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Common Weal Policy

RESILIENT SCOTLAND (PART ONE: POST-LOCKDOWN UNTIL SCOTTISH ELECTIONS)

COMMON WEAL

Common Weal is a Scottish 'think and do tank' which promotes thinking, practice and campaigning on social and economic equality, participative democracy, environmental sustainability, wellbeing, quality of life, peace, justice, culture and the arts.

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KEY POINTS

— By using Resilience Economics we can replace an economic toolbox with few policy options which creates inequality, environmental harm and repeated economic crises with one based on a much more balanced set of economic theories which prioritise public-good outcomes and will result in a more stable economy

— This can be made to work under devolution if we focus on unlocking Scotland's economic underdevelopment and support this not with bailouts for existing businesses but transition packages linked to reprofiled public spending and sustainable investment from the Scottish National Investment Bank

— This is underpinned by a series of over-arching policy goals which explain what kind of economy we are seeking to achieve; replacing an unhealthy focus on GDP growth with these will make clear the kind of economic change Scotland is pursuing

— Scotland is inordinately well positioned to achieve this because of the current underdevelopment of our copious natural and human resources

— To achieve this we must do the following:

Set up a Transition Academy to help policy-makers adapt to the new agenda

Set up a Diversification Agency to support new and existing businesses to grasp the opportunities being unlocked

Create a guaranteed retraining programme for those who lose employment

Reprofile public procurement spending to support this transition

Begin a major programme of public rental house-building linked to an integrated supply chain strategy

Create a mortgage-to-rent scheme for households at risk of losing their home

Introduce a tourism rescue package with all citizens being given a £100 voucher for a stay at a Scottish hotel

Introduce a similar voucher scheme for the hospitality sector

Develop a form of Universal Basic Income for artists

Devise plans for a future Festival of Scotland to support the entertainment and events sector

Create an industrial strategy to unlock new economic activity in food production, materials manufacture, light manufacturing, housing, energy, hydrogen, land, design and innovation

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INTRODUCTION

The scale of the task ahead for Scotland can seem daunting. Somehow we need to rebuild our economy in the aftermath of Covid, but we also have to make real progress on the pre-existing failures of the old economy (none more so than poverty and inequality) and we cannot lose focus on the need quickly to achieve a green economy in Scotland. But doing this in pieces is only going to make it much harder. It makes no sense whatsoever to use the old tools to try and restore the old economy and then, once that is done, to begin all over again to transform that economy into the one we need. This is completely the wrong way round; we must use the tools of the economy to come to rebuild us out of our existing economy and its failures. It is that new economy to which we must 'recover forward'.

This report is one of two. It's companion report, ***Resilience Economics: a model for Scotland's recovery***, sets out a new economic framework for Scotland. That report explains the theories which will guide the actions in this report, summarises the policy toolbox which should be used and sets out the principles for what the economy we're seeking to create will be like. This report will propose an action plan rooted in Resilience Economics and will be in three parts. The first part will focus on the short period between the easing of lockdown and the 2021 Scottish Election. It is made up of a series of emergency actions to try and mitigate some of the immediate impacts of the shutdown – but given the shortness of time and continuing uncertainty it is limited in what it can achieve. The second phase covers the four-year parliamentary term starting in 2021. This phase is about growing new industries, focussing on public wellbeing, reforming the public sector and preparing for transition by acting like an incubator phase for the Common Home Plan, Common Weal's Green New Deal. The is the third phase; the 20 years it will take to decarbonise the Scottish economy, reduce its harmful environmental impact to as close to zero as possible and to use the process of transformation to tackle the social harm caused by the old economy.

If this plan is followed we can take head-on this daunting task not with fear or despair but with hope and confidence. No-one will ever remember the virus to be anything other than a personal tragedy for many, many people and a social tragedy for us all. But what comes next can be something better and different. We can move faster to a destination we must reach anyway. And we can improve lives and create a Resilient Scotland in the process.

A VISION FOR SCOTLAND; HOW RESILIENCE ECONOMICS WORK

The report ***Resilience Economics: a model for Scotland's recovery*** explains in detail why the UK and world economies were already failing, how the Covid crisis laid these failures bare and how an alternative can be achieved using a different set of economic tools and theories. This is a summary.

The failure of the UK economy has ben caused by a kind of 'rentier capitalism' (where people make great wealth not by doing anything productive but by using their pre-existing wealth to buy essential assets which others must then rent), by the suffocating dominance of big finance which has twisted the rest of the economy according to its own interests and by the near monopolies of large corporate retailers which have forced smaller businesses out of the market, ruthlessly squeezed the profit margins of supply chain businesses and which then export the profits out of the domestic economy. All of these features of our economy achieve the same thing – they create profit not through productive activity but by using wealth (and power) to extract more wealth from others.

This has created a 'debt economy' in which households and businesses are permanently in debt which makes them vulnerable and insecure. When the virus hit it is this debt vulnerability which did the most initial harm because otherwise-viable businesses temporarily unable to trade in an economy which couldn't function were none the less forced to continue to prop up the profits of creditors (banks and landlords) who were allowed to keep demanding debt payments as if the economy was normal and were not asked to take a hit at all. The banks have been protected and much of the pain pushed onto the small and medium-sized business sector, large parts of which will not survive as a result. The other feature of our current economy which has been exposed during the crisis is the vulnerable and fragile extended supply chains via which multinational corporations maximise their profit. As businesses shop round the world for the lowest level of regulation and lowest labour costs, the distances goods are transported have grown and grown as we have become more and more reliant on these vulnerable supply chains to supply us with the essential goods we need. As soon as the virus crisis began it immediately exposed the vulnerability of those supply chains.

But the same model has also had another devastating effect. Because the old economics prioritised GDP growth above everything else and because the biggest players in the economy had so much political power, they succeeded in avoiding their responsibility for 'externalities'. Externalities are costs that result from the economy but which the economy itself does not pay for, leaving the burden to fall on the public purse. By keeping regulation low and not being accountable for the full impact of production, distribution and disposal, big business has been free to do environmental and social harm knowing the taxpayer will need to foot the bill. The drive for endless consumption growth and the ability to avoid its consequences is what has driven the environmental crises including climate change.

