Institute for Public Policy Research

BETTER THAN BEFORE

A SCOTLAND BUILT ON SOCIAL, ECONOMIC, AND CLIMATE JUSTICE

Russell Gunson and
Rachel Statham

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FOREWORD

The Covid-19 crisis has changed all of our lives in a few short months. What started as a health crisis has become as much an economic crisis that has affected everyone – but not equally so.

Covid-19 has claimed many victims so far. With at least 40,000 lives lost across the UK, including around 2,500 deaths in Scotland[1], the crisis can be measured by its death toll. It can also be measured by its economic effects, with drops in GDP never seen in peacetime, close to one in three workers having been on furlough, and unprecedented levels of unemployment expected in the future.

With the Covid-19 crisis however, we are all in the same storm, but we're not in the same boat.

The crisis has exacerbated pre-existing inequalities, with low income households, people from black, Asian and minority ethnic backgrounds, and disabled people hit hardest by both the virus and its economic effects. Likewise, as schools and childcare settings closed, and older people shielded from the virus, women and mothers have taken the greatest strain in terms of the increasing burden of unpaid care. As we enter the next few months, and as some of the emergency economic measures are withdrawn, we will likely see unprecedented levels of unemployment, and youth unemployment in particular. Even if we avoid a significant resurgence in the virus itself, and even if we deliver the hoped-for quick economic rebound, we will still probably face some of the worst economic effects Scotland and the UK has ever seen. And if we see a slower and interrupted recovery, as seems increasingly likely (whether 'L-shaped' or 'swoosh-shaped') it will be a recovery that causes deeper and longer-lasting damage.

However, from such extreme times, and from such significant damage, can come possibilities for change. Over the coming months and years there are chances to rebuild in ways that could deliver progress on social, economic and climate justice faster than has ever been possible. While whole sectors will undoubtedly face long-term challenges, there are potentially new opportunities to create green jobs and deliver fairer work across the economy. And in delivering unprecedented levels of business and economic support, there are opportunities to demand change in return.

As a country, we have done the right thing by many and asked for much greater sacrifices from some than from others. We must not forget that as we seek to rebuild.

Without question Scotland had many strengths going into this crisis. But we must work hard to build an even better Scotland as we recover over the next few years, and over the next parliamentary term. There were many transitions and challenges facing Scotland before this crisis – including automation, Brexit, climate change, demographics and an ageing population, and economic inequalities. They haven't gone away. Simply restarting the Scotland we had before the crisis will not be enough. Instead we must aim to reshape an inclusive economy on the foundations of social, economic, and climate justice.

1 Following a positive test for Covid-19.

This will mean nothing less than structural reform of Scotland's economy. It will mean building new institutions to share economic decision-making among employers, employees and government, but also finding better ways to pool risk and share power with workers in return. It will mean tackling a job crisis but ensuring we tackle a job quality crisis as we do so. It will mean continuing economic support and using the might of the public funding to get businesses and sectors through, but attaching strings to that support and enforcing fair work obligations and changing ownership structures in return. And it will mean investment of billions of pounds – but with quicker progress on meeting our poverty targets and climate change obligations.

Too often policy discussion in Scotland gets stuck at the high level – where the focus is sometimes more on getting the rhetoric right than getting the reality right.

This is the first in a series of reports that will consider, over the next year, how we can deliver justice in Scotland and rebuild following the Covid-19 crisis. You will find not just high-level priorities in this report, but also the beginnings of tangible policy interventions that we will build on as we look ahead to the rest of this parliamentary term and next year's Scottish parliament elections that will decide the Scottish government that will take us through most of this next decade.

Extensive work from IPPR and others shows that a fairer economy is a stronger economy. By taking the chance to build a more even and more equal Scotland, built on the foundations of social, economic and climate justice we can make Scotland better than before. An even Scotland is a better Scotland.

Russell Gunson, director, IPPR Scotland

1.
THE POLICY CONTEXT

In an attempt to limit long-term damage to the economy, the UK and Scottish governments have put in place significant new spending in 2020/21 as we recover from this wave of the Covid-19 crisis. This chapter outlines the broad nature of the support offered and some of the gaps and risks presented by the support so far.

UK GOVERNMENT ACTION

Overall, the UK government's policy response to the Covid-19 crisis so far is expected to cost around £190 billion in 2020/21, a near-unprecedented level of intervention in peacetime (Resolution Foundation 2020).

