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WHO IS WINNING FROM COVID-19?

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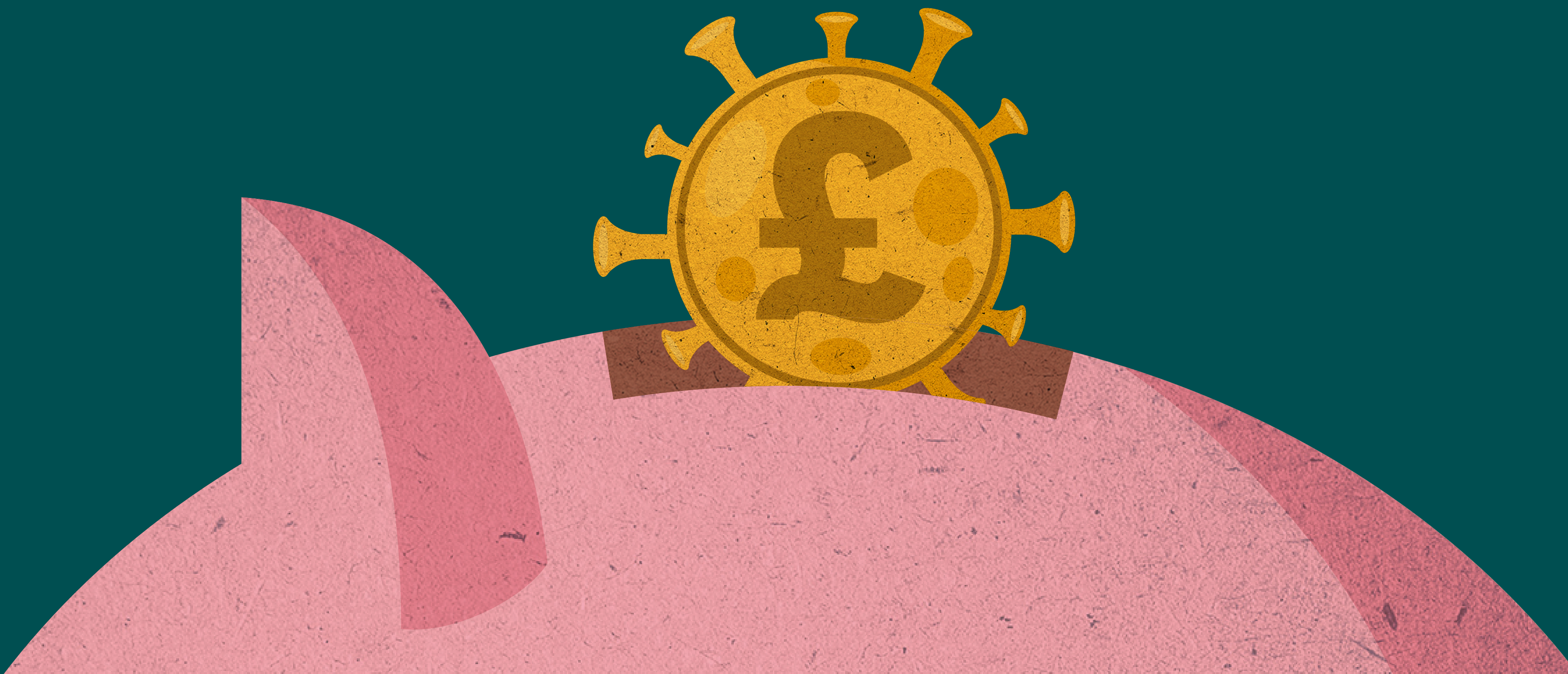

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SUMMARY

COVID-19 HAS HAD A PROFOUND IMPACT ON SCOTLAND'S ECONOMY AND LABOUR MARKET, BUT THE COST OF THE CRISIS HAS NOT BEEN SHARED EVENLY. IN THIS PAPER WE IDENTIFY THE PARTS OF SCOTLAND'S ECONOMY THAT HAVE PROSPERED DURING THE COVID-19 PANDEMIC; THE STRUCTURAL CHANGES THAT ARE UNDERPINNING THIS; THE ROLE THAT SCOTTISH GOVERNMENT POLICY HAS PLAYED; AND THE POTENTIAL LONG-TERM IMPACT ON THE LABOUR MARKET IN THE YEARS AHEAD.

THE ECONOMIC IMPACT OF THE COVID-19 PANDEMIC

Output in Scotland fell by nearly 10% in 2020 compared to 2019, representing the deepest downturn on record. The sectors that have been hardest hit by the pandemic are the 'social sectors' – accommodation and food services, and arts culture and recreation. Sectors such as financial services; information and communication; real estate; electricity and gas; water and waste; agriculture, forestry and fishing; and professional, scientific and technical services have to varying degrees proven fairly resilient to the pandemic. Three sectors – manufacturing, transport and storage services, and wholesale and retail – suffered heavily at the start of the pandemic but have since significantly recovered.

Although the number of company insolvencies in Scotland fell in 2020 compared to 2019, this is primarily due to the financial support provided by the UK and Scottish governments. There is a significant risk that many Scottish businesses could face the prospect of insolvency in the months and years ahead as this support is unwound. Working class communities, women and minority ethnic households, as well as young and disabled people, have been disproportionately impacted by the economic fallout from the pandemic. There is also evidence that some employers have taken advantage of the disruption caused by the pandemic to slash the pay and conditions of workers using so-called "fire-and-rehire" tactics, while use of zero hours contracts also increased sharply during the pandemic.

SHIFTING PATTERNS OF PRODUCTION, DISTRIBUTION AND CONSUMPTION

The measures taken to control the spread of COVID-19 have significantly disrupted patterns of production, distribution and consumption throughout Scotland's economy. This in turn has created distinct sets of winners and losers, that are not captured by a broad sectoral analysis. We identify six structural shifts that have significantly disrupted flows of income and expenditure throughout Scotland's economy:

THE SHIFT TO ONLINE RETAIL

Online retail sales have surged during the pandemic, much of which has come at the expense of spending in high street retail stores. Among the largest beneficiaries of this shift have been large, internationally owned online retailers such as Amazon, although UK-based companies such as ASOS and Boohoo, as well as some smaller Scottish retailers, have also benefitted significantly. Major UK supermarkets saw sales spike in 2020, including a surge in online sales. However, supermarkets also reported substantial new costs associated with the pandemic, and as a result overall profit margins in the sector have remained relatively thin.

THE SHIFT FROM SOCIAL ACTIVITIES TO 'AT HOME' GOODS AND SERVICES

Spending on social activities has collapsed during the pandemic, and some of this spending has been redirected towards goods and services that can be consumed at home such as takeaways and specialist food and drink services, digital content subscriptions and home improvements. While once again Amazon is among the biggest winners of this shift, other winners include the discount retail stores, DIY and home improvement stores; and takeaway companies. Although food delivery companies like Deliveroo and Just Eat have seen revenues surge during the pandemic, these companies continue to make a loss.

THE RISE OF HOME WORKING AND DECLINE IN TRAVEL

The number of people working from home has surged during the pandemic. However, this has served to reinforce income inequalities, as those on higher incomes have been more likely to maintain their incomes working from home, while those on lower incomes have been more likely to be furloughed or laid off. The shift towards homeworking has also ushered in a new acceptance of virtual meetings and other aspects of online work. Globally the big winners of this shift have been the major US tech companies, however some UK-based IT solutions companies have also benefitted. The rise in home working has also had an important impact on the physical geography of economic activity: as more people have worked online from home, less money has been spent in city centres. Some of this spending has been redirected towards smaller towns and suburbs, which has benefitted some local businesses. Finally, the pandemic has led to a sharp reduction in domestic and international travel, which has created particular difficulties for airports and airlines, as well as the oil and gas sector.

THE BUILDUP OF HOUSEHOLD SAVINGS

The collapse in spending during the pandemic has led to a sharp increase in household saving, which has been concentrated among middle and high income households that have maintained their incomes, as well as retirees. At the same time however, many households have faced greater economic hardship. Nearly a third of households in Scotland have seen their household income fall since the pandemic began, while those households are also more likely to have seen their expenditure increase rather than decrease. Partly as a result of this, the number of people relying on Universal Credit in Scotland has nearly doubled during the pandemic. Private renters have been particularly vulnerable, and have been most likely to take on debt to cover income shortfalls.

RISING ASSET PRICES

Although the real economy has contracted during the pandemic, house prices have surged. The primary winners of this have been existing homeowners, as well as private developers and estate agents. The picture surrounding commercial real estate is more uncertain: the rise in remote working and online retail led to a sharp decline in investment in Scottish commercial property; a significant increase in office vacancy rates; and a build up of rent arrears, particularly in the retail and hospitality sectors. This has significantly hit the profits of commercial real estate firms that have invested heavily in city centre office and retail space. At the same time however, real estate firms that have invested in industrial, warehouse and logistics, and "edge of town" sites have prospered. Global stock markets have also surged during the pandemic (although the UK's FTSE100 is an exception to this). Some of the biggest winners from the COVID pandemic have been investment funds that have a significant exposure to global equities. Scotland's large fund management sector has been at the centre of this, with many of the UK's top performing funds in 2020 managed by Edinburgh-based firms.

RESHORING OF MANUFACTURING SUPPLY CHAINS

The outbreak of the pandemic exposed the vulnerabilities of relying on complex international supply chains for goods of strategic importance, which was perhaps most visible in the scramble to obtain Personal Protective Equipment (PPE). However, there is some evidence that the pandemic has also accelerated pre-existing trends towards 'reshoring' of manufacturing activities in areas beyond PPE and medical supplies, both across Europe and in the UK. Although the full scale of the potential for reshoring in Scotland remains to be seen, the opportunity to create high-skilled, high wage jobs at a time when employment in other areas of Scotland's economy are suffering is one that should be fully exploited. Although the Scottish Government has recognised this opportunity, a more interventionist approach will likely be required to fully realise this potential.

THE ROLE OF SCOTTISH GOVERNMENT POLICY

In Scotland many of the most economically significant measures have been introduced by the UK government and apply across the whole of the UK. However, the Scottish Government has also introduced a number of measures to support businesses during the pandemic:

GRANTS AND LOANS

The Scottish Government has introduced a wide range of grants which aim to support sectors most affected by the pandemic and close perceived gaps in support provided by the UK government. The application of Fair Work First criteria to COVID related grants appears to have been mixed, however, and in many cases grants were not made conditional on meeting the criteria. Because little substantive relief has been provided on essential expenses, a significant proportion of these grants support will have ended up flowing to banks, landlords and utility companies – sectors which to varying degrees have been sheltered from the pandemic. By extending interest free loans to residential landlords, the Scottish Government has supported a group that has been relatively protected from the pandemic.

PROCUREMENT

Shortages of PPE led to significant criticism early on in the pandemic, but since then the Scottish Government has made significant strides towards self-sufficiency in PPE equipment through its 'make and buy' strategy. Many Scottish businesses responded to this call by diversifying production to ensure a secure supply of NHS essentials, in some cases by reshoring manufacturing activity from abroad to meet demand. It is estimated that nearly half of all PPE is now supplied from Scotland, and over 90% when gloves are removed from the count. While the UK Government has been widely criticized for awarding lucrative COVID contracts to firms such as Serco, the Scottish Government has not relied on outsourcing companies to the same extent. However, the Scottish Government has awarded contracts to a range of firms to support contact tracing services, vaccine appointments and consultancy and advisory services, sometimes without competition.

TAX

In response to the pandemic the Scottish Government introduced two major tax changes: a package of business rates relief and a reduction in Land and Buildings Transaction Tax (LBTT). While business rates relief can be argued as merited in the circumstances, the decision to cut Land and Buildings Transaction Tax (LBTT) is less clear, as the main beneficiaries are existing homeowners who have been relatively sheltered from the pandemic. In addition, the decision to keep income tax rates unchanged and freeze council can be viewed as a missed opportunity to redress COVID related inequalities.

EMPLOYMENT SUPPORT

In September 2020 the Scottish Government established the 'Young Person's Guarantee' (YPG) which aims to "create the opportunity of a job, placement, training or volunteering for every 16-24 year old in Scotland – based on their own goals and ambitions." The YPG is the umbrella that sits above all programmes for young people that draws together all the various employability Guarantees into one place, including the UK Government Kickstart Scheme. As things stand, both the UK government's Kickstart Scheme or the Scottish government's Young Person's Guarantee can be viewed as policies that are designed to support the recovery of the pre-COVID labour market, rather than catalyse a shift towards a different type of economy.

IMPLICATIONS FOR THE FUTURE

The long-term implications of the COVID-19 pandemic for the Scottish economy are somewhat difficult to predict, since there remains significant uncertainty around how far the shifts outlined will be sustained. However, our central conclusions are as follows:

- The shift towards home-working and online shopping seems highly unlikely to be completely reversed when restrictions lift. This has important labour-market implications – both in terms of jobs likely to be lost in some sectors and created in others , and in terms of working conditions for sectors with jobs that can be done partly or wholly from home.

- These trends also have clear implications for spatial patterns of development. Attempting to resuscitate pre-pandemic city-centre development models may be doomed to fail, and there is a clear opportunity to spread prosperity more widely and regenerate suburbs and smaller towns.

- Social sectors such as hospitality are more likely to 'bounce back', since the pandemic is the sole driver of lower activity. However, significant uncertainties remain, and smaller businesses in particular are likely to need more support to weather the recovery.

- There are opportunities to capitalise on the renewed focus on supply chain resilience and accelerate reshoring of manufacturing to Scotland, however this will require a robust industrial strategy from the Scottish Government, learning lessons from Scotland's success at building self sufficiency in PPE supplies.

- The combination of rising asset prices and widening gaps between rich and poor in terms of household balance sheets means that the recovery is likely to be extremely unequal unless action is taken to redress this. Moreover, this trend is likely to drag back the recovery itself, particularly if wealthy households' savings are not spent or invested productively, and low-income households have very little disposable income to spend.

RECOMMENDATIONS FOR TRADE UNION ORGANISING

LABOUR MARKET RESTRUCTURING

In the months ahead, the focus will need to shift from protecting the pre-pandemic economy to shaping a post-pandemic economy built on viable, secure, high quality green jobs. This means pressing the Scottish Government to implement a robust green industrial strategy to create new jobs in the industries of the future; maximising the potential for reshoring manufacturing to create new Scottish jobs, whilst exerting pressure to ensure that these new jobs are high-quality; ensuring that workers in sectors where jobs may be permanently lost are supported through reskilling and retraining; and developing strategies to organise in "growth" sectors which are creating jobs that may be low-paid, insecure and exploitative.

THE RISE OF HOME WORKING

Home working is likely to become an important new battleground for employment rights. Rights to flexible working are likely to become increasingly important, and unions will need to be proactive in ensuring that home working is not used as an excuse to offload office costs onto employees. Unions will also need to grapple with a new set of issues around digital presenteeism, surveillance technology, and unreasonable expectations of those with caring responsibilities to juggle home work with care work. There will also be a need to resist pressure both from companies and the government to force home-workers back to the office before they feel safe. Given the dependence of many powerful economic interests on city-centre development models built around office working, we would expect this pressure to intensify over the coming months. Unions should put forward a positive vision for an economic recovery that spreads prosperity more widely across Scotland – recognising that the pandemic is reshaping our economic geography whether we like it or not.

ASSET PRICES AND 'WHOLE WORKER ORGANISING'

Given the growing disparity between asset and property prices and real living standards, it will be important for unions to adopt 'whole worker organising' or 'bargaining for the common good' approaches – for instance, concerning themselves with their members' access to affordable housing and affordable credit, as well as their working conditions. There is the opportunity for unions to position themselves at the forefront of advocating a new economic model after the pandemic, based on principles of good work, community wealth building and environmental sustainability – to create thriving economies and communities in all parts of Scotland – in contrast to the UK government's approach of pumping up asset prices and ignoring inequalities.

RECOMMENDATIONS FOR POLICY

JOBS AND WORKPLACE RIGHTS

Swift action is needed to avoid a damaging spike in unemployment when the furlough scheme is unwound. This should involve maintaining adequate support for sectors affected by COVID that might be expected to recover through the provision of grants, relief on expenses and, where there is a strategic case for doing so, taking equity stakes; initiating a 'right to retrain' and reskilling for all ages; and lobbying the UK government for devolution of employment law and using this to tackle new issues created by the rise of home working.

A GREEN INDUSTRIAL STRATEGY

Policymakers should seek to proactively shape a just and sustainable recovery from COVID-19, with support targetted towards growing green and socially useful sectors. This should involve the creation of a National Care Service, investment in childcare provision, and a scaled up public housebuilding and retrofitting programme to tackle Scotland's housing crisis and help decarbonise the economy. It should also involve scaling up democratic public ownership, for example through the creation of a publicly owned energy company and a publicly owned construction and infrastructure company, and maximising opportunities to reshore manufacturing, taking the lessons learned from successful efforts to reshore PPE manufacturing and applying them to other sectors of the economy. Finally, it should involve a strategy for mobilising investment in support of these goals, both directly through the Scottish National Investment Bank and by finding ways to mobilise household savings built up during pandemic to support local job creation, and disincentivising high-income households from investing these savings unproductively.