These are the causes of economic, social and environmental failure which existed before the virus but which have been exacerbated by it. They are all the result of an economics which is orientated around lightly-regulated markets being encouraged to achieve GDP growth as quickly as possible. The economy certainly grew, but without any substance to support it it also deflated rapidly when the assumptions underpinning the core theory of economics (the precedence of free markets always able to deliver essential goods) were shown to be faulty. This demonstrates a fundamental lack of resilience in the economy, an economy which it is now clear can only confidently deliver goods our lives rely on if there is no disruption. But disruption is the new normal; the virus threat is only one of many we face and the impacts of climate change will make major global disruption much more common (for example, sudden crop failure as regions face severe weather events).

We must replace this economic model with a new one if we do not wish to put our quality of life at risk. Thankfully there is a body of recent thinking which has created a number of economic theories from which we can derive a new economics. We must replace a profit-maximising ideology with a new focus on resilience. A resilient economy is broad and balanced, productive and useful, has a regenerative relationship with the environment and provides sufficiency (the goods and services we need to live good lives) and security (the confidence that, no matter what happens, in the future we will still have the goods and services needed for good lives – for everyone). A resilient society is one of social cohesion, high levels of public trust, low levels of economic inequality, distributed and decentralised political power, good social infrastructure, excellent public services and high levels of civic participation. A resilient environment is simply one which can provide us with the natural resources we need but can always regenerate itself and those resources because we live carefully in that environment and steward it well. These are the features of a nation which is capable of delivering great lives now but still be able to withstand large-scale disruption when it comes.

Resilience Economics is built not from a single 'magic bullet' theory as is our current discipline of economics but from a set of complementary theories which offer a more balanced interpretation of the economy and provide a broader set of economic tools with which to make public policy interventions. The details of these theories can be found in the companion report to this one. The following is a very short pen-portrait of what they will be like in action.

First, public budgets will not be managed to avoid deficit but to achieve the right social and economic outcomes, with monetary and fiscal policy being used to guard against harmful outcomes like inflation *(Modern Monetary Theories)*. Then the economy and the jobs it creates will become much more productive. To secure national wellbeing we will take a more active role in managing life's essentials like food, housing, energy and transport

(Foundational Economics). We will become less reliant on long supply chains providing often poor-quality goods and will produce more of those goods domestically (particularly in food, light manufacturing and construction). Public policy will emphasise demand predictability to enable enterprises to adapt creatively and scale up to deliver this new production capacity. They will be supported in doing this by a national Diversification Agency *(Creative Adaptation)*. This will maintain more local and national wealth in local and national economies, creating a virtuous reinvestment cycle which will progressively strengthen those economies and shorten supply chains *(Local Wealth Building)*. A substantially higher proportion of the goods we need that can be produced ethically and to high quality domestically will be produced here, greatly reducing their environmental impact. This will allow 'green reindustrialisation' (replacing a low-pay service economy with a high-pay manufacturing economy in the process of achieving the necessary environmental performance) and it will in part be driven by making good products here to displace harmful products currently being imported, which is known as *Green Import Substitution Reindustrialisation*.

Much more of the economy will be owned domestically because it is these enterprises which are most likely to reinvest their surpluses back into the economy. The business base will be much more diverse, both in type and function, and it will be underpinned by universal industrial democracy (*Theories of Economic Ownership*). There will be a much better balance of business types (such as cooperatives and mutuals, social enterprises, worker-controlled businesses and public ownership) and sectors so that we do not become overly reliant on a single kind of business or a single economic activity. This means that if disruption affects one part of the economy, the other parts of the economy can take the strain. This will go along with industrial democracy which not only helps to increase wages and decrease economic inequality but also improves rates of innovation and business stability.

The dominance of the banks will be greatly reduced with a public banking network providing stability for households and small and medium-sized enterprises and a national investment bank providing liquidity for larger enterprises *(Definancialisation)*. Others in the financial services sector will be required to ensure their own future resilience and will be notified that there will be no further bank bailouts. At the same time there will be a return to greater *Economic Democracy*. This will come partly from a process of deglobalisation (globalisation is the removal of economic power from nation states and has nothing to do with rates of internationalisation which must get stronger, not weaker) and partly through greater transparency and reform of lobbying and public financing of infrastructure to reduce the distorting influence of large vested interests.

The economy will be circular and much more shared *(Circular Economics, Sharing Economics)*. This means that goods will be much better designed and built so they are of higher quality, last longer and are repairable. Citizens will have much better goods but at lower cost because by sharing and leasing, the lifetime cost of these better-quality goods will actually be lower. Things we only use occasionally will be borrowed rather than bought outright, saving households a lot of money. Things will be designed to be reusable and we will stop producing disposable and single-use items. Repair and remanufacture will maximise the value of our resources and things which will be disposed off will be designed to return back to nature through composting (which will also give us valuable energy and resources). Anything that cannot be returned to nature will be recycled and must be used as the input for the next round of manufacturing. By using this model we are much less exposed to the risk of resources shortages resulting from disrupted supply chains and are doing much less environmental harm because we are stewarding our resources responsibly – but still managing to both reduce costs and improve the quality of goods that people need and want.

We will have an *Entrepreneurial State*, actively engaging in the economy through everything from regulatory intervention to acting directly (for example through state-owned businesses). It will take not a planning approach (the belief that the exact shape of the future can be stated in advance) but a design approach (the belief that we can anticipate changes and create the conditions best to cope with or benefit from those changes). The state will not be a major producer, but it will actively support producers by taking a much more active role in breaking up distribution monopolies. The state will help private businesses compete much more fairly and much more evenly by supporting them to get better direct market access – there will be much more public and cooperative ownership of distribution platforms to prevent monopoly. But this state must be heavily decentralised or it itself will be monolithic and vulnerable, and local and regional economies must also have their own entrepreneurial democratic public bodies achieving the same things locally as the central government is attempting nationally *(Economic Decentralisation)*.