The Coronavirus Job Retention Scheme (CJRS)

On 20 March 2020, just prior to the UK entering lockdown, the UK government made a series of significant economic announcements. This included the Coronavirus Job Retention Scheme (CJRS). In order to avoid a wave of redundancies as businesses were forced to close, the CJRS aimed to fund employers to keep jobs open throughout the lockdown period. The scheme provides employers with up to 80 per cent subsidy of salary costs, up to a cap of £2,500 per month. On 29 May 2020, the UK chancellor announced the phasing-out of the scheme, together with changes for its remaining few months. This included employers being able to claim back temporary short-time working, and increases in the employer contribution to salary costs from July through to the end of the October, when the scheme will end.

At the end of June, there were 9.4 million workers on the CJRS, representing just under one in three workers. In Scotland, 736,500 workers (29.8 per cent of all workers) were on the scheme (HMRC 2020a). The scheme is projected by the Office of Budget Responsibility to cost a total of £47 billion across the UK in 2020/21 (OBR 2020).

A similar scheme was also implemented for self-employed workers earning less than £50,000 per year, offering up to 80 per cent of average previous earnings, up to the equivalent of the CJRS salary cap. As with the CJRS, support from government will be tapered before the scheme ends in October. As of the end of June, 2.6 million self-employed workers across the UK were accessing the scheme with 155,000 in Scotland (HMRC 2020b). The scheme is projected to cost a total of £15.2 billion in 2020/21 across the UK (OBR 2020).

The furlough schemes were designed and implemented very quickly across the UK but as a result have left significant gaps in protection, including for those newly employed or newly self-employed. Estimates suggest that over 2 million workers across the UK were ineligible to access either scheme (Adam et al 2020).

Universal credit

In March, the UK government announced increases to universal credit and other benefit entitlements. This included a one-year temporary uplift of up to £1,000 in the standard allowance of universal credit (and tax credits), and an increase in the local housing allowance – used to calculate housing support through universal credit and housing benefit – to the 30th centile for rents in a given area. The total cost of the UK government's additional welfare measures is expected to be £9.3 billion in 2020/21 (OBR 2020).

Business grants and loans

In the early part of the crisis, the UK government also announced a package of business grants and loans. These mainly applied to England through the business rates system (with consequential increases in the budgets for the devolved administrations), and included tax holidays for the sectors hardest hit by the crisis, and grants for small businesses. These are expected to amount to around £32 billion of spend across the UK in 2020/21 (OBR 2020).

The UK government also pledged up to £330 billion in loans and guarantees to support the economy across a number of schemes. The 'bounce back loan' scheme, for example, has seen small businesses affected by the crisis able to apply for between £2,000 and £50,000 (up to 25 per cent of turnover) in lending from private lenders with a 100 per cent government guarantee, and medium and large business lending with an 80 per cent guarantee. The ultimate cost to government depends on default rates but it is currently estimated to be £20 billion in 2020/21 (OBR 2020).

Summer update measures

In July 2020, the UK government announced a further range of measures in its summer update. These included: a new Kickstart Scheme, to provide subsidised employment opportunities to young people across the UK; a stamp duty reduction for house purchases in England (with consequential budget increases for devolved administrations); bringing forward of capital spending; a temporary VAT cut for most accommodation, eating out and attractions spending; and an 'Eat Out to Help Out' meal voucher scheme to encourage people to return to spending in restaurants. In addition, the UK government announced a Job Retention Bonus, offering employers £1,000 for every furloughed employee that they retain in continuous employment to January 2021, for roles paid at least £520 per month on average. These measures taken together are estimated to cost a further £30 billion in 2020/21 (Resolution Foundation 2020).

SCOTTISH GOVERNMENT ACTION

Many of the UK government responses to the Covid-19 crisis so far apply across the UK. The furlough schemes, business lending and guarantees, increased spending on benefits, VAT cuts for some sectors, and other interventions such as the Kickstart Scheme will see UK government spending in Scotland and across the UK. Other spending and tax changes from the UK government will see consequential increases in the funding available to the Scottish parliament.[2]

The Scottish government's response to Covid-19 currently amounts to over £4 billion in 2020/21. The majority of spending, around £2.2 billion, is being directed to grants and tax holidays for businesses in Scotland through Scotland's business rates system. As the pandemic increases demand for some services and decreases demand (and income) for others, the Scottish government has also invested additional funding for public services such as health and social care, rail, and local government (Hudson 2020).

