automation and digital revolution happening to us, which we wanted to happen to us less and with more shape. There was Brexit, climate, ageing and pre-existing economic inequalities. Any money or policy priority through the programme for government, the draft budget at the end of the year and the spending review, and into the next parliamentary term, has to boost the economy quickly, get jobs quickly but also begin to play to those pre-existing challenges. Digital could be a big part of that; crucially, that has to be at all levels. Universities have a place, but we know about the effect that Professor Blanchflower was talking about earlier—in harder times, young people in the labour market drop down notches; graduates take jobs that, previously, college qualifiers would take. We need to make sure that it applies at all skill levels and not just at the graduate and postgraduate degree levels.

The Convener: Absolutely. Dean, did you want to come back on that?

Dean Lockhart: Not so much on that. I had specific follow-up questions for Professor Blanchflower and the Fraser of Allander institute.

Professor Blanchflower, are we likely to see negative interest rates?

Mairi Spowage, do you still expect the “Government Expenditure and Revenue Scotland” figures to be published on 26 August, as scheduled?

Professor Blanchflower: In 2008, most of the things that have happened were unthinkable. It is clear from the conversation at the bank that negative interest rates are on the table now. Remember that the world’s great central banks—the Bank of Japan, the European Central Bank and the Deutsche Bundesbank—all have them, so the expectation is that that will probably happen.

The logic is that if you make an error on the fiscal front, for example, what inevitably happens is that the thing falls on the central bank, and the central bank has very few tools left. Traditionally, what you do in a recession is to cut interest rates

by 500 basis points. However, rates are so low, and quantitative easing is so large, with everybody around the world doing it, that your ability to do things is limited, and therefore you must take account of the one weapon that you have, which is negative rates. We did not think that negative rates could exist and operate, but it is clear that they can. The question that you might follow up with is how low they can go, and the answer is lower than we thought.

The Convener: Interesting thought.

What is the Fraser of Allander institute’s position on the second question?

Mairi Spowage: The GERS figures have been pre-announced, as is the statistical process. Unless Dean Lockhart has heard something, I expect them to be released on 26 August, and I look forward to writing lots about them that week.

The Convener: The next question is from Gordon MacDonald.

Gordon MacDonald: We are aware that 80 per cent of jobs are in the private sector, and that 98 per cent of those jobs are with companies or organisations with fewer than 50 employees. The latest figures, from April 2020, in relation to young people going into positive destinations and remaining there for nine months is 93 per cent—the third highest level on record. Since 2009-10, the gap between youngsters from the most and least deprived areas going into positive destinations has halved. The Scottish Government is committed to the Scottish job guarantee and increased investment in developing the young workforce.

Given the crisis caused by the pandemic, and the Brexit cliff edge that we face in December, is there a need to change procurement rules or grant conditions to protect the advances that we have made in recent years in relation to youth unemployment and employment? If so, what changes could we make?

Russell Gunson: I could not say that we are procurement experts, but clearly there is more that you can do than the current rules allow. Equally, with Brexit, those rules may begin to change to enable some of those social clauses to be stronger than they are now.

Looking at what other countries do with their procurement and, broadly, their Government spending, there are clearly ways that we could push that further and push the fair work, youth employment and developing the young workforce agenda more strongly, too.

More broadly, there is a point here about conditionality on support, both to the economy as a whole and to individual businesses. As we get later into the year, and looking ahead to next, we

need to begin to think through how we can get back what is not only in the best interests of business and the economy as a whole but in the best interests of employees and the Government.

Delivering fair work and inclusive growth are win-wins, so how can we push those agendas harder over the next period? There is a consensus on the need to build back better—I hate using that term, to be honest. Everyone seems to want to do that, and the rhetoric is great, at least, but let us begin to think through how we can actually do it. That means looking at conditionality and support and considering how to push those agendas a bit more strongly than the voluntary approach has done up to now.

The Convener: If no one wants to add anything, I will come in quickly. We are aware that some sectors were underemployed. For example, there are gaps in the social care sector. Do the witnesses have thoughts on how we can encourage young people to refocus their ambitions into such sectors?

Does no one have thoughts on that? Russell Gunson, you are good at volunteering.

Russell Gunson: I am doing my best.

Usually when a sector is struggling to recruit, the free market approach suggests that increasing pay is one way to encourage people to come in. As you heard from the previous panel, in the social care sector there are big, big problems to do with not just pay, but terms and conditions more broadly. As we exit the health side of this crisis—or hope to exit it; we will see whether we are doing so—we cannot forget the people who got us through it, in not just the paid care workforce but the unpaid care infrastructure.

On social care in particular there is unfinished business around pay—which was an issue before Covid, if we are all honest about it. There is also unfinished business around terms and conditions and routes for career progression not just in care and health but in other parts of the economy.

More broadly, let me make the same points about job quality that I made at the start of this session. We cannot come through this crisis repeating the mistakes that were made after the financial crash, when insecure, gig-economy, self-employed and low-paid work were promoted. We have to learn the lessons and begin to redistribute risk better. If Covid has done one thing on the income and economy sides of things, it has exposed that we pushed huge risk on to people who cannot bear it in times of crisis. We need to pool risk in a much better way over the longer term.