Finally, we will no longer measure success purely in terms of growth but in terms of wellbeing, with indicators such as average wages, rates of inequality and measures of quality of life being used to drive economic policy *(Wellbeing and Post-Growth Economics)*. The above approach will create economic growth, but that is not the aim. The aim is a better economy not just a bigger one and it is perfectly possible for this economy to get better and better without getting bigger and bigger. When we do this we will no longer view people as consumers but as citizens so we will no longer measure them according to how much they consume but on the quality of their lives. Freed from the pressure constantly to spend and compete we will have an economy which prioritises work-life balance, quality of life, social participation, relaxation and community solidarity.

The main part of this report will describe how we get to there from here.

MAKING RESILIENCE ECONOMICS WORK UNDER DEVOLUTION

As with any approach to economics, it has to be recognised that Scotland's powers over the economy are very limited and that Scotland has no current option other than to work within the broad macroeconomic framework of the UK. It is not inconsequential to seek to pursue one economic model inside another, so it must be approached creatively.

Some of it can be done in a fairly straightforward manner because it is about target and goal setting and culture and approach. Even inside a central macroeconomic framework it is not necessary that the primary policy goal should be GDP growth rather than wellbeing. Simply changing that priority means many current approaches can be adapted in effective ways. In addition to this, the Scottish Parliament has much more power than it has so far sought to wield and much can be done with the existing powers if an Entrepreneurial State model is used. We have a developing example in Scotland with the Scottish National Investment Bank – setting up new and powerful collectively-owned initiatives is within the power of the Parliament and can have a major impact. That approach is used a number of times in this Plan to unlock or accelerate economic activity which is not being created effectively by free markets.

Another reason to be confident that much can be achieved comes from the fact that many things in this Plan can be delivered at a local or regional level. For example, the use of Local Wealth Building has already worked effectively in parts of England and this success can easily be adapted for Scotland. Indeed, the whole of Scotland can act in the same manner to pursue National Wealth Building. As well as this, one of the approaches taken throughout this Plan is to build economic activity on the sustainable and responsible use of natural assets. This is largely for environmental and climate change reasons but it is also a large and enormously under-used resource in Scotland so using the Entrepreneurial State to unlock this opportunity enables the development of a new industry sector on Resilience Economics principles.

These are only a few examples of ways in which it is possible to pursue substantial change without being able to change underlying macroeconomic policy. But there is much which can't. Indeed, there are five important elements which are pretty well impossible to use effectively in Scotland. To understand why it helps first to look at the problem with public investment in Scotland. It would normally be assumed that the standard approach to a crisis of this sort would in effect be Keynesian – countercyclical spending by government to make up for reduced economic activity in the private and household sectors. Set aside Scotland's very restricted borrowing powers, the difficulty for Keynesianism in Scotland is that the second part of the equation is also missing – the tax base to recover the spending. Normally a Keynesian approach assumes that government spends now to stimulate the economy and that the economic activity which that induces creates growth in tax revenues which repay the government borrowing which enabled the government spending. The problem in Scotland is that if this was tried and it worked, the tax base would indeed grow, but most of the revenue would flow to a government which is not the one which borrowed and invested. Scotland has a very limited tax base and that means it simply cannot capture the tax growth that spending induces. This makes a true Keynesian approach very difficult. This becomes an increasing problem if Scotland moves towards a Green New Deal because that is entirely reliant on public investment in transition which is recovered because the transition creates tax growth.

But it flags up three other areas of activity which are so limited as to be near-impossible to do much with. First is tax. Scotland can do little more than tweak around the edges of income tax and this is a period when incomes will be dropping for most people. Resilience Economics would usually address this through wealth and corporation taxes or forms of windfall tax but those are not possible in Scotland. The only real option is local taxation (a Property Tax is outlined below) and while this can do a significant amount to target wealth, it is well short of what will be required. Likewise social security. Most of these powers lie at Westminster, but devolving them doesn't help. Social security is a complex and very expensive system. You can do much to improve it but you need to be able to capture other benefits from the spending (such as reducing future poverty-related costs by reducing poverty). Even if more powers were given to Scotland it would be next to impossible to pay for them because it would repeat the same kind of problem with public investment – the cost lies in one place, the benefits in another. Clearly Resilience Economics would pursue alternative monetary policies and since Scotland has no monetary powers at all that is simply outwith our reach. It is telling to note how difficult it would have been for any of the developed western economies to cope with Covid had they not all been using alternative monetary policies and that shows how much of a weakness this is in Scotland's powers. Finally, Scotland has very limited regulatory powers so it's ability to nudge and incentivise or coerce or require different economic behaviours is similarly limited.

So how does this Plan get round these limitations? The following outlines the approach:

— First, the Plan does not contain a large expansion of public spending for the reasons explained. Whether a 'throw money at it' approach would have been entirely desirable or not, it simply isn't possible. New public spending is limited here to areas where there really is no choice (such as to provide short-term support to industries which are in particular peril but for which are strategically important) and on social programmes.

— To get round this problem and to enable a Keynesian-style stimulus for a transition process a lot is based on reprofiling existing expenditure. In particular, rather than approaching public procurement as a cost base to be minimised through the (mistaken) belief that multinational corporations offer better efficiency, public procurement would be targeted strategically at sectors which we are seeking to grow or develop. By using procurement as a strategic tool and acting in an Entrepreneurial State manner, the Scottish Government can potentially unlock billions of pounds of investment in a transition to a productive green economy without increasing public spending at all.

— Then a lot of additional investment in the Scottish economy is proposed by using Wealth Building approaches. Very few of the profits of corporations are reinvested in the Scottish economy and where they are they are seldom invested in other businesses which in turn invest in Scotland. Wealth Building simply aims to reduce the amount of the surplus generated in the Scottish economy which is subsequently exported out of the Scottish economy. By creating more effective integrated supply chains (again by using Entrepreneurial State approaches) a virtuous investment cycle can be created where as more domestic economy is developed it in turn will invest in other parts of the domestic economy. In Scotland this will achieve a lot more than is possible through public spending.