HIGH STREETS AND LOCAL ECONOMIES

Rather than betting on a revival of city-centre retail and office working, the Scottish Government should focus on the opportunities to regenerate local high streets and spread prosperity more evenly. This should build on the STUC's recommendation for a High Streets Task Force, and include repurposing empty shops and offices as shared spaces under public or community ownership, investing in co-working hubs and local amenities, and supporting locally-owned businesses to start-up or relocate. It should also involve supporting smaller retailers to digitise and develop their online offer – thus helping to ensure that the shift to online retail benefits Scottish employers rather than being spent with big tech firms and leaving the Scottish economy.

TACKLING INEQUALITIES AND REBALANCING THE RECOVERY

The recovery as it stands is likely to be highly unequal, both between high- and low-income workers, and between those with assets and those with debts. Women, young people, disabled people, and those of many minority ethnicities, are more likely to be disproportionately impacted. The Scottish Government should seek to rebalance these inequities by providing debt relief and writedowns for those struggling with personal debt and rent arrears; introducing rent controls to protect the living standards of private renters; continuing to diverge where possible from UK government policies designed to prop up house price; and making full use of devolved tax powers to redress COVID related injustices – including raising income tax and replacing council tax with a progressive property tax. It should also include robust action to reduce the disability employment and pay gap and the race and gender pay gaps.

INTRODUCTION

Scotland is in a crucial time of transition. COVID-19 represents the greatest public health crisis for a generation, as well as the most severe economic challenge. In addition to triggering the deepest recession on record, the crisis has had a profound impact on Scotland's labour market. Hundreds of thousands of workers have been furloughed under the Job Retention Scheme; the number of people relying on Universal Credit has nearly doubled; and unemployment is expected to rise to nearly 8% this year.

The cost of the crisis has not been shared evenly, however. While the economy might be expected to start recovering as vaccines are rolled out and social distancing measures are eased, it is likely that there will be an enduring structural impact on Scotland's economy and labour market. Anticipating what these shifts might be, and who will benefit from them, requires an understanding of the ways in which the pandemic has disrupted Scotland's economy.

This paper aims to identify the parts of Scotland's economy that have prospered during the COVID-19 pandemic; the structural changes that are underpinning this; the role that Scottish Government policy has played; and the potential long-term impact on the labour market in the years ahead. While the pandemic has impacted the public, private, third and household sectors, our focus in this paper is on the impact of the pandemic on the private sector.

The remainder of the paper is structured as follows:

SECTION 2 We examine how different broad sectors of Scotland's economy and groups of people have been impacted by the COVID-19 pandemic.

SECTION 3 We explore how the pandemic has shifted patterns of production, distribution and consumption, and identify major companies who have benefitted from these structural shifts.

SECTION 4 We review the Scottish Government's package of business support during the pandemic, and examine how this aligns with the commitment to 'Fair Work'.

SECTION 5 We discuss the potential long-term implications of these trends for the Scottish economy, and identify some key uncertainties around the shape of the economic recovery.

SECTION 6 We conclude with a series of recommendations for union organising and policymaking.

2

THE ECONOMIC IMPACT OF THE COVID-19 PANDEMIC

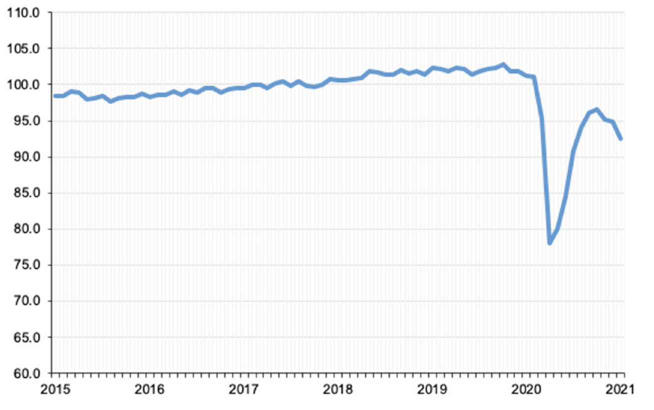
2.1

A SECTORAL OVERVIEW

As well as representing a severe public health crisis, COVID-19 presents a unique economic challenge. Whereas historically recessions have typically resulted from unexpected (and unwelcome) shocks to supply or demand, in response to the spread of the COVID-19 virus governments deliberately implemented a prolonged period of economic demobilisation. Whole sectors of the economy have since been shut down or restricted, while limits on travel and social interactions have been introduced.

The short-term economic impact of these measures has been significant. Scotland's GDP collapsed by nearly 25% percent during the first lockdown in April, although this has recovered somewhat since. In annual terms, Scotland's GDP fell by 9.6% in 2020 compared to 2019 – representing the deepest downturn on record.[1] At the time of writing output remains 8% below the level in February 2020, prior to the direct impacts of the COVID-19 pandemic. Although the public health measures adopted by the Scottish Government have been different to that of the UK Government, the path of Scotland's GDP has been broadly similar to the pattern seen across the UK as a whole.

Figure 1
THE PANDEMIC TRIGGERED THE DEEPEST DOWNTURN ON RECORD
GDP volume measure, Scotland onshore (2017 = 100)



Source: Scottish Government[2]

Unsurprisingly, the impact of the pandemic has varied widely by sector. As shown in Figure 2 and Figure 3, the sectors that have been hardest hit by the pandemic in Scotland are the 'social sectors' – accommodation and food services, and arts culture and recreation – and to a lesser extent construction.

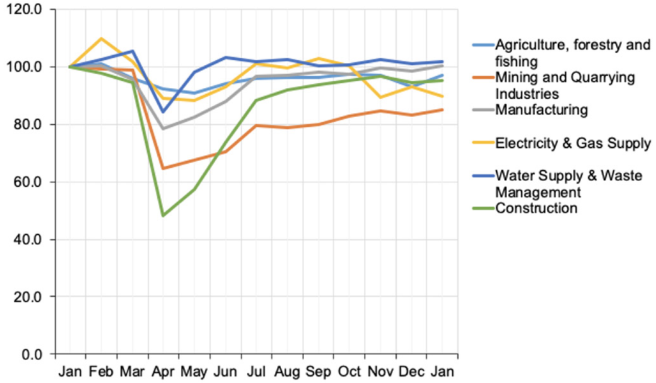
Sectors such as financial services; information and communication; real estate; electricity and gas; water and waste; agriculture, forestry and fishing; and professional, scientific and technical services have to varying degrees proven fairly resilient to the pandemic – although output still remains below pre-pandemic levels. The reasons for this vary: in some cases it is because they are essential services (e.g. utilities and agriculture) while in other cases it is because much of the work can be done from home. In sectors such as financial services and real estate, performance is related to physical and financial assets, which as we will discuss further below have become detached from the performance of the real economy.

Three sectors – manufacturing, transport and storage services, and wholesale and retail – suffered heavily at the start of the pandemic but have since significantly recovered.

Manufacturing is the only sector of the Scottish economy where output has now exceeded pre-pandemic levels, and textile and wearing apparel manufacturing has been the most significant contributor to this.

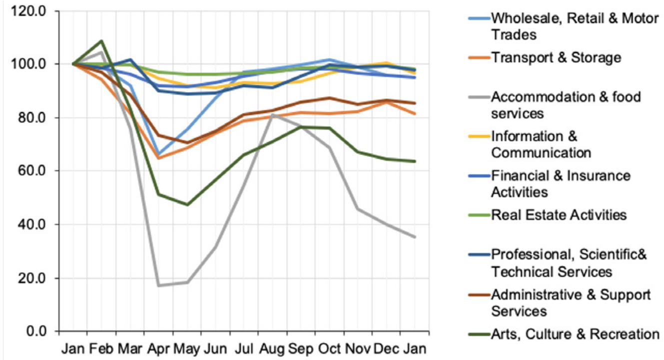
As we discuss further in section 4.2, Scotland's rapid effort to develop domestic PPE supply chains has been a significant factor in this.

Figure 2
THE PANDEMIC TRIGGERED A SHARP FALL IN PRODUCTION
Output by production industry, Scotland (January 2020 = 100)



Source: Scottish Government[3]

Figure 3
SOME SERVICE SECTORS HAVE PROVEN RESILIENT TO THE PANDEMIC
Output by services industry, Scotland (January 2020 = 100)



Note: Public Administration and Defence, Education and Health and Social Work sectors have not been included in this chart because they are predominantly operated by the public sector.

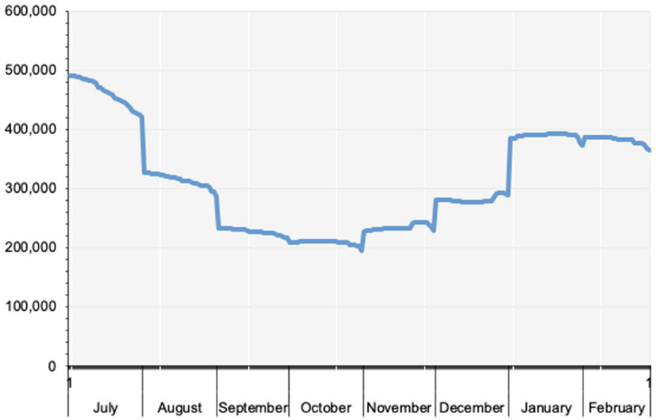
Source: Scottish Government[4]

The crisis has also had a profound impact on Scotland's labour market. The UK government's Job Retention Scheme (JRS), which enables employers to apply for a grant to cover 80% of the wages of furloughed staff up to a maximum of £2,500 a month, has helped keep unemployment down – although it has increased to 4.5% as at February 2021.[5] At the time of writing around 364,100 employees are still furloughed in Scotland.[6]

Figure 4

UNEMPLOYMENT HAS BEEN SUPPRESSED BY THE JOB RETENTION SCHEME

Total employments furloughed, 31 July 2020 to 31 December 2020



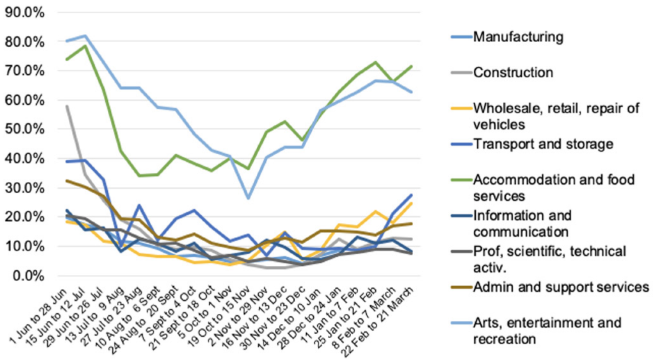
Source: HMRC[7]

As with output, the impact on the labour market has varied widely by sector. Once again it is the 'social sectors' that are most reliant on the furlough scheme: at the time of writing 71% of the workforce in the accommodation and food services sector is on furlough leave, as is 63% of the workforce in the arts, entertainment and recreation sector. In contrast, only around 7-8% of the workforce is on furlough leave in the professional services and ICT sectors.

Figure 5

SOCIAL SECTORS REMAIN THE MOST RELIANT ON THE JOB RETENTION SCHEME

Estimated share of workforce on furlough leave by industry



Note: Public Administration and Defence, Education and Health and Social Work sectors have not been included in this chart because they are predominantly operated by the public sector.

Source: Business Impact of Coronavirus Survey (BICS)[8]

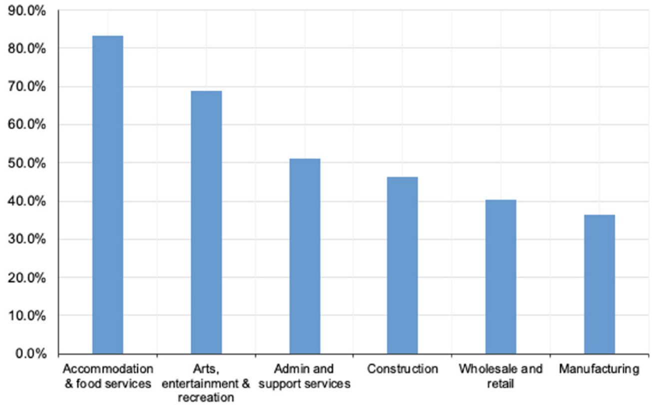
Somewhat paradoxically, the number of company insolvencies in Scotland fell by 36% in 2020 compared to 2019.[9] However, this is primarily due to the financial support provided by the UK and Scottish governments. While this support has helped firms manage cash flow issues, much of it has come in the form of repayable loans provided through the Bounce Back Loan Scheme (BBLS) and Coronavirus Business Interruption Loan Scheme (CBILS). However, loans cannot be a sustainable replacement for revenue, and it has been estimated that more than a third of businesses could struggle to repay government-backed loans, meaning that there is a significant risk that many Scottish businesses could face the prospect of insolvency in the months and years ahead as this support is unwound.[10] If left unaddressed, this could have severe consequences including a sharp increase in unemployment, a major contraction in Scotland's productive capital base, and the destruction of many otherwise viable businesses. Although the UK government has largely de-risked COVID support loans for banks, a sharp rise in insolvencies could have dangerous knock-on effects for the wider banking system as businesses start to default on outstanding pre-COVID loans and other liabilities. In addition, it could also lead to harmful market consolidation in the medium term – whether directly, as distressed small and medium sized businesses are bought out by larger competitors or by various forms of predatory capital, or indirectly, as the surviving players absorb their market share.[11]

Once again, the sectors that say the risk of insolvency has increased the most are the two primary social sectors, as shown in Figure 6.

Figure 6

SOCIAL SECTORS FEEL THEY ARE MOST AT RISK OF INSOLVENCY

Estimated % of businesses who say the pandemic has increased their risk of insolvency, 25 January to 7 February 2021, Scotland



Note: Businesses not permanently stopped trading (i.e. 'Currently Trading' or 'Paused Trading') with 10+ employees and a presence in Scotland

Source: Business Impact of Coronavirus Survey (BICS)[12]

2.2

IMPACT ON SOCIAL INEQUALITIES

As with many crises before it, the impact of COVID-19 has also fallen unevenly along gender, race, and class lines. A detailed analysis of how the pandemic has impacted different social groups is beyond the scope of this paper, but it is important to note that working class communities, women and minority ethnic households, as well as young and disabled people, have been disproportionately impacted.[13]

Age-standardised death rates for COVID-19 have been twice as high for people living in the 20% most-deprived areas compared to the 20% least deprived areas, while deaths amongst people in the South Asian ethnic group in Scotland have been almost twice as likely to involve COVID-19 as deaths in the White ethnic group.

Women, especially single women and those that are lone parents, minority ethnic households and disabled people were all more likely to live in poverty before the pandemic, and have therefore been more vulnerable to financial distress and hardship.[14 15] Adults of minority ethnicities are less likely to be employed than White adults and more likely to work in sectors that have been hardest hit by the pandemic.[16] Research by the Resolution Foundation has found that ethic minority workers face a disproportionate risk of losing jobs after the furlough scheme ends.[17]

Young people have experienced particular challenges: as well as more likely to be employed in sectors that have been hardest hit by the pandemic, they are also less likely to have savings to rely on. Use of the furlough scheme has been greater for those aged 18-24 than any other age group, as have increases in unemployment.[18] The closure of schools and reliance on home learning, meanwhile, has posed particular challenges for children experiencing socio-economic disadvantage and those with disabilities, and experts believe this missed education risks creating a cohort of pupils who carry disadvantage throughout their lives.[19]

Overall it is clear that the pandemic has exacerbated pre-existing social inequalities, therefore it is vital that the economic recovery recognises and seeks to redress these disadvantages.

2.3

LABOUR MARKET DEVELOPMENTS

There is also evidence that some employers have taken advantage of the disruption caused by the pandemic to slash the pay and conditions of workers using so-called “fire-and-rehire” tactics.

A recent poll published by the TUC found that nearly 1 in 10 (9%) workers in Britain have been told to re-apply for their jobs on worse terms and conditions since the first lockdown in March 2020.[20]

Firms that have deployed such tactics include British Gas, Tesco, Network Rail, British Airways and Heathrow Airport, as well as a number of hospitality firms.[21]

Minority ethnic and young workers, as well as those from working class backgrounds, have been disproportionately impacted. Nearly a fifth of (18%) of 18 to 24-year-olds said that their employer has tried to rehire them on inferior terms during the pandemic. 12% of working class people have been been told to reapply for their jobs under worse terms and conditions compared to 7% of those from higher socio-economic groups. Minority ethnic workers have been faced with “fire and rehire” at nearly twice the rate of white workers.[22]

The TUC polling also revealed that nearly a quarter (24%) of workers in Britain have experienced a downgrading of their terms during the crisis – including through reduced pay or changes to their hours. One in three (34%) young workers (18-24 year-olds) said their terms at work have deteriorated since March, while nearly a third (30%) of low-paid workers (those earning up to £15,000) reported the same.

Use of zero hours contracts also increased sharply during the pandemic, rising from 69,000 at the end of 2019 to a peak of 89,000 between April and July 2020, before falling to 72,000 at the end of 2020.[23] These developments come as the UK government is preparing to undertake a post-Brexit review of UK employment law, which many fear will lead to a reduction in workers’ rights.[24]

3

SHIFTING PATTERNS OF PRODUCTION, DISTRIBUTION AND CONSUMPTION

While the above analysis provides insights into how the pandemic has impacted broadly defined sectors and groups, it does not provide a full picture of how the pandemic has altered flows of income and expenditure throughout the economy, and therefore does not identify the pandemic's major winners and losers.