In May, the Scottish government announced a temporary uplift in the devolved carer's allowance Supplement, with an additional one-off payment of £230.10 made in June to people in Scotland in receipt of the UK-wide carer's allowance benefit. In addition, the Scottish government announced a £350 million package of spending on welfare and wellbeing. This included a £45 million increase in crisis funds paid through the Scottish Welfare Fund (administered by local authorities in Scotland)

2 Funding increases for the Scottish parliament can come through spending increases in devolved policy by the UK government in England or the rest of the UK, or through tax cuts to devolved taxes by the UK government in England or the rest of the UK.

and £50 million to help meet the anticipated additional demand for the council tax reduction scheme and other social security payments in Scotland linked to receipt of universal credit (and legacy benefits) (Scottish Government 2020a).

Since the UK government's summer update, there have also been some additional consequential increases in funding that have yet to be allocated. This includes an estimated £133 million increase in funding stemming from the UK government's stamp duty cut in England. Around £33 million of this has been allocated to smaller changes to the equivalent tax in Scotland – the land and buildings transactions tax (LBTT) – with £100 million set aside for employability and training and a Scotland-only youth guarantee scheme, details of which will follow imminently (SFC 2020).

Advisory group on economic recovery

Soon after the crisis began, the Scottish government established an advisory group on economic recovery that reported at the end of June. The report made a series of recommendations for the Scottish government as we aim to recover from the Covid-19 crisis. IPPR Scotland were able to submit our ongoing thinking as part of the process and were very happy to see some of it reflected in the final report. Our recommendations reflected in the report included: calls for a Scottish jobs guarantee; conditionality in business support; Scottish government ownership stakes in companies; a green recovery; care sector and skills reform; and a social partnership approach to the economy (AGER 2020).

In August, the Scottish government delivered its response to the advisory group's report outlining how it will begin to implement its 25 recommendations and setting itself a further commitment to embed equalities and human rights across its work and plans for economic recovery. Overall, the response, described as an 'implementation plan', sets out how the Scottish government believes the advisory board's report reinforced its existing overall direction on economic policy, and outlines the work the Scottish government is already undertaking in relation to the recommendations and its plans for future work. The response commits to a partnership approach with business, trade unions and the third sector, and also recommits the Scottish government to the overall aim of delivering a 'wellbeing economy'. It defines a wellbeing economy as one that delivers 'economic progress and prosperity', 'inclusion', 'sustainability' and 'resilience' (Scottish Government 2020b). Much of this response was reflected in the Scottish government's new Programme for Government, outlining its plans and priorities for 2020/21.

Social renewal advisory board

The Scottish government has also established a social renewal advisory board which aims to build on shifts seen in public service delivery since the start of the crisis. It has created a series of policy circles to consider recommendations and solutions – including IPPR Scotland involvement – and will focus on reducing poverty and disadvantage, embedding a human-rights approach and advancing equality.

BUILDING BACK BETTER?

There is a growing political consensus across the UK – at least in rhetoric – that as we recover and rebuild from the economic, health and social damage caused by the pandemic over time, we should address pre-existing weaknesses. The prime minister Boris Johnson has talked of 'building back better' in a way that meets the UK's climate obligations and addresses some of the UK government's existing priorities such as 'levelling up' the economic performance of the UK to narrow regional inequalities (UK Government 2020).

Scotland's first minister Nicola Sturgeon has spoken of delivering an economy that supports 'wellbeing' and a transition to a greener, net zero Scotland. Indeed, the Scottish government's advisory group on economic recovery had this as its key remit (AGER 2020). Again, these are agendas that were a high priority for the Scottish government prior to the crisis.

However, there are crucial decisions that need to be made to ensure the reality matches the rhetoric.

Fiscal stimulus

Despite the significant investment from the UK and Scottish governments, the spending so far does not amount to a fiscal stimulus in the strictest sense. The focus of interventions until now has been on locking-down the economy, and then unlocking it, in a way that minimises long-term damage. However, following such a significant downturn, we will likely need to see further increases in public borrowing and spending to stimulate and boost the economy. The UK chancellor acknowledged this in the summer update in July when he stated that the interventions announced 'will not be the last action – it is merely the next – in our fight to recover and rebuild after coronavirus' (HMT 2020). The UK government's autumn budget and expected spending review later this year may therefore herald further spending to boost the economy across the UK.

At present, the Scottish government is not able to provide a significant fiscal stimulus through the existing devolved settlement. Borrowing powers are limited to a relatively small proportion of the total Scottish parliament budget, and only for capital spending or to manage shortfalls between projected and actual tax revenue from devolved taxes. Only in the event of an asymmetrical shock to the economy in Scotland, where the economy is hit significantly harder in Scotland than across the UK, could further – and still relatively small – borrowing powers be unlocked. Therefore, without additional borrowing powers, any increase in public spending must be balanced in-year by cuts elsewhere or tax increases, offering little net stimulus to the economy in Scotland. The Scottish, Northern Irish and Welsh administrations have formally called for greater flexibility within the current devolved settlement to allow capital spend to be switched to day-to-day spending and to allow greater borrowing powers, at least while the crisis continues (Welsh Government 2020).