— The next element is to make business investment as attractive as possible through the Scottish National Investment Bank. Businesses need to have confidence to borrow and confidence in existing commercial banks is low. In addition, there are many types of investment for which commercial lenders have no interest. Many of these are perfectly commercially viable, are social or economically valuable but do not generate the kinds of fast profits which can be achieved through property investment. Unlocking that potential drives more money into the economy without public spending. However few small businesses are likely to be of scale enough to rely on a national bank so the same role should be provided for them by a new public high street banking network.

— Finally, the Plan is heavily based around combining these approaches (Entrepreneurial State, Wealth Building and public-good finance) with elements of the Foundational Economy to unlock enormous potential. In energy, housing, food and land-based industries Scotland has managed to capture only a tiny proportion of the economic impacts of Scotland's 'non-optional consumption'. Rather than the public borrowing to hand out grants and subsidies the cost of which it cannot recover it should instead create structures where it is able to invest in ways that generate wealth it can recover. In land and food and even more so in housing and energy, what Scotland already spends can be used to stimulate entire industry sectors like the manufacture of renewable energy infrastructure, the production of environmentally-sustainable construction materials, advanced wood-based manufacturing, food production and processing and much more. Because these are all very safe investments which will return not only the investment but a substantial profit, this is an enormous opportunity for a massive economic stimulus without any public expenditure.

There are many other approaches to successfully implementing Resilience Economics under devolution which can be found throughout this report but these are the underlying principles.

THE OVER-ARCHING POLICY GOALS

The scale of activity which is required to adapt Scotland's economy to climate change and the other environmental threats was already very large and the size of this task has grown further as a result of Covid. It will be difficult to maintain coordination, coherence and focus throughout this process if there are no strong guiding principles which can inform the many people who will have to deliver this agenda. There should therefore be a set of top-level principles which should drive and guide all the other activity. It is possible to produce a very large number of these but that in itself would be counterproductive and confusing. The following are therefore a set of 11 core principles which should act as the top-level guide.

We must be productive and useful

Scotland must create an economy which is more productive and useful and which reduces low-pay and insecure jobs with high-pay, secure ones.

We must strengthen the domestic economy

Scotland should do much more, within the law, to prioritise domestic productive business over profit-exporting corporations and help and encourage those businesses to develop themselves as part of a new green economy.

We must reduce debt burdens

Scotland must reduce the debt burden which undermines household and business resilience.

We should get property price inflation under control so excessive rents and mortgages don't undermine the economy again and we should regulate the drive to make households take out more debt for consumption.

We must make banking safe

Scotland should make banking safe and boring again so that a trustworthy and resilient banking sector can be relied on to provide crucial services – but with risk-takers being allowed to fail.

We must transition away from low-pay industry

Scotland should reduce the volume of corporate retail and transition away from a reliance on the low-pay service sector as it shifts out of low-pay sectors of the economy.

We must pursue green reindustrialisation

Scotland must begin a major programme of green reindustrialisation and increase domestic manufacturing capacity to create high-pay jobs to replace the low-pay jobs we are leaving behind.

We must create equitable access to resources like land

Scotland's recovery must be driven in part by land-based industries and so land reform will be crucial.

We must have active but decentralised government

Scotland must adopt an 'entrepreneurial state' model working to a national industrial strategy, but it must decentralise and give much more power to regions and individual communities.

We must have more domestic economic ownership

Scotland must substantially increase the proportion of its economy which is domestically owned.

We must move quickly towards a truly green economy

Scotland must use the economic rebuilding post-virus to move rapidly to start a radical Green New Deal to deliver a fully green economy well before the deadline for this set by science.

We must end poverty

Nothing in Scotland's recovery and its subsequent reindustialisation process must be considered if it does not decrease economic inequality and poverty.

We must prioritise productivity improvements over short-term growth

Scotland must focus scarce resources to maximise their best, long-term returns.

We must prioritise creativity over consumption

Scotland must treat all its people firstly as creative human beings, not as consumer or production units - especially when deciding hours worked and income distribution.

WHY SCOTLAND CAN LEAD

There is a reason Resilience Economics is being developed in Scotland. It is because very few nations anywhere in the world have anything like Scotland's capacity to achieve this transition quickly. This is a function of our size, the nature of our population, the volume of natural resources and the quality of our economy. In fact our abundant land, forestry, food and energy resources pose the question as to why we have not begun this transition already. The enormous economic and resource advantages Scotland has is discussed in more detail in the ***Resilience Economics*** report but is summarised here.

We have enormous *land resources* which are woefully under-used but which can provide a large volume and range of valuable natural resources such as timber, food and energy. These will drive the supply chains for the transition. We are a *net food producer*, producing more calories than we consume domestically and have the *largest clean energy resources in Europe*. Scotland has Europe's *highest capacity for reforesting* and this means a bountiful supply of source materials for everything from the construction industry to the development of an advanced bioplastic industry.

Scotland combines all of these resources with *advanced modern infrastructure and institutions* and one of the *most educated populations* in the world – many places with our natural resource potential still have developing economies. Scotland has powerful universities with a strong track record of *innovation and research excellence*. As well as land resources we have very *large sea resources* for everything from transport to fishing and energy. We are in a very *secure geopolitical location* with low likelihood of conflict. We have a *good level of political stability* domestically and a comparatively broad political consensus for a move towards a Green New Deal. And of course we have an *advanced modern economy*.

The only thing Scotland doesn't have is sufficient political power. Many of the policy areas that need to be addressed to deliver a proper Green New Deal remain reserved to Westminster and Scotland's fiscal and monetary framework make it impossible to finance a transition which it would otherwise be straightforward to pay for. It is not really possible for Scotland to pursue this economic agenda if it has to do so against the grain of Westminster policy which is not likely to move in the same direction. Common Weal believes that Scotland needs to achieve independence if it wants to deliver a transformation of this nature.