In this section, we identify the key ways that the COVID-19 pandemic has disrupted patterns of production, distribution and consumption throughout the economy, and where possible we identify the main companies that have benefitted from these changes.

There are different ways of thinking about 'winners' during the pandemic, and where possible we have tried to disaggregate these. First, there are companies who have actively benefitted from the pandemic, i.e. have performed better in absolute terms than they would have done in a world with no COVID-19. Examples might include tech firms who have benefitted from the rise of home working, or supermarkets that have experienced a surge in demand. Second, there are companies who have been relatively well-shielded from the impacts of the pandemic, i.e. they have performed better than other companies in the economy because their business has suffered less. This could either be because their activities are less impacted by lockdowns, or because government policy has actively protected their business models (e.g. financial and real estate firms who have benefitted from policies designed to prop up asset prices).

In other words, the first group of winners are doing better relative to their own performance before the pandemic, while the second group of winners are doing better relative to other companies during the pandemic. It is important to note that this distinction does not by itself tell us which companies are doing best overall in absolute terms – whether defined in terms of their profit margins or total profits. Media narratives have often focussed on the first group, because they are the most visible – but our analysis finds that some of the biggest absolute profits are being made in the second group. For instance, as our analysis shows, some of the most profitable firms in the Scottish economy are investment funds. Because asset prices have not suffered the same sustained damage as the 'real economy', these firms have continued to do much better in absolute terms than many of the firms regularly highlighted as 'pandemic profiteers', such as supermarkets or online delivery firms.

In order to inform our analysis we have gathered data on the financial performance of companies using Wharton Research Data Services, with reference to company annual reports.[25] We assess the profitability of companies in both absolute and relative terms using the following two metrics:

- **Net profit (also referred to as 'net income')**
  Defined as the total £m profit generated from company revenue after accounting for all expenses.
- **Net profit margin**
  Defined as the ratio of net profit to total revenue.

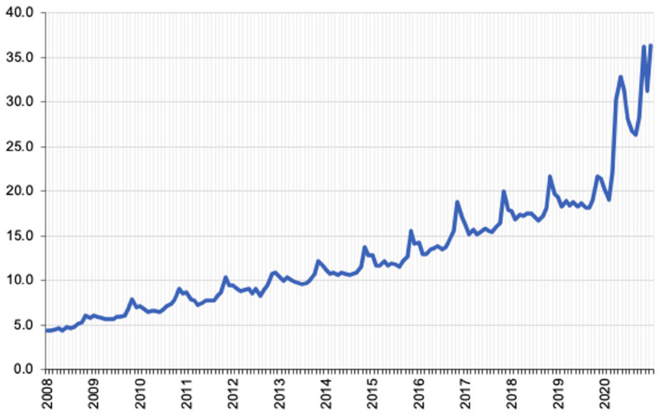
Smaller private companies typically only report basic balance sheet information at Companies House but are not legally obliged to file profit and loss accounts, which makes it difficult to analyse their profitability and cash flows. As a result, our analysis is limited to companies that are publicly listed. Although our analysis covers companies with activities across the UK, we have endeavored to highlight examples of companies that have a material presence in Scotland, defined as employing permanent staff in Scotland.

3.1

THE SHIFT TO ONLINE RETAIL

One of the most dramatic changes triggered by the pandemic has been the surge in online retail sales. The proportion of retail sales that were made online increased to a record level of 35.2% in January 2021 – up from 19.5% in January 2020.[26]

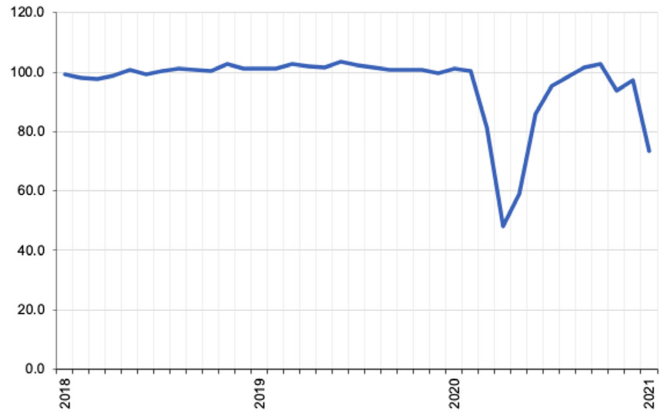
Figure 7
THE SHARE OF ONLINE RETAIL SALES HAS SURGED
Internet sales as a percentage of total sales (ratio), Great Britain



Source: ONS[27]

Unsurprisingly, much of this has come at the expense of spending in high street retail stores. Non-food stores have been the worst affected by the pandemic restrictions: sales declined rapidly in March and April 2020, with consecutive monthly falls of 19.0% and 41.0%. However, sales then bounced back over the next six consecutive months, and returned to the levels observed before the pandemic in September 2020. With the reintroduction of restrictions across the UK in November 2020 sales fell by 8.8% before recovering slightly again in December 2020. January 2021 has seen a steep decline of 24.4% as nationwide restrictions on non-essential retail were reintroduced. Partly as a result of the pandemic, 2020 saw a number of major high street retailers enter administration, including Debenhams, Arcadia Group, Monsoon, and the Edinburgh Woollen Mill.[28]

Figure 8
SALES IN NON-FOOD STORES HAVE FALLEN SIGNIFICANTLY
Non-food store volume sales, Great Britain (Index, 2018 = 100)



Source: ONS[29]

Among the largest beneficiaries of this shift have been large, internationally owned online retailers such as Amazon. In 2020 Amazon's global sales reached $386bn, up from $280bn a year earlier, thanks to surging sales during the pandemic. In the UK sales rose 51% to almost £20 billion, however experts believe it is unlikely that this will lead to any sizeable increase in profits reported – and corporation tax paid – in the UK because "a good proportion of Amazon's UK sales will be booked in Luxembourg, where they engineered a near €1bn (£880m) loss last year".[30] Amazon is currently recruiting 10,000 extra UK staff to cope with growing demand, which means Amazon's UK workforce will rise from 30,000 to 40,000 this year, with a significant proportion based in Scotland.[31]

However, the company has been widely criticised for its use of zero hours contracts and exploitative employment practices.[32] As a result, to the extent that Amazon's growth will create new jobs in Scotland, there is a significant risk that these jobs will be low paid and insecure.

Two UK-based companies that have significantly benefitted from the decline in high street spending are the online fashion retailers ASOS, which saw profits soar from £25 million in 2019 to £113m in 2020, and Boohoo, which saw profits increase from £47.5 million to £72.8 million.[33] Anders Povlsen, the largest shareholder of ASOS, owns 220,000 acres of land across 12 estates in Scotland, and was named as Scotland's wealthiest person in 2020.[34]

Neither ASOS or Boohoo has offices or staff in Scotland however, therefore it is likely that the shift in spending from local high streets to these online retailers will serve to displace employment in Scotland if sustained after the pandemic.

As with Amazon, both companies have also been criticised for exploitative working conditions, therefore again there is a risk that any new jobs these firms create in Scotland will be low paid and insecure.[35]

The e-commerce conglomerate The Hut Group, whose brands include Lookfantastic, MyProtein, Skinstore and subscription box service Glossybox, floated on the London Stock Exchange in September 2020. Although the company has not reported full financial results yet, it recently upgraded its profit forecasts after strong sales at its beauty and sports nutrition brands during the pandemic.[36]

One Scottish company to benefit from these trends is fashion retailer Atterley.com, which was founded by tyre entrepreneur Mike Welch in 2016. The company reported a 200% year-on-year rise in sales for the first quarter of 2021, citing the COVID-19 pandemic as a major reason, and recently secured £3 million of funding from private equity firm Mavin Capital Partners.[37]

Table 1
ONLINE FASHION RETAILERS ASOS AND BOOHOO HAVE SEEN PROFITS SOAR

	2020 net profit (£m)	2020 profit margin (%)	2019 net profit (£m)	2019 profit margin (%)
ASOS	113.3	3%	24.6	1%
Boohoo	72.8	6%	47.5	6%

Source: ASOS,[38] Boohoo[39]

Unlike most non-food retailers, food retailers have been allowed to stay open throughout the pandemic. As a result, the major UK supermarkets saw sales spike in 2020 as demand for food in cafes and restaurants was redirected to food retailers. Overall profit margins in the sector have remained relatively thin, however, as all major supermarkets also reported substantial new costs associated with the pandemic, such as the need to provide protective equipment for workers and cover for those off sick or shielding during the pandemic.

Sainsbury's was the only major high street supermarket to report a loss in the first half of 2020, however this primarily reflects £438 million of one-off costs relating to the company's decision to close down 120 Argos stores, which the company purchased in 2016.[40] The decision to permanently close these Argos stores is predicted to result in around 3,500 job losses across the UK.[41]

All the major supermarkets decided to voluntarily return the COVID business rates relief, which amounted to more than £1.8 billion, in recognition of the fact that they had been allowed to stay open throughout the pandemic.[42]

Table 2
SUPERMARKETS HAVE PROVEN RESILIENT TO THE PANDEMIC

	2020 net profit before tax (£m)	2020 margin (%)	2019 net profit (£m)	2019 margin (%)
Tesco	551	2%	428	2%
Morrisons	348	1%	244	1%
Sainsburys	-137	N/A	9	0%

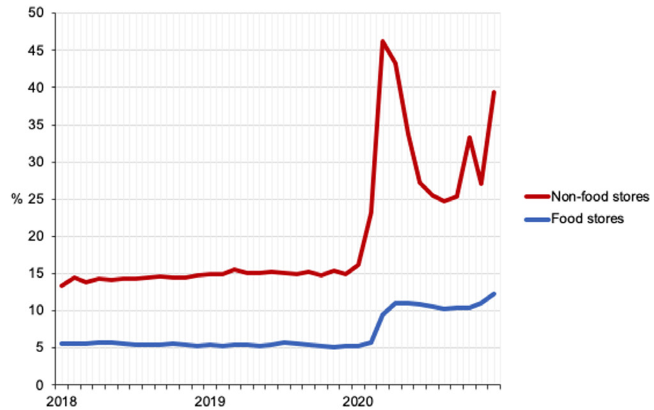
Note: Data is for 26 weeks ended 29 August 2020. Data is unavailable for Asda, which is now owned privately by EG Group and TDR Capital

Source: Tesco,[43] Morrisons, Sainsburys[44]

Supermarkets and other food retailers have also seen online sales surge during the pandemic: between January 2020 and January 2021 online sales more than doubled – increasing from 5.2% of all sales to 12.2%. The retail division of the online-only grocer Ocado saw revenue increase by 35% in 2020, and the company has announced plans to open three new warehouses in 2021.[45] However, this growth was offset by substantial losses made in other divisions of the company which are focused on developing software and robotics systems for retailers, and as a result the company reported an overall loss of £70m in 2020.[46]

There is some preliminary evidence that the move towards online food retail could have a negative long-term impact on employment in Scotland. Both Asda and Sainsbury's have recently announced plans to restructure their businesses in response to the rise in online retail, resulting in more than 4,000 job losses across the UK.[47] Whether or not these losses will be offset by new jobs in logistics and distribution remains to be seen.

Figure 9
ONLINE SALES HAVE HAVE SURGED IN FOOD AS WELL AS NON-FOOD RETAIL
Internet sales as a percentage of total sales (ratio), Great Britain



Source: ONS[48]

3.2

THE SHIFT FROM SOCIAL ACTIVITIES TO 'AT HOME' GOODS AND SERVICES

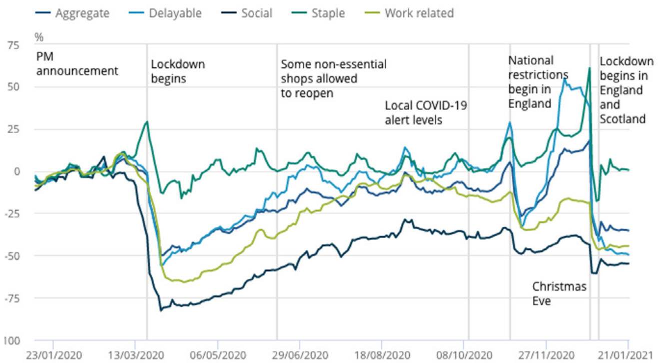
In normal times 'social spending' – spending in bars, cafes, restaurants, theatries, cultural events etc – accounts for around 15% of household spending on average. However, this varies across the income distribution: the highest income households spend around 20% of their income on social activities, whereas the lowest income households spend around 10%.[49]

Many of these activities have been prohibited or severely restricted during the pandemic, which has significantly disrupted the flow of income and expenditure through the economy. One way to analyse this is using the Office for National Statistics (ONS) data on daily Clearing House Automated Payment System (CHAPS), which monitors payments made by credit and debit cards in 100 major UK retail corporates (both via physical and via online platforms). The ONS allocates companies to one of four categories based on their primary business:

- **"Staples"**
  Which refers to companies that sell essential goods that households need to purchase, such as food and utilities
- **"Work-related"**
  Which refers to companies providing public transport or selling petrol
- **"Delayable"**
  Which refers to companies selling goods whose purchase could be delayed, such as clothing or furnishings
- **"Social"**
  Which refers to spending on things like travel and eating out

As shown in Figure 10, spending on social activities collapsed by over 75% when the first lockdown was introduced in March 2020. Although it has recovered, it still remains more than 50% lower than it was before the pandemic began in February 2020.

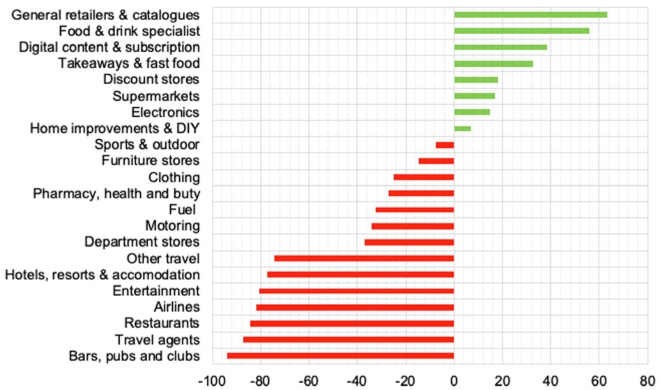
Figure 10
SPENDING ON SOCIAL ACTIVITIES HAS COLLAPSED
UK spending on debit and credit cards, index
(February 2020 = 100)



Source: Office for National Statistics and Bank of England calculations[50]

While much of this foregone spending has been accumulating as household savings (as will be discussed further below), some of it has been redirected towards goods and services that can be consumed at home. Figure 11 shows the change in spending in selected categories between January 2020 and January 2021 using data from Barclays debit and credit card transactions across the UK. It shows that the decline in spending on social activities has been accompanied by a significant increase in spending on 'at home' activities such as takeaways and specialist food and drink services, digital content subscriptions and home improvements.