Rentier interests

There is a risk that in prioritising quick support to the economy, we lose sight of the distributional consequences of the support provided. Previous research from IPPR has outlined the potential imbalance in the response so far, with borrowers and renters taking financial hits not asked of their lenders and landlords. As an example, loan holidays offered to personal loan and mortgage holders, while offering short-term relief, do not reduce the principal debt, and in fact increase the interest paid on borrowing from lenders over the long-term. And for renters, despite welcome increases in notice periods through the crisis, no such payment holiday exists for those facing significant income and cost shocks. Furthermore, the unprecedented support from government may benefit some parts of the economy more than others. For example, around 45 per cent of the public funding investment in the two furlough schemes will likely end up in the hands of lenders and landlords (Berry et al 2020).

Unequal effects on household finances

In the same way, this period of enforced isolation, and with it the reduced ability for households to spend income across the economy, has led to falling costs for some households, but not others. Higher income households – who spend more of their income in sectors which have closed down (restaurants, pubs, travel, hospitality) – have on average seen increases in their disposable income and wealth through the lockdown. But low income households, already most exposed to the health impacts of the crisis, are also likely to be most exposed to the economic impacts (Berry et al 2020). Furthermore, as we move into a period of expected increases in quantitative easing, we may see similar trends to previous rounds of quantitative easing – asset price increases, stock market and wealth increases (among those with wealth), and the rising inequalities that follow.

2.
BETTER THAN BEFORE: REBUILDING SCOTLAND AFTER COVID

WHAT WERE THE CHALLENGES FACING SCOTLAND AND THE UK GOING INTO THE CRISIS?

It is crucial to understand the transitions and trends that were facing Scotland and the UK prior to the Covid-19 crisis in order to understand how to shape our priorities in restarting and rebuilding the economy in Scotland.

A decade of disruption?

IPPR Scotland's extensive previous work (including Callander et al 2018) has outlined five key disruptions, challenges and transitions that were already due over the next decade:

1. automation and new technologies
2. Brexit and international partnerships
3. climate justice
4. demographic change and ageing
5. economic justice.

Even prior to the Covid-19 crisis, the UK economy, and often Scotland's economy too, faced this decade of disruption with a clear set of existing weaknesses.

In many ways, the UK economy has not recovered from the 2007/08 financial crash. Economic growth, as we measure it, and living standards are no longer linked, and while job quantity was high prior to the crisis, job quality was low. Inequalities, including by income, wealth, gender, ethnicity and geography, were high prior to the global pandemic and in some cases are increasing (Kibasi et al 2018).

At the same time, UK government decisions around tax and spending, including the austerity agenda, have allowed four key social deficits – care, skills, health, and security – to widen across the UK (Quilter-Pinner and Hochlaf 2019). Increasingly, it is clear that we are collectively weakened by unfairness, with inequalities acting as a significant brake on the economy. As IPPR's Commission on Economic Justice found, a fair economy is a strong economy and justice, in social, economic and climate terms, needs to be hard-wired into our economic model to deliver the broadly shared prosperity we wish to see (Kibasi et al 2018).

While the full implications of Covid-19 are not yet clear, what is clear is that in many ways the challenges and opportunities facing Scotland prior to the crisis will become more, not less, pronounced. Key policy agendas around inclusive growth, wellbeing, fair work, climate justice and tackling child poverty and inequality are set to be even more relevant in these challenging times. There are possibilities for faster progress in these areas if the Scottish and UK governments make the right decisions over the next few months and years.

THE PRIORITIES FOLLOWING COVID-19

Over this spring and summer, as the Covid-19 crisis unfolded, IPPR Scotland has undertaken a great deal of work internally, across IPPR, and with external stakeholders to develop our set of priorities for reshaping Scotland following Covid-19. To deliver a fairer and stronger economy in Scotland, we have set out three high-level priorities we believe need to be pursued as we move to the next phase of economic recovery and look ahead to the next parliamentary term. Beneath these high-level priorities we have outlined nine mid-level priorities for this and the next Scottish parliamentary term. Taken together, these priorities aim to build a recovery with social, economic and climate justice at its heart while delivering against the transitions and challenges Scotland already faced prior to the crisis.