A Resilience Economy is based on domestic capability and access to resources. Scotland has these in great abundance and there are few other nations with Scotland's capacity to achieve a transition as effectively, efficiently or quickly. While the pace of change of this transition may have been forced onto Scotland by the Covid crisis, a basic analysis of national strengths strongly suggests this is the direction in which Scotland should move anyway.

TECHNICAL ISSUES AND CONCLUDING POINTS

There are some technical issues with the implementation of Resilience Economics that need to be addressed. First, compliance issues. Much of the legal regulation of Scotland's economy derives directly from the European Union, which means there is a large degree of uncertainty as Brexit remains unresolved. This is complicated further since the post-Covid period means many opt-outs from EU rules will be used across the continent and its not clear how they will be policed. Already most nations are well out of lines with fiscal rules and trade and state aid rules have been bent or broken by many governments. This means that some of the difficulties with legal compliance that might have arisen under other circumstances may not arise now. In fact, it is almost certain that the small number of approaches which might otherwise have caused difficulties for compliance which are contained in this report are simply not going to cause difficulties in the medium term. The vast majority of what is contained is clearly compliant with EU rules. This Plan has been developed on the basis that it will start to be implemented inside a UK going through Brexit but designed so that it does nothing to hamper an independent Scotland from applying for EU accession. As this will be an important matter for many it is discussed in more detail in ***Annex A*** (which will be published as part of the complete report and is ommitted here to avoid repitition).

The next issue is that this Plan does not arrive in a vacuum. Scotland has a complex range of government agencies, policies and initiatives and these inevitably represent the starting point for the implementation of this Plan. Some current policies and initiatives are taking tentative steps in the right direction, but others will require more substantial revision – or to be replaced altogether. The Plan also calls for the establishment of a new structure of government agencies, but again many of the component parts of this are already in place.

Among those agencies there are substantial differences in issues like capacity, structure, roles and culture which mean some need only to be directed towards the new agenda while others will need to be amalgamated and some probably need to be replaced. Because of the complex (and often confusing) policy and agency landscape even mapping it is a substantial piece of work and this already lengthy report would become much longer again if this was to be done here. For these reasons the Plan sets out where we need to get to but does not attempt to provide detail on its implementation into existing structures, so follow-up work will be necessary if this is to be implemented.

Finally, the vast majority of the content of this plan is based on pre-existing policy work which has been published by Common Weal. That work is all available on the Common Weal website and it is all referenced in detail. ***Annex B*** (again, to be included in complete final report) provides a guide to the key reports, so those references are not replicated here.

In conclusion, the above section has set out the underpinning basis of the plan contained in this report. It sets out the economic framework underpinning a transition to a new economy, states a few of the top-level goals and explains why Scotland is so suited to leading the world in this transition. The remainder of this report will now explore the three phases required to reach this destination.

PHASE ONE: EASING OF LOCKDOWN UNTIL HOLYROOD ELECTIONS

This is by far the most difficult part of the Plan to write at this time, simply because there remains limited information on how and how fast the economy can begin to reopen and with what restrictions, or precisely what kind of social and economic damage will have been done during lockdown. However it would be irresponsible not to begin preparing as soon as is humanly possible and while the detail cannot be known there is more than enough we do know to begin planning immediately. Whatever happens during this phase it has to be assumed that there will be ongoing and substantial constraints on what we have come to understand as ‘normal’ economic activity. It is worth spelling out a few of these constraints, with a heavy disclaimer because of ongoing uncertainty. This list is in no way comprehensive.

— There will almost certainly remain some degree of *restriction on mass gatherings for an extended period.* This is likely to hit the entertainment, sports, performing arts and hospitality sectors and large-scale retail and tourism. In some cases (sport, festivals) the impact will be debilitating.

— Irrespective of what formal constraints are put on public behaviour there is very likely to be a *shift in individual behaviours*. People may choose to avoid spaces even if not prohibited – shopping online rather than in crowded retail spaces, avoiding large or cramped bars and restaurants and so on. Behaviour may drive shifts which rules don’t. This may well hit the same sectors as a formal regulatory regime – but there are almost certain to be unforeseen outcomes from individual behaviour shifts.

— We will be affected by *what other nations do*. It is far from clear that mass international travel will return to previous levels even in the medium term, either from consumer choice or governmental restrictions. This is almost certain to hit the tourism and hospitality sectors hard and potentially for a prolonged period. It may have less of an effect on the export of goods but may have a bigger impact on the export of services. The impact on global supply chains is not knowable and these may remain robust – but they may not.

— There is going to be a *sharp and sustained drop in immediate economic activity* no matter what we try to do. Many businesses which were viable-but-only-just will not regain viability. Given that more than half of UK businesses don’t have three months of reserve capital and that their markets will almost certainly reduce at least in the short term, they cannot all be propped up successfully. Some of the shifts in the domestic and global economy and in individual behaviour mean some of them almost certainly face a future without a viable business model. This will immediately have knock-on effects.

— One effect is that it will be very difficult indeed to avoid a *sharp drop in demand at least in the medium term* as the drop in economic activity filters further through the economy. There is a good chance that it may be exacerbated by individual behaviours – it would be wise for people to prioritise building up their own savings as a buffer and this may further reduce spending. It is quite difficult to see how the usual stimulus measures can work if they're not carefully targeted and its hard to justify pushing people back into a debt-consumption cycle for the sake of corporate retailers.

— In turn, there has already been a *sharp drop in production* and many conditions are already forming which mean it is unlikely to return quickly to previous levels. Any kind of physical distancing or travel restrictions will be likely to reduce productivity and, combined with demand reduction, the drivers for a rapid recovery of production may be absent.

— There may then also be a *solvency chain-reaction* if enough enterprises don't survive. The impacts on commercial property rents and unpaid debts or unfulfilled orders will then be felt by another range of businesses. In turn that will have an impact on asset values in the financial services sector (many investment funds are already heavily exposed to commercial property investments which are over-valued). The extent of this chain reaction may be limited by government action, but this may then simply build up more unsustainable economy activity which will topple over in the near future.