Figure 11
DISCRETIONARY SPENDING HAS SHIFTED TO 'AT HOME' GOODS AND SERVICES
Annual change in spending in selected categories (%), Jan 2020 - Jan 2021 (UK)



Source: Barclays[48]

According to a recent survey from YouGov and Barclays, UK consumers have received an average of two extra deliveries per month since March 2020 (seven parcels now vs five before March 2020); one in three people say they have used 'Click and Collect' more frequently since the start of the pandemic; and one in ten people tried a DIY meal kit for the first time during lockdown.[52]

While once again Amazon is among the biggest winners of this shift, other winners include the discount retailer B&M; the owner of DIY retailer B&Q, Kingfisher plc; and Dominos Pizza – all of which have a significant presence in Scotland. Although it has not reported full 2020 financial results yet, the cycling and motoring retailer Halfords says it expects 2020 profits to be almost double that of 2019, following stronger than expected sales.[53]

Table 3
COMPANIES PROVIDING 'AT HOME' GOODS AND SERVICES HAVE PROSPERED

	2020 net profit (£m)	2020 margin (%)	2019 net profit (£m)	2019 margin (%)
B&M	187	7%	84	6%
Dominos	84.3	17%	81.1	16%
Kingfisher	592	5%	8	0%

Note: Data for B&M represents six months trading to 26 September 2020
Source: B&M,[54] Dominos,[55] Kingfisher plc[56]

Some commentators have cited food delivery companies like Deliveroo and Just Eat as so-called 'pandemic profiteers'. However, while both companies have seen revenues surge during the pandemic, both remain loss making.[57] As with other 'gig economy' platforms such as Uber, these companies continue to make a loss on each delivery, therefore the long-term viability of the business model remains uncertain. Instead, the strategic objective of these platform-based companies is to grow their market share at the expense of competitors to establish a dominant monopoly position and boost their share price, even at the expense of short-term profitability.[58]

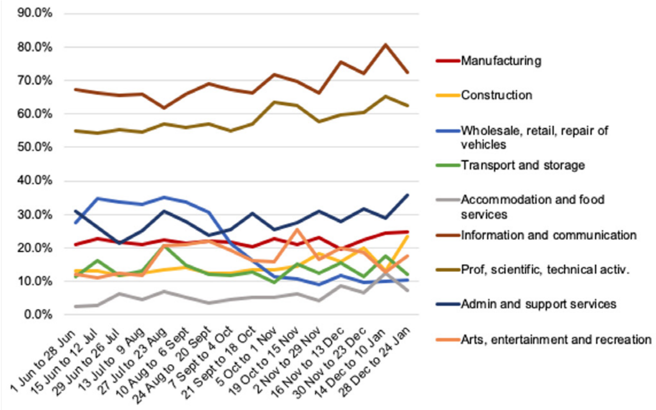
3.3

THE RISE OF HOME WORKING AND DECLINE IN TRAVEL

Even before the COVID-19 pandemic, the number and proportion of people who worked mainly at home had been gradually increasing over time, although it was still confined to a relatively small proportion of the total workforce. For the 12-month period from January to December 2019, around 4% of Scotland's workforce reported working mainly from home, with around 8.3% working from home at some point in the week before and 19.6% working from home at least once throughout the year. Workers in Scotland were the least likely to work from home at some point during the week of all the nations and regions of Great Britain, whereas workers in London and the South East were most likely.[59]

Since the COVID-19 pandemic began however, the number of people working from home has surged as lockdowns and social distancing restrictions have prevented people from commuting and working in formal work environments.[60] At the time of writing, it is estimated that 25% of the workforce in Scotland are currently working remotely instead of at their normal place of work.[61] Not all jobs can be performed at home, however, and as a result the picture varies widely by sector. More than 70% of the workforce in the information and communication sector is currently estimated to be working from home, as is more than 60% of the professional, scientific and technical services sector. In contrast, the figure is only 7% in the accommodation and food services sector and 14% in the wholesale and retail sector.[62]

Figure 12
MORE THAN A QUARTER OF THE WORKFORCE IS STILL WORKING FROM HOME
Estimated share of workforce working remotely by industry, Scotland

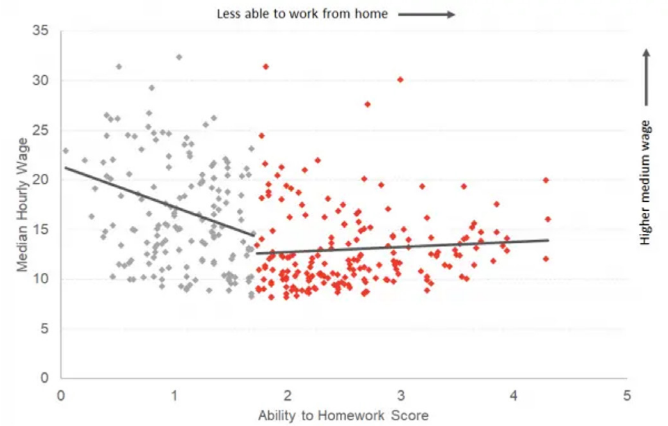


Note: Businesses not permanently stopped trading (i.e. 'Currently Trading' or 'Paused Trading') with 10+ employees and a presence in Scotland

Source: Business Impact of Coronavirus Survey (BICS)[63]

Evidence indicates that the jobs that can be more easily done at home are also better paid on average than those that cannot. Figure 13 compares the median wages of 365 occupation groups in the UK to their scored ability to work from home. This indicator, which was built by the ONS, considers five factors that are associated with being less able to work at home. For each occupation, the higher the score, the less likely it is that it can be carried out from home. The occupations with an above average ability to work from home (so a lower score) are shown in grey while those with a below average ability to work from home (so a higher score) are in red.

Figure 13
JOBS THAT CAN BE MORE EASILY DONE AT HOME ARE TYPICALLY BETTER PAID
Ability to homework score and median wage by occupation classification, UK



Source: Fraser of Allander Institute[64]

Wages in Professional, Associate Professionals and Technical occupations, which have had the highest share of employees working from home during the pandemic, are 1.5 times higher than the Scottish median.[65] In contrast, wages in Sales and Retail occupations, which have been among the most affected by the pandemic, are one third lower than the Scottish median.

The pandemic has therefore served to reinforce income inequalities, as those on higher incomes are more likely to have maintained their incomes working from home, while those on lower incomes are more likely to have been furloughed or laid off.

As noted in section 2, young people, women and minority ethnicities are more likely to work in sectors that have been hardest hit by the pandemic and be low paid, and as a result have been disproportionately impacted by these trends.[66]

The shift towards homeworking has also ushered in a new acceptance of virtual meetings and other aspects of online work, which has also created winners and losers. Globally the big winners of this shift have been the US “FAMAG” tech companies, Facebook, Amazon, Microsoft, Apple and Google, which according to Oxfam were on track to increase their profits by over $12 billion in 2020 – as well as newer US tech firms such as Zoom Video Communications.[67] With the exception of Amazon, none of these global tech winners have a significant presence in Scotland, therefore the growth of these firms provides little direct benefit to Scotland’s economy in terms of output and employment.

However, some UK-based IT solutions companies have benefitted from the rise in home working, which has forced businesses to invest in improving their digital functionality. IT infrastructure provider SoftCat, which has a major presence in Glasgow, and software provider Sage Group have both experienced a surge in demand from businesses seeking to improve their digital functionality.

Table 4
UK-BASED IT SOLUTIONS FIRMS HAVE BENEFITTED FROM GROWING DEMAND

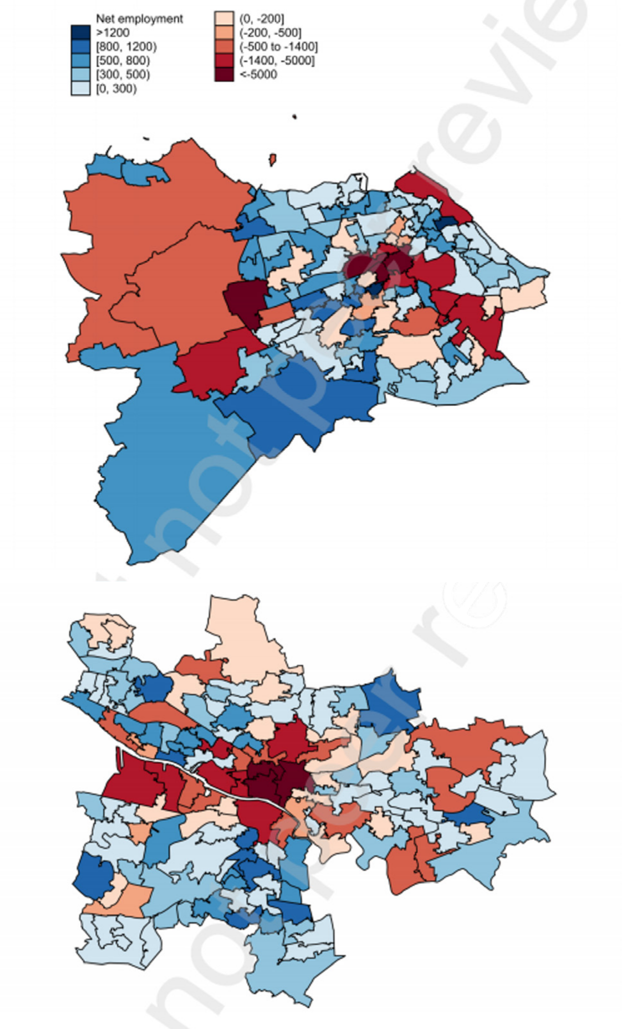
	2020 net profit (£m)	2020 margin (%)	2019 net profit (£m)	2019 margin (%)
Sage UK	310	16%	266	14%
SoftCat	76	7%	68	7%

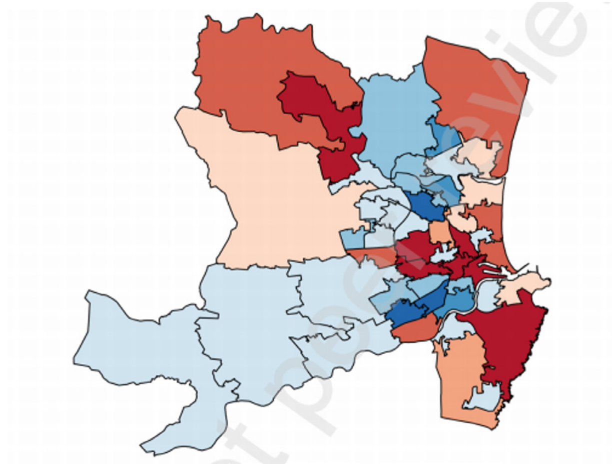
Source: Sage UK,[68] SoftCat[69]

The shift towards home working has also had an important impact on the physical geography of economic activity. As more people have worked online from home, less money has been spent in city centres on expenditure such as travel, food and drink, as well as associated services such as gyms, hairdressers and dry cleaners.[70] While some of this money has been saved (as we discuss further below), there is evidence that some spending has been redirected towards smaller towns and residential suburbs. According to a recent survey by YouGov and Barclays, 64% of people have chosen to shop closer to home to support the local community during the pandemic, and shoppers spent an extra 63.3% in February at local food and drink specialist stores such as butchers, bakeries and greengrocers compared with the same month last year.[71] As a result, it is likely that economic activity has become less geographically concentrated in city centres and spread more evenly across residential neighbourhoods, with some local businesses benefitting from this.

One recent study described the rise in home working and associated geographic rebalancing as 'Zoomshock'.[72] The authors of the study attempted to quantify the impact of this shift by calculating the difference between the inflow of employment (defined a people who live in a given neighbourhood and normally work elsewhere but are now working at home), and the outflow of employment (defined as people who normally work in that neighbourhood but live elsewhere and are now working from home), for neighbourhoods across the UK.[73] The results for Glasgow, Edinburgh and Aberdeen are shown in Figure 14 below.

Figure 14
ECONOMIC ACTIVITY HAS SHIFTED FROM CITY CENTRES TO RESIDENTIAL SUBURBS
Estimated net change in employment, Edinburgh, Glasgow, Aberdeen



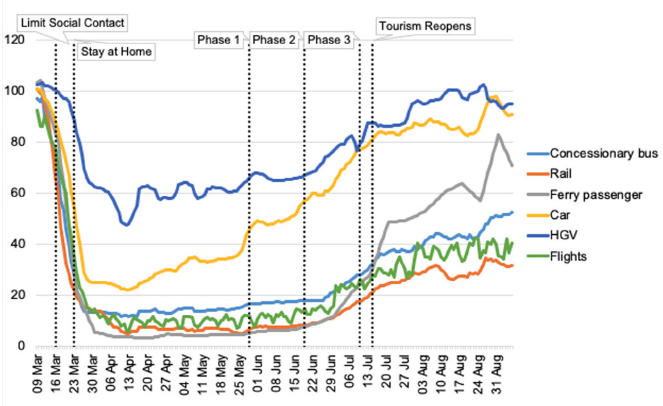


Source: Matheson/De Fraja/Rockey[74]

The results indicate that working from home has shifted economic activity away from Scottish city centres into residential suburbs, with central Glasgow and Edinburgh being particularly heavily affected. While businesses providing local services in these locations will have seen demand fall (shown in dark red in the diagrams above), it is likely that many businesses in locations where many commuters live (shown in dark blue in the above diagrams) will have experienced an increase in demand.

One final impact of the rise in home working, and social distancing restrictions in general, has been a sharp reduction in domestic and international travel. Figure 15 shows travel trends across all main modes of transport in Scotland (concessionary bus, rail, road, ferry and aviation) between 9 March and 6 September 2020.

Figure 15
TRAVEL HAS FALLEN SHARPLY DURING THE PANDEMIC
Seven day average trends by mode of transport (equivalent weekly average in 2019 = 100)



Source: Transport Scotland[75]

Among the companies that have been hardest hit from the travel standstill are airports and airlines. Edinburgh Airport recorded its lowest passenger numbers in 2020 since 1995, dropping from 15 million passengers in 2019 to less than 3.5 million in 2020.[76] Glasgow Airport recently warned that material uncertainties "may cast significant doubt" over its ability to continue as a going concern.[77] Major airlines such as easyJet, Ryanair, and British Airways owner IAG all reported substantial losses in 2020.[78]

The sharp reduction in global travel has also posed significant challenges for the oil and gas sector. At its peak the pandemic wiped out almost a third of global oil demand, largely due to lockdowns and travel bans, which caused oil prices to plummet.[79] As a consequence, oil and gas companies scaled back their capital expenditure and operational budgets, and posted significant losses in 2020.[80] Despite the introduction of job support schemes in the UK and around the world, the trade body Oil & Gas UK estimates that, in the next 12 to 18 months, a further 30,000 jobs could be lost, many of which are likely to be in Scotland.[81]

These additional challenges for the aviation and fossil fuel sectors come at a time when their future was already coming under intense scrutiny as part of the UK and Scottish Government's climate commitments. We return to the question of how policymakers can respond to these challenges in section 5.

3.4

THE BUILDUP OF HOUSEHOLD SAVINGS

The pandemic has also had a polarising impact on household balance sheets, which in addition to exacerbating already high levels of inequality could also have a significant impact on the shape of the economic recovery.

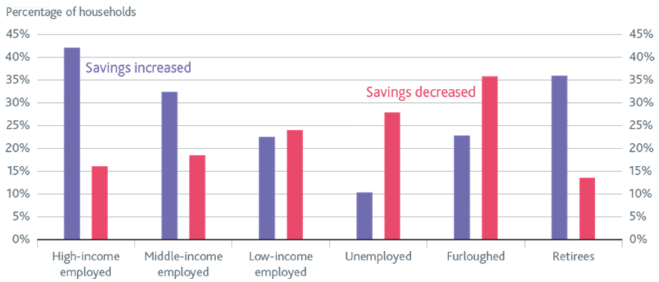
One of the most economic significant shifts over the past twelve months has been the dramatic increase in levels of household saving. The Scottish Government estimates that the household savings ratio[82] increased to 30.1% in Q2 of 2020 – up strongly from an average of 9.8% in 2019 – before falling slightly to 19.2% in Q3 of 2020. This represents the highest savings ratio and the largest quarterly movements in the series since estimates began in 1998. This increase in saving has resulted in significant sums of money accumulating in bank accounts: the Office for Budget Responsibility (OBR) estimates that by the middle of 2021, households across the UK will have accumulated an additional £180 billion of bank deposits since the pandemic began.[83] Adjusting this on a pro-rata population basis, it is reasonable to assume that up to £14.5 billion of additional deposits have been accumulated in Scotland. Were this all to be spent over the next four quarters, the OBR estimates it would add around 6% to consumption in 2021 and 2022.

However, evidence from the Bank of England, Institute for Fiscal Studies and Resolution Foundation indicates that the accumulation of savings has been concentrated among "wealthier and less financially distressed households" – particularly high and middle income households and retirees.[84 85 86] Part of the reason for this is that these households are more likely to have maintained their incomes during the pandemic, as discussed in the previous section. However, the impact of the pandemic on household budgets is determined not only by how much income they have, but how much money they have left after their essential expenses have been paid. As the Institute for Fiscal Studies recently noted:[87]

> **"If a household typically spends much of its budget on essential or inflexible items, it has less scope to adjust to a lower income by reducing spending without incurring relatively severe hardship. Hence it is relatively likely to run down savings, miss bill payments or go into debt. At the other extreme, if a large fraction of a household's budget goes on the kind of social and recreational activities that are now prohibited, or on commuting, which is now unnecessary for many workers, it may require little – or even no – further adjustment to cope with a fall in income."**

Unsurprisingly, lower income households spend proportionately more on 'essential' goods, while higher income households spend proportionately more on the kind of social and recreational activities that are now prohibited or restricted. As a result, many higher income households have seen their expenditure fall dramatically, and have been able to accumulate significant cash savings.

Figure 16
HIGHER-INCOME HOUSEHOLDS AND RETIREES ARE MORE LIKELY TO HAVE INCREASED THEIR SAVINGS DURING COVID



Note: High-income employed households are households where the main earner is either employed or self-employed and the household income is in the top quintile; middle-income employed households are households where the main earner is either employed or self-employed and the household income is in the third or fourth quintile, and low-income employed households are households where the main earner is either employed or self-employed and the household income is in one of the bottom two quintiles. Retirees are households where the main earner is retired.
Source: Bank of England[88]

At the same time however, many households are facing increased economic hardship. Polling conducted by YouGov on behalf of the Joseph Rowntree Foundation found that as of February 2021, 28% of people in-work in Scotland before the pandemic had either been furloughed (12%), lost their job (6%), had their working hours reduced (5%) or lost self-employment income (5%).[89] Overall, 30% of all adults in Scotland, including those not in work before the pandemic, said their household income had fallen since March 2020. Evidence indicates that lower income households are more likely to have experienced a fall in income, and are also more likely to have seen their expenditure increase rather than decrease.[90] Given that women, disabled people and those of many minority ethnicities are more likely to be low earners, the cost of the pandemic has been disproportionately borne by these groups.[91]

Partly as a result of this, the number of people relying on Universal Credit in Scotland has nearly doubled during the pandemic, rising from 260,000 people in February 2020 to 490,000 in 2021.[92]

The impact on employment and incomes has meant that many households have struggled to meet their living costs.