1. **Locking-in a new economic model hard-wired for social, economic, and climate justice**
    - **A green recovery** – we must see a green stimulus and longer-term investment that provides the support needed to reshape the economy, not simply restart the economy we had going into the crisis. We should grow green, low carbon and 'net-zero' sectors and deliver the skills provision required to help people move from sectors hit hard by the crisis to those that will underpin climate justice in Scotland.
    - **A recovery with economic justice, inclusion and wellbeing at its heart** – rejecting a 'growth at all costs' measured on outdated metrics or an 'any job' approach, the recovery should focus on narrowing inequalities, reducing poverty, promoting wellbeing and driving a stronger and fairer economy over the long-term. As part of this we should pursue managed automation to drive improved job quality, job security, and improved productivity and living standards.
    - **Structural economic reform** – we must deliver changes in ownership and power structures within Scotland to drive a fairer and stronger economy. Formal social partnership structures should be central to the restart, recovery and rebuild following Covid-19 and over the course of the next parliamentary term.
2. **Paying for the crisis fairly**
    - **Rejecting austerity** – we must learn from the mistakes of the past and invest in services and social security throughout the next parliament. Devolved tax powers must be used to protect public spending where possible and where needed.
    - **New progressive tax reform** – we should use existing powers to deliver progressive tax changes, and new forms of tax, to raise the funds we need to protect and grow spending on public services and – crucially – to encourage the behaviour changes needed to deliver social, economic and climate justice.
    - **Who has lost the least? Who should pay the most?** – we should develop a clear understanding of who has lost the least through the immediate and longer-term crisis. When it comes to paying for the crisis, we should do so by asking those who were most protected from its effects to help those who were least protected.

3. Delivering a new social contract in Scotland

- **Social solidarity, social security and financial resilience** – we need to develop new forms of risk-pooling between business, state and individuals to protect people from significant income or cost shocks. We need to see social security reform that provides a greater safety net for those on the lowest incomes, and move to redistribute risk away from those who can least bear it to those who can bear it with least difficulty.
- **Resilient and decentralised services** – we cannot run public services 'too hot' and expect to be resilient to 'black swan' events. Likewise, we cannot over-centralise and expect to be able to respond, and provide help, quickly in times of crisis.
- **An open society built on social cohesion, trust and shared power** – we explicitly aim to build cohesion and trust up, down and across Scotland, and we devolve power to the local and regional level, to allow communities to drive social renewal.

3.
HOW DO WE DELIVER AGAINST THESE PRIORITIES?

This report outlines IPPR Scotland's priorities for reshaping Scotland following the Covid-19 crisis. However, without an understanding of the tangible policy interventions that might deliver against these priorities, progress is unlikely to be as quick as we would like and hope, and policy debate will is liable to get stuck at the high level of rhetoric rather than focussing on delivering change in reality.

We will be undertaking work throughout the rest of this year and in the lead-up to May's Scottish Parliament elections to outline the individual interventions needed over the course of the next parliamentary term to build a better Scotland than before – one built on the foundations of social, economic and climate justice. Below, we outline our initial thinking that we will use as the basis of our further work.

LOCKING-IN A NEW ECONOMIC MODEL HARD-WIRED FOR SOCIAL, ECONOMIC AND CLIMATE JUSTICE

Mid-level priorities:

- a green recovery
- a recovery with economic justice, inclusion and wellbeing at its heart
- structural economic reform.

1. Developing a social partnership economy – social partnership institutions and sectoral bodies

The Scottish government has developed the beginnings of a **social partnership approach to economic policy in Scotland**, through the Fair Work Convention and through its broader approach to policy development and implementation. However, there is a need for more formal **social partnership sector bodies** across the economy.

As we restart the economy, bringing employers, workers and government together will be crucial to balancing the economic and health needs across Scotland as we learn to live with Covid-19 and as we leave it behind. Throughout the next parliament, these same sectoral institutions should have a crucial role in directing stimulus and ongoing spending, shaping the skills system, and developing higher quality work to sustainably reduce unemployment. In doing so they could be key to delivering an economy that combines wellbeing, fair work and shared increases in living standards.

The Scottish government should consider a **Social Partnership Act** to build new formal institutions and develop new rights and duties in relation to building formal partnerships across Scotland's economy.

2. Contingency and conditionality in economic support – building equity stakes across the economy and agreeing enforceable fair work obligations

As we begin to move into a new phase of the crisis, it is important that we ensure that those businesses who have benefited from support, do the right thing in return, delivering a public benefit for public risk taking.

Economic support should move to an equity-focussed approach, where more support from government takes the form of equity shares rather than traditional lending or grants. We were delighted to see some proposals in this area within the final report of the Advisory Group on Economic Recovery (AGER 2020). Where the Scottish government provides financial support to businesses, it should look to take equity stakes in return for this support. In response to the Advisory Board's recommendation here the Scottish government has established a short-life working group to consider the skills and capabilities needed to manage stakes and the best vehicle for doing so. The working group will report in autumn 2020 (Scottish Government 2020b).