Factors such as these make it seem unlikely that there is going to be a fast recovery – or any kind of recovery which takes us back to where we were before. There is also a real risk that an enormous public effort (and enormous amounts of public money) may be thrown at trying to achieve an unachievable outcome simply because the policy agenda does not adapt beyond old thinking. In the longer term this Plan proposes to address this by bringing in a new model of public economic thinking – Resilience Economics – and that this enables restructuring rather than attempts to prop up markets while they 'restructure themselves'. In the very short term it will require difficult decisions to be made about what should be saved and what cannot be saved.

There is another big factor in the immediate term; the emergency economic strategy in Scotland will have to be produced with most of the needed emergency powers resting at Westminster. It is unlikely that Westminster is going to follow a Resilience Economics approach since it will almost certainly wish to ensure the interests of the City of London's bloated financial industries which will have a knock-on effect on the rest of the economic strategy since it will have to involve activity to artificially bolster asset values (property prices, share values and the web of 'products' on which modern finance has gambled much of their business model). But high asset values will inhibit a move to resilience. This means that what Scotland does will have to accept that we are targeting what it can rather than leading a coordinated strategy.

But there is a final important point here; unless we choose entirely to accept a 'Four Nations' approach to rebuilding and simply accept a subordinate position within a UK strategy, we need to set out the long-term plan now so that the short-term plan is moving in the right direction, otherwise the response will be disjointed as we try to follow 'old economics' in the early months and then discover that they don't work any more. That is why this strategy begins with the philosophical approach – to help set the terms

So the following cannot be a comprehensive early intervention plan but can indicate a number of things we should definitely do (emergency powers, procurement) and some things we can current identify as being especially important.

Emergency Powers

There will not be time in the immediate future to enable a wide range of power transfers from

Westminster to Holyrood simply because the adaptation on either side will not be achievable in the few months available. This does not mean Scotland is not in need of more powers to deal with this crisis – it is – but does mean that in the immediate aftermath of lockdown we should be focussing on a small number of powers which are needed which can rapidly be transferred.

There are two major priorities here. The first is that the *Scottish Government's borrowing cap must be lifted immediately* to enable it to raise the finance to implement a proper recovery plan. This is achieved quickly and easily since the Scottish Government already has capped borrowing powers and removing (or at least substantially increasing) the cap is administratively easy. This is not without some risk to Scotland – without proper fiscal or monetary powers Scotland's ability to deal with the debt load once the immediate crisis has subsided will be limited. But there really isn't any alternative unless the Scottish Parliament is content to live on some form of emergency grant funding from the UK which would be an alarming level of dependency.

The second priority is also about freeing up investment capital – the *Scottish National Investment Bank must be given immediate dispensation from the UK Treasury* to be recognised as a proper bank. This will enable it quickly to capitalise from sources such as pension funds which will be looking for the safe and reliable investment opportunities that a national investment bank offers. This is not a source of 'grant funding' – to be treated like a bank SNIB must behave like a bank and all its loans must be viable, commercial and only made where they will be repaid. But this offers two immediate means of stimulus. First, dispensation would enable SNIB to lend to public agencies such as local authorities. This would mean that big infrastructure projects can be brought forward to provide some economic stimulus. Second, it immediately opens up the ability to pursue a large-scale public housebuilding push which is financially self-sustainable (a forthcoming Common Weal paper shows how this can be done to a very high standard with low rent but no public subsidy at all).

It also opens up slightly longer-term possibilities which can be developed immediately. Prime among those would be to set up the National Energy Company and start developing renewable energy projects which capture all of the manufacturing in Scotland immediately.

Find out if a Universal Basic Income is possible

A Universal Basic Income is not a magic bullet solution to poverty and inequality or to creating resilience. It can have negative effects as well as positive effects if implemented in the wrong way and introducing it without building it into a coherent systemic framework designed to reduce the causes that require one in the first place would be likely to emphasise more of the negative effects. However, with these caveats and the warning that there are no magic bullets, nevertheless a Universal Basic Income is one of the most hopeful ideas we have for creating economic sufficiency and security for all and it must be explored very seriously. This may become a priority in the aftermath of lockdown depending on the eventual impact on unemployment levels and the short-term alternatives give reason for deep concern.

However it is probably best to approach this issue with the assumption that it is impossible in Scotland and highly unlikely at the UK level. Without full social security and tax powers there is absolutely no way this could be paid for in Scotland (most proposals involve restructuring tax allowances and integrating social security spend in the funding package). And since the UK has appeared to do everything it can to avoid introducing a UBI even during the peak of the Covid crisis it seems unlikely this position is going to change. There is no reason this could not be done in Scotland alone if there was full UK cooperation and it would certainly be worth rapid discussions with the UK Government to see if there is any chance it would be willing to consider this – but it seems unlikely that it would be wise to approach this optimistically.

This doesn't mean Scotland couldn't attempt an approximation of a UBI or some targeted form (such as a more limited 'food budget' which provided a weekly or monthly payment loaded to a card which could only be used for food) and it does have the power to do these. But again, this should only be considered if it is universal (or it is just another emergency poverty fund) and if it is universal and set at a meaningful level it becomes very expensive very quickly (a monthly income top-up of £100 would result in an annual cost of over £6 billion). Some rapid modelling of options would be worthwhile, but once again it should be assumed that this will be hard to introduce under devolution.

Set up a Transition Academy

Perhaps the biggest threat to successful implementation of this plan will be the problem of public sector officials who simply respond by 'doing what they always did in the way they always did it'. Post-Covid this would lead to futile attempts to restart mass corporate retail as before, handing work to big corporate builders through PFI contracts and prioritising the interests of the financial services sector. But these supply-side measures are very likely to fail, which is why this plan is based on a new approach to economic development.