This is particularly true for private renters, who typically face the highest housing costs.

As of February 2021, 42% of private renters said that they were more worried now about paying their rent than they were before the pandemic, compared to 26% of mortgage holders.

Private renters were also more likely to turn to borrowing to cover income shortfalls: over one fifth (23%) of private renters who had seen their income fall since March 2020 had borrowed more from family or friends, and 18% had borrowed more from sources such as banks, credit cards and overdrafts to deal with the loss in income.[93] We discuss how these dynamics might impact the shape of the economic recovery further in section 5.

3.5

RISING ASSET PRICES

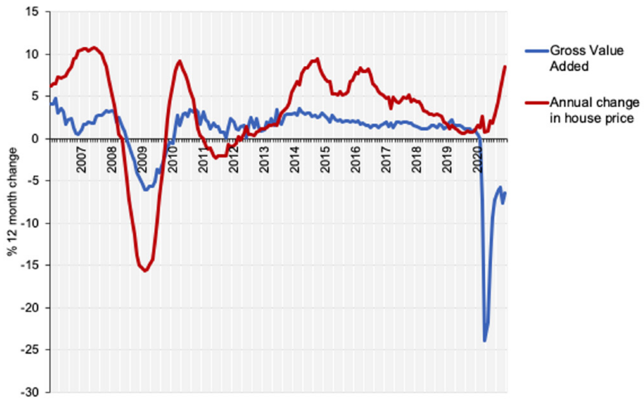
One of the defining features of British capitalism over the past four decades has been the decoupling of asset prices, and the value of physical and financial wealth, from the 'real' productive economy. This has perhaps been most visible in the housing market. As shown in Figure 17, historically UK house prices have typically followed swings in the wider economy, albeit in a more volatile manner – rising far faster than GDP growth during economic booms and falling faster than GDP growth during economic downturns. A similar pattern has been observed in Scotland: since 1999, average houses prices in Scotland have more than trebled from £49,924 to £152,469, far outstripping growth in GDP and in average wages.[94]

During the pandemic this decoupling has become more pronounced: while the real economy has contracted, house prices have surged. In Scotland house prices increased by 9% in the twelve months to January 2021, despite the significant fall in GDP and the fact that the housing market was closed during the first lockdown. This differed from the 2008 and 2009 economic downturn associated with the global financial crisis, where GDP and house prices both fell year on year.

Figure 17

AVERAGE HOUSE PRICES HAVE SOARED WHILE THE ECONOMY SHRANK

Annual house price rates of change for all dwellings and annual change in GDP (%), UK, January 2006 to December 2020



Note: House price data are not seasonally adjusted. This chart uses the output measure of GDP, shown through Gross Value Added (GVA).

Source: HM Land Registry, Registers of Scotland, Land and Property Services Northern Ireland, Office for National Statistics[95]

Multiple reasons have been cited for this house price surge. One is the backlog of purchases that were suppressed during the first lockdown, which created significant 'pent up' demand. This meant that there was an unusual spike in demand when the market reopened in the second half of 2020. Another reason is the accumulation of cash savings discussed in the previous section, which has meant that more households have attained the financial means to move house. The pandemic has also led many households to re-evaluate their priorities when it comes to where they live, which some analysts have dubbed 'the race for space'.[96] Across the UK, the average price of detached properties increased by 10% in the year to December 2020, compared with a 5% rise for flats and maisonettes – reflecting growing demand for properties with gardens and outside space.[97]

Government support schemes have also played a role propping up house prices. In England and Northern Ireland Stamp Duty was suspended on the first £500,000 of all property sales; in Wales the threshold for paying the Land Transaction Tax was raised from £180,000 to £250,000; and in Scotland the threshold for starting to pay the Land and Buildings Transaction Tax (LBTT) was raised from £145,000 to £250,000. While the UK and Welsh governments have decided to extend these tax holidays for additional three months until June 2021, the Scottish Government did not extend the LBTT discount, which ended on 1 April 2021.[98] Most recently, the UK government introduced a new 'mortgage guarantee scheme' to subsidise mortgages on home purchases valued up to £600,000, which many experts believe will likely push up house prices further.

Broader economic support measures have also helped the housing market: the UK government's furlough scheme has helped limit job losses and potential mortgage defaults, while mortgage payment holidays and a ban on repossessions have assisted homeowners in managing their mortgage repayments.

Existing homeowners have been the most immediate winners from this buoyant housing market, however it has also meant that major housing developers and estate agents were also able to post substantial profits in 2020 (albeit lower than in 2019, reflecting the fact that they were unable to trade during the first lockdown).

Table 5
HOUSING DEVELOPERS AND ESTATE AGENTS HAVE PROVEN RESILIENT TO THE PANDEMIC

	2020 net profit (£m)	2020 margin (%)	2019 net profit (£m)	2019 margin (%)
Persimmon	638	19%	849	23%
Barratt	400	12%	740	16%
Taylor Wimpey	217	8%	674	16%
Rightmove	110	53%	173	60%
Savills	68	4%	83	4%

Source: Persimmon,[99] Barratt,[100] Taylor Wimpey,[101] Rightmove,[102] Savills,[103]

As noted in the previous section, many tenants in the private and social rented sector have struggled to keep up rent payments and have therefore fallen into arrears. Between March 2020 and January 2021, rent arrears in the social rented sector increased by 13% to £165 million. While accurate data on rent arrears in private rented housing in Scotland is not available, numerous surveys have found that arrears have increased sharply.[104 105] Who will bear the ultimate cost of these rent arrears remains to be seen. While the present legal position is that unpaid arrears remain liabilities of tenants, even if they get evicted, many housing experts and campaigners have called on the UK and Scottish Government to intervene to wholly or partially write-off COVID related arrears in order to avoid a surge in evictions and a renewed homelessness crisis. We return to this issue in section 5.

While house prices have continued to rise, rents in some city centre locations have fallen since the pandemic began. Average rents in Edinburgh city centre declined by 5% in 2020, the largest decrease in the UK after London.[106] Reasons cited for this include the rise of home working and desire for more space among those who previously lived and worked in city centres, and a sharp decline in demand for short-stay Airbnb lets resulting from the collapse in tourism, which has dramatically increased the number of vacant properties on the market. Whether these shifts will be sustained, and whether they could cause broader disruption to the housing market, remains to be seen.

The picture surrounding commercial real estate is perhaps more uncertain. In recent decades investment in city centre retail and office space has soared as domestic and international investors have sought to capitalise on rising rents and property values, and governments and local authorities have promoted city centre-led models of development as a key driver of economic growth. However, the trends described so far in this paper – in particular the rise in remote working and online retail – have pushed many of these trends into reverse.

Investment in Scottish commercial property sharply declined by around 40% in 2020, and according to the management consultancy McKinsey, office vacancy rates increased by 45% in Edinburgh in 2020 – more than the 32% witnessed in London.[107 108]

While some landlords have provided struggling tenants with rent relief, it is estimated that pandemic-related rent arrears for the UK commercial property sector could reach £7 billion by the end of June 2021, most of which has been built up in the retail and hospitality sectors.[109]

Partly reflecting this uncertainty, major commercial real estate firms that have historically invested heavily in city centre office and retail space, such as British Land and Land Securities, posted significant losses in 2020. Because the balance sheets of these companies are heavily influenced by property valuations, any future declines in the value of city centre real estate could pose significant challenges to these firms. A key uncertainty remains as to whether a fall in city centre occupancy rates (and potentially commercial property values) will be sustained after the pandemic, or whether city-centre development models bounce back one the pandemic subsides. We return to this question in section 5.

Not all commercial real estate markets have been negatively impacted by the pandemic, however. A recent market survey by RICS noted "a widening disparity between industrial sector performance and struggling office and retail markets", with rents and capital values widely expected to rise in the former sectors and fall in the latter sectors.[110] As a result, some commercial real estate firms have prospered during the pandemic. Tritax Big Box real estate investment trust, which owns and manages prime logistics and distribution real estate in the UK, and Segro plc, which invests in "edge of town flexible business space", have been among the pandemic's largest winners – reporting profit margins above 80% in 2020. This suggests that the commercial real estate sector could be facing significant disruption, as major players that have invested heavily in city centres suffer while those well placed to capitalise on COVID related trends prosper.

Table 6
THE FORTUNES OF COMMERCIAL REAL ESTATE FIRMS HAVE VARIED WIDELY

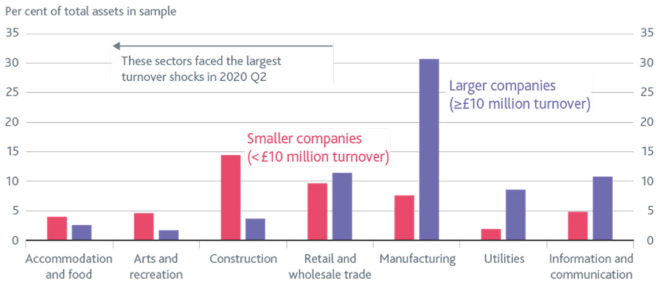
	2020 net profit (£m)	2020 margin (%)	2019 net profit (£m)	2019 margin (%)
British Land	-730	N/A	-404	N/A
Land Securities	-835	N/A	-147	N/A
Tritax Big Box	449	86%	141	68%
Sergo plc	1,427	85%	858	74%

Source: British Land,[111] Land Securities[110]

Stock markets have also surged during the pandemic, although this is not universal. The UK's FTSE100 had the worst year since the height of the financial crisis, largely reflecting the index's weighting towards sectors that have been hit hard by the pandemic (such as oil companies, banks, retailers, airlines and travel companies). The UK's lack of major tech companies (which have been responsible for boosting stock markets elsewhere during the pandemic) and wider uncertainties around Brexit and the UK's economic future have also played a role.[113, 114] Elsewhere however, stock markets have reached new highs: in the US the Nasdaq and S&P 500 surged by 42% and 15% in 2020, whereas in Japan the Nikkei increased by 18%.

One reason for this is that the COVID crisis has disproportionately affected small businesses, whereas large corporations have proven more resilient. As shown in Figure 18, smaller companies are more likely than larger companies to operate in sectors that have been most affected by the shock, such as accommodation and food, arts and recreation, and construction.[115]

Figure 18
SMALLER COMPANIES ARE MORE LIKELY TO OPERATE IN SECTORS VULNERABLE TO COVID-19



Source: Bank of England[116]

Another reason stock markets have surged is the unprecedented level of support provided by central banks around the world, including an additional $8 trillion of Quantitative Easing (QE).[117] One of the main channels through which QE stimulates the economy is by boosting financial asset prices, and studies have found that the rounds of QE undertaken following the global financial crisis increased equity prices by between 30% and 50%.[118 119]

As a result, some of the biggest winners from the COVID pandemic have been investment funds that have a significant exposure to global equities. Scotland's large fund management sector has been at the centre of this: the top four performing funds in the UK in 2020 were managed by Edinburgh-based company Baillie Gifford, while funds managed by Aberdeen Standard Investments also performed well.[120] The performance of the major publicly listed Scottish firms is shown in the table below.

Table 7
SCOTLAND'S FUND MANAGEMENT SECTOR HAS PROSPERED DURING THE PANDEMIC

	2020 net profit (£m)	2020 margin (%)	2019 net profit (£m)	2019 margin (%)
Edinburgh Worldwide Investment Trust	322	98%	33	86%
Baillie Gifford European	125	97%	-20	N/A
Standard Life Private Equity Trust	80	89%	68	89%
Scottish American Investment Company	85	88%	108	91%

Note: Revenue used to calculate profit margin = gains on investments + income

Source: Edinburgh Worldwide Investment Trust,[121] Baillie Gifford European,[122] Standard Life Private Equity,[123] Scottish American Investment Company[124]

The pandemic has been more challenging for Scotland's retail banking sector however. In response to the deteriorating economic outlook many banks were forced to create substantial provisions to cover future loan defaults. Natwest (which owns RBS) reported a £753 million loss in 2020, while Lloyds (which owns Bank of Scotland) saw profits fall by more than 50%.[125 126] It should also be noted that retail banks have benefitted from a wide range of UK government guarantees which have limited their exposure to COVID support loans, and without these guarantees they would likely be facing much larger losses.[127] All four of Britain's largest retail banks – Lloyds, HSBC, Barclays and NatWest – outperformed analysts' expectations in the fourth quarter in Q4 2020, however, and expect profitability to return in 2021.[128]

3.6

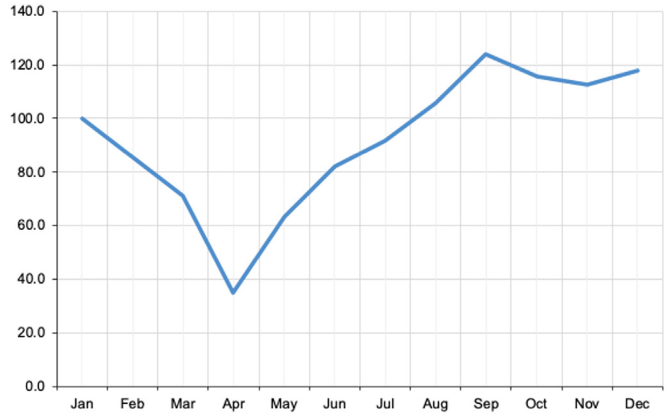
RESHORING OF MANUFACTURING SUPPLY CHAINS

Since the 1990s, manufacturing output has shrunk faster in the UK than in other advanced economies, and now makes up just 10% of Scotland's GDP. This has been accompanied by a rapid expansion in complex international supply chains as companies sought to offshore manufacturing activities around the world in pursuit of profit margin improvements. However, the outbreak of the COVID-19 pandemic exposed how relying on complex international supply chains can come at a cost in terms of resilience. As the Scottish Government recently noted:[129]

> **"When global supply chains were disrupted in March 2020, businesses and governments realised the risks of decades of increasing supply chain complexity and disaggregation."**

This was perhaps most visible in the scramble to obtain Personal Protective Equipment (PPE). Prior to the pandemic almost all of the PPE used in Scotland was imported from abroad, and the immense pressure placed on global supply chains created shortages across the UK and exposed the vulnerabilities of being reliant on international supply chains for goods of strategic importance. In response the Scottish Government launched its 'make and buy' strategy, and has made significant strides towards achieving self-sufficiency in PPE equipment by working with Scottish companies to create new domestic supply chains. We explore how this happened, and the companies involved, in our discussion of procurement during the pandemic in section 4.2. Partly as a result of this, textile and wearing apparel manufacturing is one of the few sectors in Scotland where output now significantly exceeds pre-pandemic levels.

Figure 19
TEXTILE AND WEARING APPAREL MANUFACTURING OUTPUT HAS SOARED



Source: Scottish Government[130]

However, there is some evidence that the pandemic has accelerated prior trends towards 'reshoring' of manufacturing activities in areas beyond PPE and medical supplies. In recent years pressures to cut carbon emissions and improve visibility of labour standards, combined with the emergence of technologies and a renewed focus on national resilience and jobs, has led to a growing debate about the future of complex global supply chains, with increasing numbers of companies in Europe exploring the potential benefits of reshoring.[131] The pandemic, combined with broader uncertainty around global trading relationships (including Brexit) has accelerated this shift, with some UK business leaders declaring 2021 as 'the year of reshoring'.[132]

A recent report by consultants Alvarez and Marshal and Retail Economics estimated that retailers will on-shore the manufacture of £4.2 billion of products to the UK over the next 12 months as COVID-19 resets supply chain strategies.[133] The report states that nearly three quarters (70%) of Europe's largest 30 retailers say they have conducted a review of their supply chains as a direct result of the pandemic, and that more than half (55%) have already begun to diversify their suppliers – with 29% planning to do so within the next 12 months. 14% are already sourcing more from domestic economies, with almost half (42%) planning to do so in the next 12 months.

There is some preliminary evidence that this has started to happen in Scotland and across the UK. In January, Scottish bus maker Alexander Dennis (ADL) announced it will manufacture the chassis for both its BYD ADL branded single- and double-deck electric buses in the UK.[134 135] Previously, the chassis were made in parent company BYD's factories in Hungary and China and shipped to the UK for assembly, with the change ensuring that complete vehicles will be made domestically. Last year, Walsall-based automotive parts manufacturer Albert Jagger reshored production of almost a quarter of a million fastening components from China with the help of the Manufacturing Technology Centre.[136] A number of textile manufacturers in England have also reported reshoring activities during the pandemic.[137 138]

The Scottish Government has noted the potential for greater reshoring in its manufacturing recovery plan:[139]

> **"Disruption of international trade flows, combined with the availability of low-cost digital technology, the low carbon agenda and the fact that highly-productive manufacturing sectors drive economic productivity, have created a compelling rationale to revitalise Scottish supply chains."**

In its Programme for Government 2020-21, the Scottish Government also committed to roll out Supply Chain Development Programmes across key sectors of the economy to "enhance participant companies' fitness to compete for public contracts, help to secure best value for taxpayers and help Scottish suppliers to grow and compete globally."[140] At the same time however, trade unions have criticised the Scottish Government for allowing jobs associated with offshore wind development to be offshored to overseas companies, which often employ lower workplace standards than would be possible in Scotland.[141 142]

The full scale of the potential for reshoring in Scotland remains to be seen, and further research is required in this area to develop a more complete picture. However, the prospect of reshoring brings with it the potential to create high-skilled, high wage jobs at a time when employment in other areas of Scotland's economy may struggle to recover to pre-pandemic levels. We discuss the potential long-term implications of this further in section 5.