As equity stakes are built across parts of Scotland's economy, these could be managed as assets by a state holding company, the Scottish National Investment Bank, or through a new **Scottish Wealth Fund**. In this way, assets could be administered with the aim of delivering against Scotland's national priorities, and without direct political interference.

Likewise, those sectors that benefit from government support now and in the future should agree to new **enforceable fair work obligations** in return: that they will deliver fair work with higher wages and job quality, and increased levels of collective bargaining (in line with the National Performance Framework). This could include consideration of **Fair Pay Agreements** across Scotland's economic sectors, as currently being considered by New Zealand's government (MBIE 2020). Many of the sectors hardest hit by the Covid-19 crisis so far, and those receiving most support, are lower paid sectors. We must use the support we offer now to ensure they become higher pay, fair work, sectors in the future.

3. A green stimulus

As we look ahead to the UK government's autumn budget and spending review, and to the Scottish government's 2021/22 budget, we must see a strong priority placed on **green stimulus** and a green recovery over the course of the next parliament. IPPR has previously estimated that – on a UK-wide level – an additional £33 billion per year public investment needs to take place just to meet its own 2050 net zero target (Murphy and Jung 2020). For Scotland, given its 2045 net zero target, this would mean a need for around **£3 billion additional investment annually**.

This investment must be spent on the right priorities, where jobs multipliers and environmental pay-offs are high. For example, there are significant environmental and jobs benefits in **insulating buildings** – such as wall insulation. This also has the benefit of energy expenditure savings in the medium term, and potential reductions in fuel poverty. **Restoration of peatlands** and afforestation could be another core aspect of the climate transition in Scotland and across the UK, as they serve as large carbon sinks. The Scottish government's recent Programme for Government makes welcome commitments in these areas, but it remains to be seen if the pace and scale of action will be significant enough.

There are many other interventions that could have big environmental and employment effects that can be expanded quickly. These include investing in **low-carbon heating infrastructure**, building more **affordable housing** with state-of-the-art efficiency standards and establishing an **electric vehicle charging infrastructure** to meet the target of phasing out fossil fuel powered vehicles by 2032. Finally, bringing forward large-scale investments in **public**

transport infrastructure, including for both inter- and intra-city transport in Scotland, could be crucial to stimulating the economy now, with economic and climate pay-offs over the long-term.

Equally, we must adopt a **'do no harm'** principle in other parts of our spending. Replacing carbon-heavy jobs with those with low or no emissions will be vital alongside growing green sectors. This could see health and care roles, for example, expand to deliver higher paid service level jobs to replace carbon-heavy roles elsewhere in the economy.

Given the existing devolved settlement, it is not possible to undertake a significant fiscal stimulus in Scotland alone. It is clear that the current fiscal framework, and current levels of borrowing powers – never mind in the face of the scale of the challenge we now face – are insufficient. The Scottish parliament should be granted **additional borrowing powers**, across day to day and capital spending, to ensure it is able to deliver the long-term investment required to maintain demand in the economy, and limit long-term damage. This would allow a stimulus that reshapes the economy toward social, economic and climate justice.

4. A fiscal stimulus directed for and through low income families

As we begin to develop plans for restarting and rebuilding the economy, we should strengthen our ability to **justice-proof our spending**, across the whole of the Scottish government's budget, against clear social, economic and climate justice principles.

A key element of rebuild spending should be in the form of **increased income supplements** for low income families in Scotland. This could take the form of additional one-off lump-sum payments or increases in regular entitlements for those in receipt of existing Social Security Agency and local authority payments. This would boost demand in the economy while supporting families now and narrowing inequalities following the crisis.

5. Pursue managed automation/digital innovation

We should also ensure our spending, as we restart and rebuild the economy, works for the long-term as much as the short. As outlined above, Scotland faced a number of transitions prior to the Covid-19 crisis. Driving productivity improvements will be essential in raising living standards and increasing tax revenues as we transition to an older population. At the same time, social distancing and the lockdown has and will force many sectors of the economy to move towards digital solutions, new technologies and automation. This digital transition is one that we must shape, rather than leave to happen to us, ensuring the benefits of change are shared.