Getting public officials to absorb fully and correctly the new approach will be a crucial element of delivering it. The fastest way to do this will be to establish a 'Transition Academy'. In the longer term this should be a training and development centre to help public policymakers adapt properly to the new policy imperatives which will come from climate change. In the immediate term thinkers and trainers should be recruited very quickly to produce a 'crash course' presentation for public officials to make sure they fully and properly understand the nature of the strategy being pursued and in no doubt about the need to pursue this strategy and not those which predated the crisis.

Major procurement reform

This is a crucial step. The immediate recovery strategy set out in this Plan is largely based around Wealth-Building and reinvestment. To achieve we must maximise the amount of public resources which can be mobilised to help and support Scottish businesses. By far the fastest way to do this without additional spending is to reprofile public procurement spend. At the moment (despite years of campaigning by Scottish businesses and others) this field of public activity remains deeply embedded in a corporate ideology. The belief is clung to (despite evidence to the contrary) that shaving small amounts off of contract prices is the best public service and (despite evidence to the contrary) that the best way to do this is to hand overseas corporations massive bulk contracts. This ideology is reinforced by inappropriately close relationships between public procurement officials and these powerful corporations.

There are two very important reasons this must be at the heart of the strategy. The first is straightforward – in a period where domestic businesses will probably see a sharp drop in demand it is important to try and shore up demand where possible. Public procurement can do that. The second (and in the long term more important) reason is that to enable an economy to transition successfully the enterprises you want to deliver that transition need *confidence in planning horizons.*

To give an example; if you want to encourage the creation of jobs in a local economy by increasing the amount of local food production and processing (baking, butchering and so on) then it can easily be achieved – if businesses believe they can scale up or diversify without taking on major risk. If they can be reassured that if they double capacity or invest in new capacity to produce new products, they will have the confidence to make the investment required, knowing their business will be sustainable. The best way to do that is to *guarantee businesses order books as part of an industrial policy*. If a bakery is to create new jobs by scaling up production it must know that it has a long enough period of guaranteed orders (for example from local schools) to know the investment will not jeopardise the future viability of the enterprise. This process can be used for reprofiling any government procurement which can be fulfilled by domestic businesses.

There is a small number of steps which can be taken immediately to stop this money leaking out of the Scottish economy into the pockets of global shareholders and keep it in and therefore boosting the Scottish economy.

— Contracts should be broken down into the *smallest possible individual contract sizes* to allow smaller business to compete.

— The application process which must be completed to be eligible for compete for contracts appears designed almost explicitly to rule out small producers and hand contracts to big business. It should be scrapped immediately and the 30-plus pages of forms required (the same form whether you are a multinational corporation or a tiny local business) should be *cut down to a tiny fraction to enable applications from smaller businesses*, stripping the process of the burden it currently imposes.

— There are many *opt-outs from requiring the open tendering process* which favours corporations, even under EU procurement rules (a very restrictive interpretation of which continue to be the basis of Scotland's procurement rules). Much conditionality can be added to contracts such as local organic conditions for food, training requirements on businesses, simple opt-outs on procurement which involves nationally-essential research and development (for example construction procurement requiring advanced wood technologies) and requirements on the employment of 'vulnerable groups' (which could include the locally unemployed). In any case, *EU rules are currently being interpreted much more loosely* as a result of the Covid crisis.

— Finally, every remaining form of *PFI being used in Scotland should end immediately*. In the medium term the necessary financing for public building work can come from the newly-empowered National Investment Bank. It is essential that a system which has allowed massive volumes of public money to be skimmed from public spending for no return by Big Finance should be ended immediately.

Public rental housebuilding and targeted public infrastructure development

A *large programme of public rental housebuilding* should be started immediately. This should be delivered by domestic small and medium-sized builders based on the expectation that they will use the contracts to adapt their businesses to new renewable construction methods based around Scottish-derived wood products. They should get guaranteed multi-year contracts to enable this and they should all be asked to scale up. This must be linked to an *industrial strategy for rapidly building up Scotland's supply chain of domestically-sourced building materials*.

Crucially, this does not require any public investment or subsidy. Common Weal published a paper explaining how long-term borrowing from SNIB in combination with the use of Land Value Capture means that very high quality housing (to passive house standards) can be built without any subsidy. A three bedroom house currently costs about £1,400 to rent, heat and maintain; using the methodology created by Common Weal a much better three bedroom house would only cost £820 per month in rent, heating and maintenance. There is no limitation to the scale of this initiative other than demand – however many people want a high quality public rental house Scotland can build that many houses.

There will be immediate calls from large construction corporations for a package of public action to make up for likely lack of demand from the private sector. Any support must be carefully targeted. They will argue for the rapid commencement of any shovel-ready projects and are also likely to ask for reduced regulation and planning requirements on commercial developments. The former has the capacity to be a very substantial national waste of money if the new infrastructure does not fit closely with public need post-virus and with the strategy contained within this Plan. While infrastructure construction corporations do provide employment and support some domestic supply chains, none are domestically owned and so any expenditure on these projects will involve a large amount of economic leakage out of Scotland's economy. In many cases it would be better to transition workers into domestic house-building. But there is a case for using *some targeted infrastructure spending as a stimulus* on the conditions that (a) there is a very strong public benefit from what is being constructed and (b) there is very careful consideration of how to make sure this spending is leveraging maximum benefit domestically and (c) it is financed through direct borrowing and PFI is not involved. Allowing corporations to bypass planning regulations to build new commercial and retail capacity in Scotland makes no sense at all. The last thing we need is more retail capacity, property speculation or commercial property price inflation.

Large volume housebuilding corporations will also seek subsidies and dispensations to stimulate the private property market. Bulk private housebuilding incentives from public money should be resisted with vigour; it would be very bad for the post-virus economy if house price inflation is encouraged when the opposite is required. Scotland's lack of good housing availability is in the rental sector and there are better ways to deliver that than by letting bulk builders extract wealth.