4 THE ROLE OF SCOTTISH GOVERNMENT POLICY

In response to COVID-19 governments around the world have introduced unprecedented measures to support households and businesses through the pandemic. This has typically included a combination of grants, loans, guarantees, tax relief and employment support schemes.

In Scotland many of the most economically significant measures, such as the Job Retention Scheme (JRS), Self-Employment Income Support Scheme (SEISS), Bounce Back Loan Scheme (BBLS), Coronavirus Business Interruption Loan Scheme (CBILS), cuts to VAT and increased benefit spending, have been introduced by the UK government and apply across the whole of the UK. A detailed assessment of these policies is beyond the scope of this paper, however previous research has shown that much of the UK government's financial support has exacerbated pre-existing inequalities.[143]

The Scottish Government has also introduced a number of support measures in response to the pandemic. Some of these have taken the form of additional funding for devolved public services such as health and social care, rail, and local government, while others – such as a temporary uplift in the devolved carer's allowance supplement and an increase in crisis funds paid through the Scottish Welfare Fund – have targeted specific workers and households.

However, our focus in this paper is the Scottish Government's package of financial support to businesses in the private sector, which has taken the form of loans, grants, procurement spending and tax relief. In this section we review these measures and examine who they have ultimately benefitted, and the extent to which they are aligned with the Scottish Government's 'Fair Work' agenda.

The 'Fair Work' agenda

The Scottish Government's 'Fair Work' agenda aims to ensure that everyone in Scotland is able to access 'fair work' – defined as that which offers opportunity, security, fulfilment, respect and effective voice. In the absence of control over employment law, the Scottish Government has adopted a framework for using its spending power to leverage employers' commitment to Fair Work.

This involves requiring employers who benefit from grants, funding and contracts being awarded by the public sector to adopt the following 'Fair Work First' criteria, which seek to address significant challenges in the labour market:[144] [145]

- Appropriate channels for effective voice, such as trade union recognition;
- Investment in workforce development;
- Action to tackle the gender pay gap and create a more diverse and inclusive workplace;
- No inappropriate use of zero-hours contracts; and
- Payment of the real Living Wage.

The Scottish Government has stated that "Fair Work has been at the heart of the national response for protecting workers' health and livelihoods and the economy throughout the Covid-19 pandemic."[146] In July 2020 leaders from the Scottish Government, COSLA, the Institute of Directors Scotland, the Scottish Council for Development and Industry, the Scottish Council for Voluntary Organisations and the STUC issued a joint statement on 'fair work expectations during the transition out of lockdown'.

4.1

LOANS AND GRANTS

Much of the support provided by the Scottish Government has taken the form of grants targeted at sectors most affected by the pandemic, as well closing perceived gaps in support provided by the UK government. Examples include:

- **Local authority discretionary fund**
  £120 million of funding to local authorities to provide additional support for businesses where they consider that necessary or justified. It enables individual local authorities to direct additional financial support to specific groups, sectors or businesses within their local business communities who are experiencing immediate financial challenges as a result of current restrictions and regulations.

- **Strategic Framework Business Fund**
  Grants to businesses that have been required to close by law or to significantly change their operations due to COVID-19 restrictions. This includes an additional top up fund for businesses in the Hospitality, Retail and Leisure sectors. Since November 2020, £533 million has been paid to businesses through these schemes.

- **Business Contingency Fund**
  One-off grants to two sectors that have been closed by law since March 2020: nightclubs and soft-play centres.

- **Self-Employed Hardship Fund**
  A one-off £4,000 payment for those whose status as being newly self-employed makes them ineligible for the UK Government's Self-employment Income Support Scheme (SEISS), which opened up for a second round of applications in February 2021.

- **Bespoke sectoral funds**
  One-off grants to sectors that have been particularly affected by the pandemic, including a Taxi and Private Hire Driver Support Fund; Seafood Producers Resilience Fund; Scottish Zoo and Aquarium Animal Welfare Fund; Brewers Support Fund; Museums and Galleries Scotland Recovery and Resilience Fund; the Licensed Bingo Clubs and Casinos Top-Up Payment; support for Indoor Football Centres and support for Travel Agents.

Most of these grants have been administered by local authorities. However, most local authorities have yet to fully implement the Fair Work First criteria, therefore they have not been widely applied to the COVID support grants awarded so far. In December 2020, the Cabinet Secretary for Economy, Fair Work and Culture and the Cabinet Secretary Finance wrote jointly to all public bodies setting out their expectation that all public bodies will apply the Fair Work First criteria to any grants, other funding or contracts they award from April 2021.[149]

However, some grants have been administered through Scotland's economic development agencies – Scottish Enterprise, Highland and Islands Enterprise, and South of Scotland Enterprise – who were "early adopters" of Fair Work First and began implementing the criteria in 2019/20. Again however, the application of Fair Work First criteria to COVID related support appears to have been mixed.

In the case of Scottish Enterprise, although companies applying to COVID-mitigating grants were asked about their commitment to Fair Work, it was not made a condition of receiving grants.[150] This included £14 million of grants provided via the Hotel Support Programme and £22 million made available through the Scottish Wedding Industry Fund.[151] According to the Scottish Government all the successful applicants to the Scottish Enterprise's £25 million Early Stage Growth Challenge Fund, which aims to support innovative early stage businesses who have been negatively impacted by the pandemic, have committed to Fair Work First criteria, although it is not clear how this will be monitored or enforced.[152]

Highland and Islands Enterprise has administered ten COVID mitigation funds with a total budget of £23 million, including the Island Green Recovery Programme, Communities Recovery Fund, and Ski Sector Fund. This included a £100,000 grant to a luxury golfing development on land owned by the Earl of Moray, which critics have argued is at odds with a commitment from the Scottish Government to community wellbeing.[153] Recipients of these funds were reportedly "asked to commit to working towards becoming a Fair Work employer where relevant".[154]

South of Scotland Enterprise has administered £12 million of COVID mitigation funds, including a Creative and Hardship Fund and a Pivotal Enterprise Resilience Fund. The award of these grants was not made conditional on implementing the Fair Work First criteria, but "required a statement from the recipient outlining their commitment to Fair Work First".[155]

The Scottish Government has also introduced a number of loan schemes which are primarily aimed at supporting the private rented sector. This includes a 'Private Rent Sector Landlord COVID-19 Loan Scheme' which offers private landlords an interest-free loan to cover up to 100% of lost rental income for up to three properties; and a 'Tenant Hardship Loan Fund' which offers interest-free loans to social and private tenants to cover up to a maximum of nine months' rent costs. It was recently announced that both of these loan schemes have been extended beyond the original deadline of 31 March 2021.[156]

Finally, it is worth noting that although the Scottish Government's Advisory Group on Economic Recovery recommended that the Scottish Government should "build its professional capability to manage ownership stakes in private businesses, which are likely to arise out of the crisis", to date the Scottish Government has not taken equity stakes in any businesses as a result of the COVID crisis. However, it is notable that the Scottish Government allowed Burntisland Fabrications Limited (BiFab), which it had been a minority shareholder in, to enter into administration in December 2020 – a decision that was widely criticised by trade unions.[157] [158] [159]

Whether or not the Scottish Government's loan and grant schemes have created 'winners' is open to interpretation. On the one hand, the recipients of this support are in a better position than they would have been without it. However, because the schemes have been largely targeted at sectors that have suffered during the pandemic, labelling recipients of this support as 'winners' would be unusual.

That being said, it is worth noting that by extending support to homeowners and residential landlords, the Scottish Government has supported groups that have been relatively sheltered from the pandemic.

However, a slightly different picture emerges when the second order impact of this support on the flow of income and expenditure through the economy is considered. There are two key ways that governments can seek to alleviate pressure on businesses and households during a crisis: by providing access to cash to replace lost incomes and revenue, or by waiving or deferring expenditures. So far the Scottish Government has predominantly focused on the former approach by providing grants and loans. Because there has been little substantive relief provided on essential expenses such as rent, bills and debt payments, most businesses will have to spend this money they receive from the government straight away. As a result, a significant proportion of this support will end up flowing straight to banks, landlords and utility companies – sectors which have been to varying degrees sheltered from the pandemic. As such, some of the financial support provided by the Scottish Government can be viewed as an implicit subsidy to these rentier sectors.[160]

4.2
PROCUREMENT

The Scottish Government, local authorities, NHS Scotland and other public bodies normally spend around £12 billion on goods and services such as infrastructure, equipment, buildings, energy, vehicles, food, etc every year.[161] Like all countries, the outbreak of the COVID-19 pandemic led to a sharp increase in demand for certain goods in Scotland, particularly Personal Protective Equipment (PPE) in NHS Scotland and social care settings. Prior to the pandemic almost all of the PPE used in Scotland was imported from abroad, and the immense pressure placed on global supply chains created domestic shortages and exposed the vulnerabilities of relying on international supply chains for essential goods.

While shortages of PPE led to significant criticism early on in the pandemic, since then the Scottish Government has made significant strides towards self-sufficiency in PPE equipment through its 'make and buy' strategy. This involved establishing a multi-agency team (including NHS clinicians, Scottish Enterprise, Scottish Development International, and the National Manufacturing Institute Scotland) which had two key aims:

- To identify offers of support which could supply Scotland with high volumes of approved PPE and sanitiser products in the fastest times; and
- To work with local businesses to increase Scottish capacity to make key products to help build resilience for future crises.

Many Scottish businesses responded by diversifying production to ensure a secure supply of NHS essentials, in some cases by reshoring manufacturing activity from abroad to meet demand and build resilience. A number of the companies involved benefitted from support from Scottish Enterprise's Scottish Manufacturing Advisory Service (SMAS).[162]

Table 8 shows how consumption increased for different items of PPE during the pandemic, and identifies the Scottish companies that have played a key role in increasing production and supply. It is estimated that nearly half of all PPE is now supplied from Scotland, and over 90% when gloves are removed from the count.[163]

Table 8
HOW SCOTTISH BUSINESSES HELPED INCREASE SUPPLY OF PPE

Item	Consumption pre-COVID	Consumption peak-COVID	Role of Scottish manufacturing
Aprons	850,000 per week	5,000,000 per week	Plastics firm Berry BPI sourced and shipped specialist machines to Scotland for the manufacture of disposable aprons from their Greenock factory, therefore 'reshoring' manufacturing capacity. At capacity, these machines can produce 2-3 million aprons per week
Eyewear	Not widely used	70,000 per week	Scottish company Alpha Solway switched emphasis from making protective clothing for oil and gas industries to visors, and secured a contract to produce 1.1 million in just 12 weeks.
Type IIR masks	57,000 per week	4,600,000 per week	Alpha Solway purchased new machines capable of making type IIR masks at their facility in Dumfries using raw material sourced from Don & Low in Forfar. This is expected to meet all of Scotland's IIPR mask demand.
FFP3 masks	1,000 per week	100,000 per week	Alpha Solway "reshored" mask manufacturing from Taiwan and began to ramp up production to 5 million masks per week – exceeding Scotland's demand and creating export potential. Scottish Enterprise provided a £3.6 million repayable grant to Forfar-based Don & Low to help import and install £4.5 million of new machinery to manufacture raw material in Scotland.
Gloves	5,000,000 per week	13,000,000 per week	Principally sourced from manufacturing centres in Asia as NSS was unable to source these products in the UK. Scottish Enterprise is "supporting two glove manufacturers to consider Scotland as a manufacturing location as they look to begin UK production of gloves."
Non-sterile gowns	Not widely used	50,000 per week	Forfar-based Don and Low repurposed production to produce material for gowns, which are being converted to gowns by Edmund Bell (Yorkshire) and Keela (Glenrothes), with additional support from Endura and Transcal (Livingston). Expected to meet more than 50% of Scotland's demand.
Hand sanitiser	2,500 litres per week	25,000 litres per week	Scottish chemicals company CalaChem Ltd produced 580,000 litres of sanitiser at its site in Grangemouth, with ethanol provided by Whyte & Mackay. This has been bottled in a range of sizes by a number of Scottish companies. This work was also helped by The Scotch Whisky Association which launched a portal connecting distillers that can produce and supply hand sanitiser and/or ethanol with organisations in need.

Source: Scottish Government,[164] Colin Pidgeon[165]

We have not been able to determine whether Fair Work First criteria were applied to the above procurement of PPE equipment. However, we note that in December 2020, Scottish Ministers wrote to public bodies setting out the clear expectation that public sector partners must apply the five Fair Work First criteria in public procurement processes from April 2021.166 Although data on the financial performance of the companies listed in the above table is not publicly available, it is likely that the rise in demand caused by the pandemic led to higher revenues and, in many cases, profits – therefore for the purposes of this paper we consider them to be 'winners' from the pandemic.

Many commentators have suggested that outsourcing company Serco has been among the pandemic's largest profiteers due to its success at securing lucrative government contracts.[167] While it is true that Secro's reported profits nearly doubled in 2020, this is largely due to generous contracts awarded by the UK government for managing testing sites and providing call handlers for the NHS's contact-tracing programme.[168] Serco has not been awarded major COVID-19 related contracts in Scotland, and has not profited from the Scottish Government's pandemic response, therefore for the purposes of this paper we do not consider it as one of the major winners from the pandemic in Scotland.

However, the Scottish Government has outsourced COVID-19 related contracts to other companies. In October it emerged that National Services Scotland (NSS) awarded a £1.29 million contract to Motherwell-based call centre Ascensos and £1.8 million to Barrhead Travel for the "immediate and rapid deployment of contact tracers".[169] In November 2020 the Glasgow-based telemarketing firm Pursuit Digital was awarded a £10.2 million contract without competition to support contact tracing service "as part of an interim service solution that safeguards the existing high standard of service at Scotland's National Contact Tracing Centre".[170] In December 2020 the US software development company ServiceNow was also awarded a £700,000 contract with no formal tender process to deliver a "national booking system" for vaccine appointments.[171]

Management consultancy firms have also been awarded contracts to support the Scottish Government's COVID-19 response. In September 2020 the management consultancy firm KPMG was awarded a £2.3 million contract without any other competing bids for "extended flu and Covid vaccination programme management and advisory services".[172 173] Ernst and Young, Deloitte and Accenture have also been awarded contracts for professional services support, however the sums involved are much smaller (less than £50,000).[174]

4.3 TAXATION

Although more tax powers have been devolved to Scotland in recent years, the Scottish Government's fiscal space remains limited. To date the Scottish Government has introduced two major tax changes in response to the COVID-19 pandemic.

Firstly, like the UK Government, the Scottish Government introduced business rates relief worth nearly £1 billion to support business cash flow during the pandemic.[175] The Finance Secretary recently announced that retail, hospitality, leisure and aviation businesses will pay no rates during 2021-22. Secondly, as mentioned in section 3.4, the Scottish Government increased the threshold for starting to pay the Land and Buildings Transaction Tax (LBTT) from £145,000 to £250,000 in order to support the housing market. The Scottish Government also doubled the time available for property owners most affected by the impact of COVID-19 to sell a previous main residence and claim a repayment of the Additional Dwelling Supplement (ADS).

While business rates relief could be argued as merited in the circumstances, the case for cutting LBTT is less clear. Although the change was justified on the basis of helping first time buyers onto the property ladder, there is significant evidence that cutting property transaction taxes pushes up house prices further, which benefits existing owners rather than new buyers (as well as developers and agent agents, as discussed in section 3.4). This in turn serves to exacerbate the housing affordability crisis and increase economic inequalities between those who own property and those who do not. We therefore welcome the Scottish Government's decision not to extend the tax holiday, as the UK and Welsh governments have done, however it is likely that the decision to cut LBTT will have a lasting impact on housing affordability.[176]

In the 2021-22 Budget, the Scottish Government left Income Tax rates unchanged and increased the starter, basic and higher rate threshold by CPI inflation (0.5%). The top rate threshold was frozen in cash terms at £150,000.[177] Given that income tax is one of the few areas where Scotland has significant tax raising powers, we consider that this was a missed opportunity to get those who have benefitted from the pandemic (for example, by building up significant household savings) to contribute more to the public health response and economic recovery. Similarly, the Scottish Government's commitment to compensate councils that decide to freeze council tax can also be viewed as a regressive policy decision, given that the primary beneficiaries of this will be wealthier households.[178]

Throughout the pandemic the Scottish Government has highlighted the constraints imposed by its lack of fiscal powers, and has called for more tax and borrowing powers to be devolved. In September 2020 the Scottish Government launched a 'Taxes and fiscal framework consultation to seek views from across Scotland on how Scotland's limited fiscal powers can be used to support Scotland's recovery from COVID-19.[179] We return to the question of fiscal powers in section 5.

4.4

EMPLOYMENT SUPPORT

The Scottish Government's Advisory Group on Economic Recovery recommended the introduction of a 'Scottish Job Guarantee' that would offer "secure employment, for a period of at least 2 years, to 16-25 year olds, paid at the Living Wage."[180] In September 2020 the Scottish Government responded by establishing a 'Young Person's Guarantee' (YPG), which was backed by £60 million and a further £70 million in March 2021. The YPG aims to "create the opportunity of a job, placement, training or volunteering for every 16-24 year old in Scotland – based on their own goals and ambitions."