The Scottish government should put in place a clear **automation and digital innovation strategy**, with significant investment to help shape the shift to new technologies. In previous work we called for a new **Productivity Scotland** body to help promote and shape the adoption of new technologies (Gunson 2018). Social partnership sectoral bodies, suggested above, could play an important role in managing this transition in a way that protects workers, employers and the economy as a whole. Again, action could be focussed on those low pay sectors hit hardest by the lockdown and ongoing restrictions. This would mean support for businesses is given now to help them through the crisis, while ensuring they are more sustainable sectors providing fair work, higher pay and higher productivity following the crisis.

6. A new lifelong learning skills offer for Scotland

The Covid-19 crisis has already caused significant disruption to work in Scotland. Throughout the rest of the year we may see unemployment reach unprecedented levels. Even with a quick rebound – which looks less likely – significant levels of unemployment are expected to be with us for years to come. We must therefore offer sufficient ways to protect people from the scarring effects of unemployment, and to bridge people from jobs in contracting sectors and into expanding (greener and fairer) parts of the economy.

A new lifelong learning skills offer for Scotland could be integral to making this happen. We believe this should take the form of a number of elements.

Firstly, the Scottish government should prioritise delaying the exit of young people from the education system. Consideration should be given to replacing the existing school leaving age with a new **'skills participation age' of 18 years old**. This would mean more young people could remain in the skills system over the coming years for longer – whether in the workplace or the classroom – and help to instil a lifelong habit of learning.

Secondly, we need to see a new skills offer aimed at over-21s, offering flexible and modular vocational and technical learning, in a mix of online and face-to-face. This would provide learning opportunities now that could help meet the medium and long-term needs of Scotland's economy and society. We have called this the **Open Institute of Technology**, a new alternative learning route delivered through existing providers. This new offer should be underpinned by: **enhanced individual training accounts** offering higher levels of funding, carried over for up to three years, to boost demand for re/upskilling among learners; and new **progression agreements** between provider, employer and learner, to increase skills demand and utilisation among employers.

Finally, we must look at reform within the college and university sectors. By **moving away from input targets** – around places for example – and moving to a genuinely outcome-based approach, in keeping with the high and mid-level priorities outlined in this briefing, we would see colleges and universities more able to respond to the changes coming through and following the crisis. This could see **greater amounts of teaching and research funding pooled**, and distributed on the basis of the outcomes required, blind to institution or sector.

7. Reducing youth unemployment

Throughout the summer, we have worked to develop plans for a jobs guarantee fund in Scotland. We were delighted to see our thinking reflected in the final report of the advisory group on economic recovery (AGER 2020), and welcomed the Scottish government's pledge of £100 million for employability and a youth guarantee (alongside the UK government's Kickstart Scheme). We look forward to the Scottish government's imminent announcement of further details.

However, unemployment and youth unemployment will likely be with us for some time to come, and we will need specific interventions to boost opportunities for young people throughout the next parliament. At the time of writing (August 2020) the details on both the UK government's Kickstart Scheme and the Scottish government's youth guarantee were awaited. But what is clear is that it is crucial that all youth employment interventions have a common set of principles, including a **formal learning** element – whether through college, university or in the workplace. This will ensure they have long-lasting benefits and routes to **career progression**, meaning young people's careers do not 'stall' during the crisis and its aftermath.

PAYING FOR THE CRISIS FAIRLY

Mid-level priorities:

- rejecting austerity
- new progressive tax reform
- who has lost the least, and who should pay the most?

8. Ensuring Scotland's spending review protects public spending (even if the UK government's does not)

The Scottish government should guarantee a **spending back-stop** over the next spending review period to provide clarity that, regardless of UK government spending decisions, the Scottish government will reject austerity across day-to-day spending and capital spending. This will help to protect Scotland's social infrastructure and show lessons have been learnt from the last 10 years. If the Scottish parliament's budget does not have sufficient funding levels to do so, through a combination of UK spending levels and current tax levels, it should pledge to borrow or increase tax revenues.

9. New progressive taxation – including new wealth and 'behaviour change' taxes

When it comes to paying for the costs of the crisis, the Scottish government should prioritise **new progressive taxation**. In particular, given likely increases in wealth and asset prices, consideration should be given to new forms of **wealth taxation**, and reforms to existing wealth taxes, possible through Scotland's local taxation powers. They could take the form of significant reforms to council tax and, in addition, new wealth taxes such as local inheritance tax supplements in Scotland, as outlined in our previous work (Fawcett and Gunson 2019). Other forms of wealth taxation could be possible through the Scottish parliament's ability to create new taxes, with the agreement of the UK government.