Mairi Spowage: I will build on what Russell Gunson said about the issues to do with social

care. The crisis has exposed the need to have an honest conversation about the broader funding of social care and not just how we value and respect the professionalism of the staff who work in it by considering their terms and conditions and investing in their careers. There has been review after review of the funding of social care and various solutions have been proposed. We must get comfortable with the idea that we will all need to pay more to pool the risk on social care, so that we can be looked after when we are older. It is important that that issue comes to the fore again and that we have an honest conversation about how to put in place a sustainable system for social care.

Professor Blanchflower: You are completely right, convener, to suggest that it is about long-term behaviour change. We realise that we have underinvested in care—we need only look at the deaths that have occurred in care homes around the world. Behavioural change is needed; we will have to invest more in the system.

I am a market guy; Russell Gunson is right to say that, if we want kids to go into the care sector, the solution is that the relative prices are going to have to change—the sector currently looks like an unbelievably unattractive place to go to. We can allow the quality of service to deteriorate further, but I think that societies will have taken the view that our care workers are really important, as are our nurses and doctors; there is a rebalancing of how we think about things.

12:15

When the long-term balance comes, one opportunity that we should think about is that this is the smallest cohort of young people that we have seen and will see for 20 years. I have been looking at my numbers and there are now about 710,000 people aged 16; there were 850,000 back in 2008. When we are back to normal and back to balance, there will be a shortage of young people. We are talking about 150,000 fewer people than 10 years ago, which is obviously an issue for the relative price.

I think that Mairi Spowage is right about a long-run change in behaviour and a repricing. For kids to go into social care, prices will have to rise because our private and public investment in that care will have to rise. That will be one of the long-run changes in behaviour.

The Convener: And, quite possibly, the model on which we operate will have to change.

Professor Blanchflower: Yes—and it will cost more.

The Convener: It would definitely have to cost more. Richard Lyle wanted a supplementary question.

Richard Lyle: I go back to the issue that David Blanchflower spoke about. We paid off the second world war debt only by 31 December 2006—nearly 60 years after the war. We owed only £21 billion, which I am sure is at 1945 prices.

We need to stimulate the economy. Does David Blanchflower agree that we should possibly end the payment of tax by old age pensioners, reprofile older people to retire with a decent pension and set up a social care fund, to be similar to a national insurance payment?

Professor Blanchflower: Maybe. A professor would say: evaluate the cost and returns and decide whether that is the best way to go, when compared to other options. I always ask people to consider what would be the behavioural response if taxation or whatever were to be changed. How would people respond—would more retire or fewer? What you have said is an option on the table but, before going to it, we should evaluate the consequences and whether people's behaviour would change as a result of it.

Richard Lyle: We did not count the cost of the bullets for the war, so we should not count the cost of re-evaluating and restimulating our economy.

Professor Blanchflower: That is not what I said. I agree completely that we should go forward. You then asked me which specific things we should do, and I played the role of a professor. I said, "Yes, we should stimulate" but, when asked about which measures we should take, I said, "We should do what generates the greatest return."

Richard Lyle: Thank you.

The Convener: Russell Gunson and Mairi Spowage wanted to come in as well, so we will go to both of them to finish off.

Russell Gunson: With regard to social care and also income protection insurance, which Mairi Spowage mentioned earlier, some Nordic and continental countries had a furlough or similar scheme already going into [*Inaudible.*]—

Some of the behavioural changes that Professor Blanchflower spoke about and the attitudinal changes, about what voters will vote for, open up opportunities that were not there before, whether Scotland does it alone or it happens UK-wide. We could look at the income protection insurance model and how we could do something similar, and at how to take the risk out of social care and increase investment and quality.

Something not raised in this session is wealth taxes and the point about intergenerational justice. The solution does not all need to be about income

tax or national insurance. Those could be in the mix, but we could look at wealth, and at how quantitative easing often accumulates wealth for people with assets. We may see that over the coming time and consider how to claw some of it back to pay for some of the new things that we want and that we have learned lessons from based on the past six months, if not the past 10 years.

The Convener: Mairi Spowage gets the last word today.

Mairi Spowage: I was going to make much the same point as Russell Gunson; we cannot consider just the taxation of income. We also need to consider the place of wealth taxation, particularly given the accumulation of wealth and how that exacerbates intergenerational inequalities, which has probably affected this generation of young people more than any other. I have just agreed with Russell's point.

The Convener: Thank you very much. It has been an interesting session. Clearly, young people face a significant crisis if we do not act quickly and thoughtfully. We have heard a number of suggestions about how we can do that. A big message, particularly from Professor Blanchflower, is that there is no one-size-fits-all solution and that we should perhaps think about localism a lot more when considering how we react to the situation. We will take away everything that you have said, and think hard about it when it comes to the advice that we as a committee give.

I thank Professor Blanchflower for keeping not-so-pleasant hours to make his contribution. I also thank Russell Gunson and Marie Spowage, whose contributions are, as always, much appreciated.

That concludes the public part of the meeting.

12:21

Meeting continued in private until 13:21.

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