Rather than being a specific employment support scheme, the Young Person Guarantee is the umbrella that sits above all programmes for young people – "a single portal and brand" and "a single point that draws together all the various employability Guarantees into one place, including the UK Government Kickstart Scheme."[181] Organisations backing the Guarantee make five pledges to help young people:

- prepare young people for the world of work through work experience, volunteering and work-based learning opportunities
- engage with and provide opportunities to young people who face barriers to work
- create work-based learning, training and upskilling opportunities for young people
- create jobs and opportunities for young people through apprenticeships, paid internships and work experience
- create an inclusive workplace to support learning and enable young people to meet their potential

Among the first organisations to back the guarantee include SSE, Capgemini, NHS Lothian, Standard Life Aberdeen, ScotRail, ScottishPower, Scottish Water, Morgan Stanley, BAE Systems and Social Security Scotland.[182] The report launching the scheme did not mention the Fair Work First criteria, but recommended that "there would be a requirement for the SME and third sector organisations to commit to pay the Living Wage at the end of the 18-month period.[183] As things stand, neither the UK government's Kickstart Scheme or the Scottish government's Young Person's Guarantee are targeted at specific sectors or seek to facilitate a shift in the labour market. In this sense, they can be viewed as policies that are designed to support the recovery of the pre-COVID labour market, rather than catalyse a shift towards a different type of economy.

5 DISCUSSION

The long-term implications of these trends for the Scottish economy are somewhat difficult to predict, since there remains significant uncertainty around how far these shifts will be sustained. For each of the trends we have identified, there is a spectrum of possibilities from a complete continuation of the 'new normal' to a complete return to the 'old normal' (see diagram below). Most likely, we will see something in between, but exactly where on this spectrum the future lies will depend both on the course of the pandemic (i.e. how quickly restrictions are lifted and how successfully the spread of the virus is controlled) and on policy choices. Decisions made now could tip the balance towards one end of the spectrum or the other – creating path dependencies which may be difficult to reverse later.

Return to 'old normal'		Shift to 'new normal'
Continued home working	↔	Return to office working
Shift to online retail	↔	Return to physical retail
Social spending depressed	↔	Social spending bounces back
Reshoring accelerates	↔	Offshoring revives

In the remainder of this paper, we explore the future implications of the five trends, the key challenges and opportunities this creates for the labour movement, and the implications for policy and organising. This is a question both of responding to likely shifts and challenges, and proactively shaping how these shifts play out in the recovery phase. If trade unions and the STUC want to help tip the balance towards future scenarios that are more beneficial for workers, the economy and the environment, what kinds of policies do they need to advocate for now, and what kind of organising is needed?

5.1

THE SHIFT TO ONLINE RETAIL

The shift from high street retail to online retail was already happening before COVID, but the pandemic has accelerated this transition. There is evidence that the surge in online spending will be at least partly sustained.[184] Analysts at retail consultancy GlobalData expect that more than 40% of fashion and footwear will continue to be bought online, compared with less than 30% pre-pandemic.[185] However, it is notable that spending in non-food retail stores rebounded to pre-pandemic levels in late summer 2020 when social distancing restrictions were relaxed.

There are obvious path dependencies and 'domino effects' at play, whereby the economic damage to physical retail caused by the pandemic may make the shift to online retail self-sustaining. We are seeing the failure of numerous large high-street retail chains – particularly in clothing and fashion – who were already struggling with the rise of online shopping and have now been dealt a death-blow by the pandemic. Once they have disappeared from the high street, it seems unlikely that these shops will return or be replaced like-for-like.[186] This may further accelerate shifts in consumer behaviour towards online shopping. Some commentators have gone so far as to predict a major cultural shift away from 'shopping' as a leisure activity – although others are sceptical of this, and predict a 'survival of the fittest' with the high streets of the future having 'less but better' shops.

A sustained decline of physical retail would consolidate market power in the hands of firms like Boohoo and ASOS, who are already benefitting from the pandemic. For instance, when Philip Green's Arcadia chain failed, its key brands were sold to online retailers, with Boohoo now owning Dorothy Perkins, Wallis and Burton, and ASOS buying Topshop, Topman and Miss Selfridge. On the other hand, particularly when combined with the shift towards working from home (discussed further below), it could also disperse power by redirecting spending from large high street chains to local independent shops. In 2020, closures of chain store units outstripped closures of independent shops for the first time in several years; [187] and there is also evidence that some local small retailers have thrived during lockdown.[188] In other words, as well as cementing the power of online retailers, the pandemic is likely to change the kinds of physical retail that survive and thrive.

Policy can influence how these trends play out. For instance, recently policies have been floated such as a new tax on online retailers to level the playing field with high street retailers. Scottish Labour has also recently proposed giving every Scot a £75 voucher to spend on high street retail.[189] This is part of a wider discourse that focuses on 'protecting' and 'preserving' the high street. However, if permanently higher levels of online shopping are inevitable and the role of high streets is changing, then policy also needs to adapt rather than simply trying to revive the old model. Most importantly, this means supporting those whose jobs may be lost into new employment, while positioning smaller, locally-rooted and democratically owned businesses to benefit from the changes. The ultimate goal should be to maximise good employment and community wealth building, and minimise the extent to which power concentrates in the hands of large, extractive employers.

This could include supporting smaller retailers to invest in their online offer and compete with big firms such as Amazon, ASOS and Boohoo. Policymakers could also encourage the shift towards shopping more locally by prioritising support for local high streets and small businesses, rather than attempting to resuscitate city-centre retail. This could have the advantage of distributing the economic benefits of retail spending more widely. Finally, where large high street retail units have closed and are lying empty, local authorities or the Scottish government may need to step in to find 'new uses for old space' and reimagine the city centre – for instance, to prioritise shared public space rather than shops and offices.[190] Falling city-centre commercial property prices could represent an opportunity to acquire assets for the public good.

From a labour movement perspective, a sustained shift to online retail could mean the permanent loss of retail jobs (including some currently on furlough) and a corresponding increase in warehouse and logistics jobs. This may also have a disproportionate impact on women's employment due to occupational segregation in the sector. Since many of these new jobs are characterised by low pay and poor working conditions, organising to improve conditions in these sectors will likely be a priority – bolstered by the recognition that, even in a difficult economic climate, online retailers are thriving and should therefore be expected to treat their workforce better. (These companies are also expected to benefit from the UK government's corporation tax 'super deduction', since many are currently investing in expanding their warehouse capacity.)[191]
At the same time, a strong green industrial strategy will be needed to create new jobs in sectors like social care and retrofitting, and support people to transition into them (for instance, the New Economics Foundation has called for a 'right to retrain').[192]

5.2

DECLINE IN SOCIAL SPENDING AND RISE IN 'AT HOME' GOODS AND SERVICES

In the medium term it is likely that ongoing legal and voluntary social distancing restrictions will keep demand (and employment) in social sectors below pre-pandemic levels. However, the extent of this is difficult to predict. Some analysts are predicting a boom in social spending when lockdown restrictions lift, as people are desperate to get out and connect with others. Compared with high-street retail, there are stronger reasons to think that these sectors could bounce back to something like their pre-pandemic levels. The decline in social spending is a phenomenon driven by the pandemic, whereas the shift to online shopping is a pre-existing phenomenon which the pandemic has accelerated. On the other hand, it is notable that when restrictions were lifted in summer 2020, social spending remained significantly depressed. This suggests that not all of the drop in demand is attributable to legal restrictions but that ongoing safety concerns also play a role.

Once again, policy can influence the shape of events. For example, inadequate support for the social sector and the economy at large could contribute to a 'vicious cycle'. If we see a 'long tail' of hospitality closures as repayments commence on debt burdens accrued during the pandemic, this could exacerbate the damage to the sector and resulting job losses. More generally, continued economic uncertainty, combined with the income shocks being experienced by lower-income households, could result in less discretionary spending on social activities (indeed, it seems likely this is already a factor).

Policy should therefore focus on boosting direct support for social sector businesses to remain viable (which may ultimately need to include restructuring or write-offs of debt accrued under the various COVID loan schemes), and on supporting those on low incomes (for instance, through boosting social security payments, personal debt relief, and promoting living wages), rather than schemes such as 'Eat Out To Help Out' designed to stimulate consumer spending in the face of safety concerns.

Conversely, the increase in demand for durable household goods (DIY, furniture etc) seen during the pandemic is likely to be temporary as they are typically 'one off' purchases. This suggests that the windfall profits made by companies like Kingfisher and B&M are unlikely to be sustained long-term. However, there is evidence that at least some increased demand for 'at home' services will be sustained after the pandemic. Data from Barclays shows that 57% of people expect to receive either the same amount or more home deliveries in the future; 90% of those who have been using 'Click and Collect' more often since the start of the pandemic will keep this up once all restrictions have been lifted; and 24% of people who ordered at home meal kits during the pandemic expect to continue doing so even after restaurants open.[193]

Given these uncertainties, relying solely on furlough to keep people attached to pre-pandemic jobs in social sectors is a risky strategy. The danger is that we see a cliff-edge and a sharp rise in unemployment when the furlough scheme ends. As with retail, there is a need for proactive green industrial policy to create new jobs and support people to transition into them – with social care being an obvious sector to prioritise in this context. This is likely to be a better investment of public money than continuing to subsidise low-paid, insecure entry-level jobs with poor opportunities for progression.

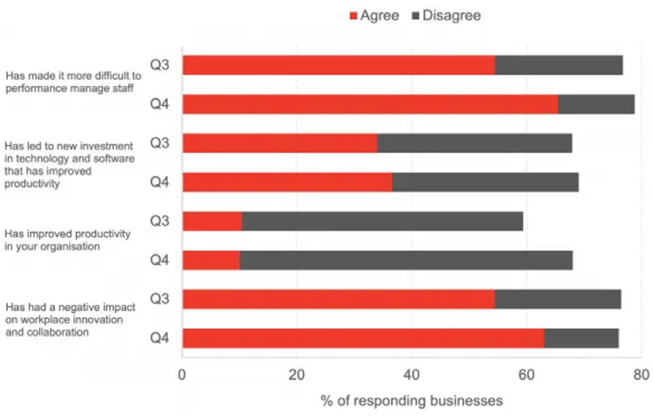
5.3

THE RISE OF HOME WORKING

As with high-street retail, it seems highly unlikely we will see a complete return to pre-pandemic working patterns – even if the extent of change is still uncertain. Surveys of companies' future plans have varied considerably through the course of the pandemic and often seem to be coloured by economic sentiment and waves of optimism or pessimism about the speed of reopening. However, the most recent evidence suggests that many large firms are moving to 'hybrid' models combining home and office working. An informal FT survey of large UK companies found that most were planning to move towards a hybrid model, with offices repurposed to focus on 'collaboration' rather than desk space.[194] Nationwide has recently announced its intent to introduce a 'work anywhere' policy, while companies like PwC and Grant Thornton are reducing their office footprints and moving towards hybrid working.[195] [196] If more large UK firms follow suit, this could open up employment opportunities for people in Scotland that were previously inaccessible.[197]

Surveys of workers show a similar picture, with YouGov finding that 57% want to be able to continue working from home once the crisis is over,[198] and a BBC/Kings College London survey finding that almost a third expect to work from home more and do more of their shopping locally.[199] On the other hand, a March 2021 survey by KPMG found that just 17% of employers were still planning to cut back office space, down from 69% in August 2020.[200] Some of these employers had simply already made the planned changes, but others had amended their plans due to rising concerns about the impacts of prolonged home working on productivity, wellbeing, workplace innovation and collaboration. Surveys suggest that many Scottish businesses share these concerns (see Figure 20 below). It is likely to take some time before these various dynamics settle down into a 'new normal'.

Figure 20
MANY SCOTTISH FIRMS HAVE CONCERNS ABOUT HOME WORKING
To what extent do you agree that staff home working in your organisation has increased? Q3 2020 – Q4 2020



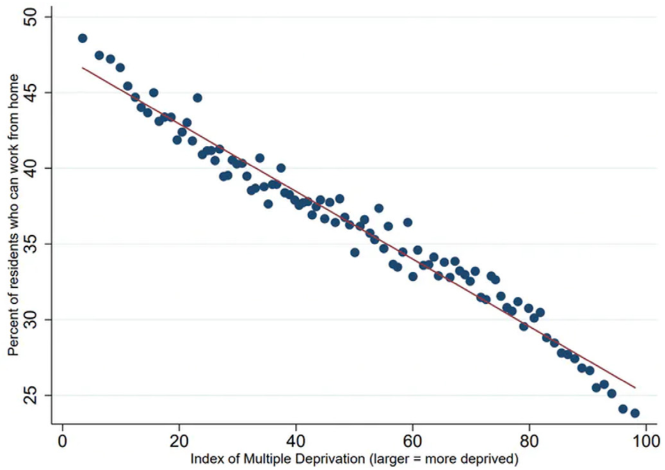
Source: Scottish Business Monitor[201]

The shift to home working has a range of implications, both positive and negative, for the labour movement. Where companies do cut office space, they are making direct cost savings at the expense of commercial landlords. A key question is whether these savings will be passed on to employees in the form of better pay and conditions or direct support for home working -– or if employers will essentially try to offload the costs of workspace onto their employees. This will be an important issue for workplace organising in sectors with high levels of home working. A move to more flexible working could have wellbeing benefits for many employees, including those with disabilities or caring commitments – but it also creates particular challenges for these groups, for instance in securing reasonable adjustments to working conditions or being expected to juggle caring responsibilities with home working. Unions will have a key role to play in ensuring that these changes do not widen inequalities based on gender and disability. The growth of surveillance technology to monitor employees working at home, and the blurring of boundaries between work and home life, is also of wider concern.[202]

All of these issues are likely to widen inequalities between high and low paid workers. Highly skilled knowledge workers (e.g. in financial and professional services) who have more bargaining power over their working conditions may well benefit from the rise of hybrid working – saving time and money on commuting and enjoying a more flexible work pattern. Meanwhile, workers in more 'routine' occupations (e.g. call centres) may be forced either to return to the office in unsafe conditions or to work from home in unfair or exploitative conditions. The UK government is reportedly considering extending rights to request flexible or home working, which could help to avoid this, but strong collective organising – and ideally collective bargaining – will also be essential to ensure that lower-paid workers can access these rights.[203] Devolution of employment law, as called for by the STUC, would allow Scotland to manage these dynamics more proactively.

Combined with the shift to online retail, a sustained rise in home working could reshape Scotland's economic geography quite dramatically, posing significant challenges for city centres but with corresponding opportunities for regeneration in (some) towns, suburbs and semi-rural areas. Figure 21 below plots the proportion of residents who can work at home in each neighbourhood against its score on the index of multiple deprivation. Wealthier neighbourhoods typically have more people that can potentially work from home on average, and poorer neighbourhoods have significantly less.[204] This means that if trends towards working from home continue, local services such as restaurants, cafes, gyms and hairdressers – and the jobs associated with them – may start to permanently migrate away from city centres towards these wealthier suburbs, mimicking the shift in the location of spending power.

Figure 21
WEALTHIER NEIGHBOURHOODS HAVE MORE POTENTIAL HOME WORKERS
Remote working by neighbourhood deprivation.



Source: Matheson/De Fraja/Rockey[205]

As with shifts in retail, this could reduce the economic dominance of city centres and spread economic activity more evenly. (As discussed above, these dynamics are already causing problems for companies who depend on city-centre commercial property development, while benefiting those who specialise in out-of-town development.) At the same time, it risks exacerbating and entrenching inequalities between wealthier and poorer suburban neighbourhoods. Again, policy needs to manage these dynamics proactively rather than simply seeking to shore up the pre-crisis status quo ante.

The UK government's approach to date can be seen as an attempt to shore up city-centre development models and avoid a disruptive collapse in occupancy rates and commercial property values. For instance, last summer the government issued high-profile exhortations to 'get back to the office', and Boris Johnson has repeated these comments more recently, giving an indication of the likely direction of travel as the economy begins to reopen.[206] But, as the authors of the 'Zoomshock' study argue, this may be swimming against the tide: "Allocating scarce resources to support businesses in neighbourhoods experiencing a negative zoomshock [such as city centres] may be in vain – businesses should be encouraged to follow the demand."

Instead, the Scottish Government could take a different approach – 'leaning in' to these changes as an opportunity to spread economic prosperity more widely across Scotland. This could build on the STUC's recommendation for a 'High Streets Taskforce' taking a community wealth building approach to "address the decline of regional town centres, and to ensure wealth does not flow out of our communities but circulates within them".[207] Support for public and community ownership of land and property, alongside support for 'regenerative' business models (including public ownership, co-operatives and locally-owned independent businesses), can help to rebalance wealth and power, improve access to good employment and nurture thriving local communities.