The Scottish government should also consider how existing powers could be used to create taxes that could aid the **behaviour change** we need to see to deliver climate and economic justice. New **environmental supplements** to land and buildings transactions tax (LBTT), business rates and council tax, could help to drive investment in greener housing and property. **A carbon tax and new fair work levies**, set at the national level and delivered at the local level, could help to promote behaviour change among households and businesses in Scotland. The Scottish government should consider reform to business rates, and in particular **reform to the small business bonus**, in this light. This could be particularly important in this period as new businesses are being created, to ensure they prioritise fair work principles, ownership structures and the business practices required to deliver social, economic and climate justice.

It is important we consider intergenerational justice in our tax and spending decisions. A **Future Generations Act**, and future generations commissioner, could be crucial to ensuring policymaking in Scotland focusses on the decisions that can deliver social, economic and climate justice over the long term.

10. Helping those hit hardest by the crisis

As we look to the medium term and the next parliament, the Scottish government should consider how those who have been protected the most through the emergency phase of the crisis can help those hit hardest.

This should include ensuring increases in **existing taxes, and new taxes, for those who have seen the greatest protection** through the crisis. Continuing Scotland's progressive approach to income tax would be a key starting point. But it could be equally important to investigate how new revenue can be raised from lenders and landlords in Scotland (whether through taxes, levies or fees) alongside wealthier households (see above for wealth taxes). Consideration should also be given to **debt write-offs and amnesties** (for example by utility companies, social and private landlords and local tax arrears) for people and families struggling financially, and **rent caps and freezes** for tenants.

DELIVERING A NEW SOCIAL CONTRACT IN SCOTLAND

Medium-level priorities:

- social solidarity, social security and financial resilience
- resilient and decentralised services
- an open society built on social cohesion, trust and shared power.

11. A new social contract for carers in Scotland

The Covid-19 crisis has highlighted the importance of key workers and carers in our everyday lives, and their value needs to be recognised in more than words. The Scottish government has provided welcome additional funding for carers in Scotland through the carer's allowance supplement. But a **new social contract for carers and key workers** is required with an emphasis on improving pay and job quality. For example, although paying social care workers in Scotland the real living wage is a welcome move, we should now focus on bringing the **social care sector onto a single set of pay scales** and terms and conditions benchmarked against NHS and local authority pay levels, with opportunities for training and progression across the sector and between health and care. The Scottish government's recent Programme for Government sets out a welcome commitment to a Independent Review of social care in Scotland, including consideration of a national care service.

12. Invest in existing Scotland-based social security provision

Given likely increases in financial insecurity, poverty and inequality over the coming time, the Scottish government will need to prioritise **increases in the level of social security** offered to low income families through the Social Security Agency and through local authorities in Scotland in the short term and over the next parliament. We outlined above the important contribution to fiscal stimulus social security spending could take, but we will also need to see long-term increases in spending to help families with reduced incomes and increased costs. In particular, consideration will need to be given to increasing the levels of payments made through the **Scottish child payment** once it is rolled-out and potential options for helping families with children prior to its introduction and full roll-out.

13. Explore new forms of risk-pooling in Scotland

The Covid-19 crisis has exposed how far the UK had gone in redistributing risk to those least able to cope. Many of the emergency measures introduced so far have socialised risk – some in potentially regressive ways (for example taking on potential losses that would otherwise be held by the banking sector).

The Scottish government will urgently need to prioritise **new mechanisms for pooling risk in Scotland** and increasing **financial resilience** among households. We have begun a two-year research project, working with the Standard Life Foundation, looking at financial security in Scotland. We aim to outline our thinking in this area over the coming months.

4. CONCLUSION

The decisions we make as a country over the coming months and the next Scottish parliamentary term will set the shape of our economy and society for a generation. If we get these decisions right, we could rebuild a Scotland even better than before, built on the foundations of social, economic and climate justice. The huge damage caused by the Covid-19 crisis so far has taken many lives, and has caused profound changes across our economy and society. But while it has affected all of us, it has not affected everyone equally. From this significant damage comes possibilities for quicker change than before, and for building a better Scotland following the crisis than the one that went into it.

This report outlines IPPR Scotland's priorities looking ahead to the next few months and the next parliamentary term. It aims to begin to outline how we can ensure the economic recovery can embrace the possibilities for change presented by the pandemic. However, while significant change is possible it will only be delivered if we go beyond rhetoric and the high-level, to understand the tangible policy interventions that can make the difference we wish to see. This is the first report in a series setting out our priorities and some of the tangible policy interventions we will develop further throughout the rest of the year and in the lead-up to the 2021 Scottish parliament elections and beyond.

IPPR's extensive work shows that a fairer economy is a stronger economy. By taking the chance to build a more even and more equal Scotland, built on the foundations of social, economic and climate justice we can remake Scotland better than before, embracing the fact that an even Scotland is a better Scotland.

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