This approach could include plans for regenerating local high streets, combining co-working hubs with upgraded local amenities and support for locally owned businesses to start-up or relocate. Local authorities could also seek to take advantage of falling commercial property values in city-centres to repurpose disused office space as affordable housing or community space (indeed, some are already doing this).[208] There are tricky dilemmas over whether regeneration and business investment should 'follow the money' by focussing on neighbourhoods with high levels of home working, or proactively seek to reduce spatial inequalities by focussing investment in more deprived neighbourhoods. Because the boundaries between neighbourhoods are fluid in practice, with wealthy and deprived neighbourhoods often sitting side by side, these approaches may not be entirely mutually exclusive.

5.4

RESHORING OF SUPPLY CHAINS

As discussed above, there is some uncertainty over whether the optimism around reshoring is likely to be backed up by a sustained reshaping of business supply chains. However, the fact that many businesses appear to be actively considering these questions could create opportunities for a robust, proactive industrial strategy to support Scottish manufacturing and create new high wage, high skill, green jobs to replace those that may be permanently lost following the pandemic. This could be supported by public procurement, learning lessons from Scotland's efforts at securing PPE supplies; investment via the Scottish National Investment Bank; and a more assertive approach to scaling up democratic public ownership, for example by establishing a publicly owned energy company and publicly owned construction and infrastructure company to drive forward green energy development and strategic infrastructure.[209] [210] It would likely also require a major push towards reskilling in sectors where skills have been lost due to offshoring – which industry analysts note is a major issue in sectors such as textile manufacturing.[211]

On the other hand, the quality of newly created jobs in manufacturing is likely to be a significant issue for workplace organising. For instance, as noted above, textile manufacturing in Scotland is now above pre-pandemic levels (which may be explained by the Scottish Government's strategy for strengthening domestic PPE supply chains) and there has been significant interest in reshoring textile manufacturing in England. However, employment conditions in garment factories remain a source of significant concern, with online clothes retailers like Boohoo facing questions over their UK supply chains, including health and safety violations, wage theft and workers being paid below minimum wage.[212]
Last summer's COVID outbreak in Leicester exposed the lack of enforcement – exacerbated by hostile environment policies – that allowed endemic labour exploitation to go unchecked.[213] Any efforts to 'lean in' to reshoring trends will therefore need to be accompanied by strong pressure to address labour violations and drive up job quality.

5.5

ASSET PRICES AND HOUSEHOLD SAVINGS

As discussed above, so far asset prices have fared significantly better than living standards and employment during the crisis

Bolstered by policies such as QE, stamp duty holidays and most recently the UK government's mortgage guarantee scheme. This has ensured the continued dominance of financial services and real estate in terms of the most profitable companies. A key uncertainty is whether this pattern will be sustained – and the profits of these winners 'locked in' – or if this trend should be seen as fundamentally unsustainable.

In relation to global stock markets – particularly the US – some analysts are concerned that the divergence of asset prices from the fate of the real economy is unsustainable, and that it is essentially a bubble that is bound to burst. This would have knock-on impacts for Scottish firms such as those managing the investment funds discussed above. A more serious threat to the wider financial system could come from large-scale loan defaults, particularly if the economic recovery is slower than anticipated – and especially if this leads to banks running into difficulties. However, the UK government guarantee on business loans under the CBILS and Bounce Back Loan Scheme – combined with the continued availability of cheap credit for banks from the Bank of England – will likely soften the impact of the crisis on bank balance sheets.

When it comes to property prices, the UK government has sent very clear signals of its intent to prop up the housing market, and recent history suggests that it will not allow a sustained fall in house prices. This is good news for home-owners, banks and landlords, but bad news for private renters – who are more likely to be young, low-income and from ethnic minorities – who will see house prices continue to rise out of their reach, particularly if real wages stagnate or fall. At the same time, many of these workers are building up high levels of rent debt and are struggling to make ends meet or facing the threat of eviction and homelessness.

This is likely to drag back the recovery by weakening demand – meaning there is both an economic and a social justice argument for the Scottish Government offering some form of debt relief (i.e. going beyond the current approach of extending interest-free loans to tenants), and for more robust rent controls. The same arguments apply to personal debt more widely: action is urgently needed to redress the imbalance between high-income households hoarding savings and low-income households being pushed into debt. This could include debt relief alongside reform of the social security system and redistributive taxation.

These issues will be critical to the living standards of working people as the economy recovers from the pandemic. In this context, there is a strong case for trade unions to adopt 'whole worker organising' or 'bargaining for the common good' approaches – notably pioneered by the Chicago Teachers' Union, who sought to address the city's financialised housing market as part of their school contract negotiations.[214]

To sum up, while the 2008 crash began in the financial markets (triggered by bad mortgage loans) and spread to the real economy, this time around, it seems policymakers will do all they can to ensure that a crisis which began in the real economy will not spread to the financial markets.

Of course, this does not mean that specific asset-owning actors may not lose out. In particular, as discussed above, those with a stake in city-centre commercial property may be among the long-term losers of the crisis if it produces structural shifts in patterns of working and spending - although again, it seems likely that the UK government will do all it can to avoid this.

A related question is what will happen to the large accumulation of household savings being accrued by wealthier households, particularly those who are working from home and unable to spend as normal and wealthier retirees. How these savings are spent or invested will have a material impact on the shape of the recovery. If they are invested in property or financial assets, this could further push up asset prices and exacerbate inequalities between those who own wealth/assets and those who do not. The Bank of England has estimated that around 5% of the accumulated savings could be spent when the economy unlocks,[215] helping to drive a rapid economic recovery. But others suspect that lingering uncertainty will hold back spending, pointing out that the Bank has a track record of being over-optimistic about such matters.[216] If more of these savings than expected are hoarded as cash or invested in non-productive assets, this could exert a continuing drag on demand and employment. Even if savings are spent rapidly, whether or not they help to drive a balanced recovery very much depends what they are spent on. For example, spending on foreign holidays, foreign-made goods or certain types of online retail would see much of this money (which without the pandemic would likely have been spent locally on hospitality, arts/leisure and transport) leave the Scottish economy permanently.

Once again, policy can influence the shape of the recovery by seeking to harness these savings to support local job and wealth creation. Of course, one way to do this is via the tax system. The Scottish government has limited powers in this respect, but could do more within its existing powers to make the tax system more progressive. This is particularly the case at local authority level, where Scotland has had full powers over local taxation since 1999.

Policymakers should also seek to 'nudge' wealthier households towards certain types of spending or investment and away from others. The UK government's strategy to date has appeared to rely on a revival of consumer spending and a house price boom. However, the Scottish government could instead encourage investment in green job-creating activity such as retrofitting and renewable energy generation, as part of a wider green industrial strategy designed to promote public and community ownership. Some local authorities, such as West Berkshire and Warrington Councils in partnership with social investment firm Abundance Generation, have issued municipal bonds to finance local decarbonisation projects, marketing these to local residents with spare cash to invest. Importantly, returns on such investments must be lower than councils are able to borrow elsewhere - otherwise this would represent a net cash transfer from the public purse to residents wealthy enough to invest, and would therefore be regressive. However, given the low interest rate environment and the growing public desire to support local communities and aid the recovery, many believe that there is still a significant untapped market here.[217]

6 CONCLUSION AND RECOMMENDATIONS FOR POLICY AND ORGANISING

To summarise, our key conclusions from the analysis set out so far are as follows:

- The shift towards home-working and online shopping seems highly unlikely to be completely reversed when restrictions lift. Although the extent of the shift is still uncertain, some change in behaviours seems almost certain to persist. This has important labour-market implications – both in terms of jobs likely to be lost in some sectors and created in others (e.g. a shift from retail to warehouses and logistics), and in terms of working conditions for sectors with jobs that can be done partly or wholly from home.

- These trends also have clear implications for spatial patterns of development. Attempting to resuscitate pre-pandemic city-centre development models may be doomed to fail, and it is far from clear that this is socially desirable even if it were possible. There is a clear opportunity to spread prosperity more widely and regenerate suburbs and smaller towns.

- Social sectors such as hospitality seem more likely to 'bounce back', since the pandemic is the sole driver of lower activity – as opposed to accelerating shifts which were already happening. However, significant uncertainties remain, and smaller businesses in particular are likely to need more support to weather the crisis. Here and elsewhere, there is a risk of a 'long tail' of business failures as interest on government-backed loans becomes repayable. It is also risky to assume that the sector will recover rapidly and to rely solely on furlough to protect the livelihoods of those employed in it.

- There may be opportunities to capitalise on the renewed focus on supply chain resilience and accelerate reshoring of manufacturing to Scotland, however this will require a robust industrial strategy from the Scottish Government, learning lessons from Scotland's success at building self sufficiency in PPE supplies.

- The combination of rising asset prices and widening gaps between rich and poor in terms of household balance sheets (with wealthy households building up savings and poorer households getting into debt) means that the recovery is likely to be extremely unequal unless action is taken to redress this. Moreover, this trend is likely to drag back the recovery itself, particularly if (a) wealthy households' savings are not spent or invested productively, and (b) low-income households have very little disposable income to spend.

RECOMMENDATIONS FOR TRADE UNION ORGANISING

LABOUR MARKET RESTRUCTURING

At the same time as pressing for adequate support for industries affected by COVID-19, unions will need to acknowledge that the shape of the labour market will inevitably change after the pandemic. Some jobs will not come back, while some sectors will create new jobs. The STUC has already argued that policymakers should be using green industrial strategy to proactively manage this disruption and rebuild the economy on a more just and sustainable footing.[218] This implies accepting that some previously thriving sectors will sustain lower employment going forward, and supporting workers in these industries to move into other jobs: for instance, IPPR has proposed that the recovery plan should include a managed transition away from oil and gas extraction.[219]

In the months ahead, the focus will need to shift from protecting the pre-pandemic economy through measures like the furlough scheme, to shaping a post-pandemic economy built on viable, secure, high quality green jobs. This means:

- Pressing the Scottish Government to implement a robust green industrial strategy to create new jobs in the industries of the future. For example, as the STUC has already argued, this could include an 'emergency green infrastructure stimulus' to retrofit homes, and the creation of a National Care Service.[220]
- Maximising the potential for reshoring manufacturing to create new Scottish jobs, whilst exerting pressure to ensure that these new jobs are high-quality - particularly in sectors with a track record of problems with labour exploitation, such as textile manufacturing.
- Ensuring that workers in sectors where jobs may be lost permanently (such as high street retail and hospitality) are supported to move into these jobs through reskilling, retraining and access to an adequate social security safety net.
- Developing strategies to organise in "growth" sectors which are creating jobs that may be low-paid, insecure and exploitative – such as warehouse and logistics work – with an objective of creating collective bargaining processes to improve pay, terms and conditions.

THE RISE OF HOME WORKING

Assuming that some rise in home-working is likely to be sustained after the pandemic, home working will become an important new battleground for employment rights. Rights to flexible working are likely to become increasingly important, especially to prevent new inequalities opening up between workers with the bargaining power to negotiate their working conditions and those without. At the same time, unions will need to be proactive in ensuring that home working is not used as an excuse to offload office costs onto employees i.e. that employees are supported to work from home and share in the cost savings to employers from reduced office working. They will also need to grapple with a new set of issues around digital presenteeism, surveillance technology, and unreasonable expectations of those with caring responsibilities to juggle home work with care work.

There will also be a need to resist pressure both from companies and the UK government to force home-workers back to the office before they feel safe. Given the dependence of many powerful economic interests on city-centre development models built around office working, we would expect this pressure to intensify over the coming months. However, the above analysis highlights the fallacy of the inevitable arguments that going back to the office will help to 'support the economic recovery'. Unions should not be shy about pointing this out, and should put forward a positive vision for an economic recovery that spreads prosperity more widely across Scotland – recognising that the pandemic is reshaping our economic geography whether we like it or not.

ASSET PRICES AND 'WHOLE WORKER ORGANISING'

Given the growing disparity between asset and property prices and real living standards, it will be important for unions to adopt 'whole worker organising' or 'bargaining for the common good' approaches – for instance, concerning themselves with their members' access to affordable housing and affordable credit, as well as their working conditions.

At the same time, this situation creates strong economic arguments to drive up real wages and incomes at the bottom, to avoid a damaging spiral of 'debt-deflation' and a recovery built on widening inequalities. There is the opportunity for unions to position themselves at the forefront of advocating a new economic model after the pandemic, based on principles of good work, community wealth building and environmental sustainability – to create thriving economies and communities in all parts of Scotland – in contrast to the UK government's approach of pumping up asset prices and ignoring inequalities.

RECOMMENDATIONS FOR POLICY

JOBS AND WORKPLACE RIGHTS

For the time being there is risk that the furlough scheme is masking the long-term structural impacts of COVID, therefore swift action is essential to avoid a damaging spike in unemployment when the scheme is unwound. We recommend the Scottish Government does this by:

- Maintaining adequate support for sectors affected by COVID that might be expected to recover strongly providing businesses remain solvent (i.e. arts, culture and recreation, food and accommodation) through the provision of grants, relief on expenses and, where there is a strategic case for doing so, equity stakes. As time goes by, this may also need to include restructuring or writing off debts accumulated under the various government-backed COVID loan schemes. All state support – whether grants, loans, equity investment or procurement contracts – should be made conditional on commitment to the Scottish Government's Fair Work First criteria.

- Initiating a 'right to retrain' and reskilling for all ages, with support targetted at workers in sectors which might be expected to sustain fewer jobs going forward e.g. in high street retail or oil and gas.This could involve a scheme whereby workers in reduced demand sectors, pursue training in non-utilised working hours, but are still paid at their normal wage.

- Lobbying the UK government for devolution of employment law and using this to tackle new issues created by the rise of home working – such as flexible working rights, digital surveillance and protection from exploitative or exclusionary practices for those with caring responsibilities or disabilities.

A GREEN INDUSTRIAL STRATEGY

Policymakers should likewise seek to proactively shape a just and sustainable recovery from COVID-19. Given the inevitable economic disruption, support for the economy should be targetted towards growing green and socially useful sectors. We recommend the Scottish Government does this by:

- Leadership from the public sector, for example through the creation of a National Care Service, investment in childcare provision, and a scaled up public housebuilding and retrofitting programme to tackle Scotland's housing crisis and rapidly decarbonise the housing stock.

- Scaling up democratic public ownership, for example through the creation of a publicly owned energy company and a publicly owned construction and infrastructure company to drive forward green energy development and strategic infrastructure while supporting high health quality employment, as has been proposed by the STUC.

- An approach to the private sector that focuses on good jobs and strengthening local economies, for instance maximising opportunities to reshore manufacturing and shorten supply chains, taking the lessons learned from successful efforts to reshore PPE manufacturing and applying them to other sectors of the economy.

- A strategy for mobilising investment in support of these goals, both directly through the Scottish National Investment Bank and by finding ways to mobilise household savings built up during pandemic to support local job creation (e.g. via municipal bonds and community investment), and disincentivising high-income households from using these savings to buy property or hoarding them as cash.

TACKLING INEQUALITIES AND REBALANCING

The recovery as it stands is likely to be highly unequal, both between high- and low-income workers, and between those with assets and those with debts. Women, young people, disabled people, and those of many minority ethnicities, are more likely to be disproportionately impacted. It is essential that these inequities are rebalanced - to protect living standards and build a just recovery, but also to avoid the risk of dragging back the recovery altogether. This should include:

- Debt relief and writedowns for those struggling with personal debt and rent arrears (looking at examples from overseas which have overcome the alleged legal and political obstacles to this - such as the Spanish policy of allowing large landlords to choose between writing off half their tenants' rent debt or restructuring it over five years)[221]

- The imposition of rent controls to protect the living standards of private renters whose finances have been disproportionately hard hit by COVID, whilst ensuring a fair share of the burden is borne by landlords who have been disproportionately shielded.

- Continuing to diverge where possible from UK government policies designed to prop up house prices, whilst taking steps to expand access to affordable housing, including social housing as outlined above.

- Making full use of devolved tax powers to redress COVID related injustices and ensure that those who have done well from the pandemic – or have been largely shielded from its effects – bear a fair share of the economic costs. This should involve raising the top rate of income tax; replacing the regressive council tax with a progressive property tax based on up to date property values; and introducing a supplementary charge to business rates for businesses that do not meet the fair work criteria. Given that Scotland has full devolution of powers over local taxation, the Scottish Government should also work with local councils to explore options for establishing a basket of local taxes that could include wealth and carbon taxes.[222]

- Taking action to reduce the disability employment and pay gap and the race and gender pay gaps, including through introducing sectoral bargaining arrangements in sectors such as care and hospitality, where women and BAME women are over-represented.

ENDNOTES

[1]https://www.gov.scot/publications/first-estimate-of-gdp-2020-q4/

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The STUC is Scotland's trade union centre. Its purpose is to coordinate, develop and articulate the views and policies of the trade union movement in Scotland; reflecting the aspirations of trade unionists as workers and citizens.

The STUC represents over 560,000 working people and their families throughout Scotland. It speaks for trade union members in and out of work, in the community and in the workplace. Our affiliated organisations have interests in all sectors of the economy and our representative structures are constructed to take account of the specific views of women members, young members, Black members, LGBT+ members, and members with a disability, as well as retired and unemployed workers.

This report was written by Laurie Macfarlane and Christine Berry, and commissioned by the Scottish Trade Union Congress (STUC). It does not represent the views of the STUC General Council, nor specific affiliate trade unions.

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