Devise a mortgage-to-rent scheme

The combination of over-priced housing, over-mortgaged households and the impact of the virus is a potentially toxic mess which could easily lead to widespread house repossessions. This has the capacity to have a devastating effect on Scotland, economically and psychologically. It is possible that this scenario is avoided but it would be risky to deal with this looming threat by crossing our fingers.

The policy goal is simple; to *keep families in their homes*. But it has a second important element; it must do that without a massive transfer of wealth from the public realm to the banking sector. Scotland should therefore develop a full plan for a *mortgage-to-rent scheme*. Any householder who is at risk of repossession should be able to ask the Scottish Government to provide a mortgage-to-rent option. Under this scheme the Scottish National Investment Bank would buy-out the house outright and it would then be rented back to the householder at an affordable rate and taking into account mortgage already paid. To achieve this the Investment Bank should be able to aggregate groups of mortgages and negotiate aggressively with banks who will be required to take a substantial *'hair cut' on the value of the houses* – perhaps as large as 50 per cent. Householders would then get a 'permanent lease' which would enable them to stay in their homes as long as they want, and to be able to treat those homes (in terms of adaptation and renovation) as if they are still homeowners. Families who have lost income can then be in a position to stay in their communities in their existing homes but with much lower costs. These houses might then form a large public rental portfolio across Scotland or might eventually be sold back to the householder in an equitable way which does not lead to further wealth concentration.

If this system is not used then fine. If it is required, it is there.

Tourism rescue package

There are two reasons to prioritise tourism. First, it will see a bigger reduction in activity than almost any other industry sector because of the immediate and probably ongoing reduction in international travel. It is not clear what form tourism will take in the future – left alone it may return to something like the current pattern, but it is quite possible it does not. The second reason for prioritising tourism is geographic – there are parts of Scotland whose economy has become almost totally reliant on tourism and the localised impact on these areas will be potentially severe.

This should not be taken to mean that it is desirable to return to the tourism we had; it is not. Scotland was facing unsustainable and harmful over-tourism in many areas, imposing environmental and public infrastructure pressures which were directly and increasingly harmful. Scotland wants to be a global nation, but that does not mean we should accept this level of harm. Another reason we should not want the return of this tourist industry is the regional 'crowding-out' problem. As with so many places the profits to be made from 'fast tourism' (low quality, high volume, high impact) have crowded out other forms of more sustainable employment and created communities excessively reliant on only one sector. This is why we shouldn't want to go back to where we were, but it is also why we have little option but to take steps to support tourism because there is little current alternative in many places.

The difficulty is knowing what is possible. If international tourism and travel bounces back relatively quickly it may be possible simply to provide interim support until that happens. If it doesn't (and it is likely to be a while before it reaches anything like previous levels) then it may not be possible to sustain businesses for long enough to save them. The response to this would be diversification of business model – but without knowing what restrictions will be in place it may not be easy to create a new business model in the short term.

For planning purposes let us assume that much of the period until the Holyrood elections will see restriction on gatherings to 50 people or fewer. This still leaves substantial opportunities for many aspects of tourism in Scotland to keep operating, and this is particularly the case for tourism outside the cities. The most obvious way to sustain these in the short term is via domestic tourism, and it is possible that a business model which caters more for domestic tourism may be a key to long-term viability (it has very positive cumulative economic impacts). In the short term it will be much better to direct subsidies to the tourism industry in a way which helps to stimulate that domestic market and create a stronger culture of 'holidaying at home'. It certainly makes no sense to provide financial support to keep capacity empty.

It is therefore proposed that there is a rapid development of a *diversification strategy for the tourism industry*. This will require serious large-scale thinking. For example, in what ways can tourism capacity serve other needs such as conferences and events? Can Scotland generate more of a mini-festival programme based around smaller festivals and events outside cities which can create greater demand on capacity? If this plan is followed there will be widespread reindustrialisation, so are there ways in which tourism infrastructure can have dual or multiple uses in supporting this? Perhaps more of Scotland's workforce will need to be based in rural areas for periods of time and perhaps there are ways to use residential capacity to support that.

In the immediate term there will need to be some kind of stimulus. Everyone resident in Scotland should be given a *tourism voucher of £100* which they can spend on a hotel stay or on any other tourism activity. It is important that this is not subsidising large corporate entertainment complexes in cities but is limited to Scotland's domestic tourism sector. The cost of this will be in the order of £500 million, but this is a small cost in comparison to the economic cost of the impact the collapse in tourism will have on communities. This will lead to a multiplier effect – people will spend their voucher but will spend more, such as paying for extra nights of stay, spending in restaurants and cafes while they are there and so on. This should be supported with a national 'Holiday at Home' marketing campaign.

However, it is also important to start making some tough choices. Where parts of the country have orientated themselves to serving large cruise ships or extremely dense short term property rental it is simply not wise to prop these up as if they are likely to return in the same form. It is likely that not all of Scotland's tourism industry can be saved in the long term and it would be better for some of these small businesses to be supported in transitioning out of tourism.

Events and hospitality rescue

Unless there is a complete relaxation of physical distancing measures and public attitudes to crowds quickly return to something like the pre-virus situation, it will be virtually impossible to maintain public events at anything like the scale pre-virus. This will hit sports, music and theatre, conferences, festivals and much more besides. Some businesses involved in the extended supply chains for these events may simply not survive. At the moment it is hard to see how that can be prevented and so a diversification strategy and retraining for former staff will be needed. In time this sector will recover or reestablish itself, but patterns of international travel and the increasing use of digital communication may mean that both festivals and conferences look somewhat different in the future.

When we do get to a proper 'reopening' phase it will be helpful to give a serious boost to the entertainment and events industry. Some form of *'Festival of Scotland'* could be a strong response to this. It's form could be almost anything, though this in itself is a risk (as per Millennium Dome, best to have a clear plan with some proper thought given to content long before logistics are considered). Using venues across the country (and creating some outdoor venues for big events) a national programme of events could tour round the country creating rolling programmes of events for as long as six months. This is probably a better model than concentrating the whole event on a single site since the impact of lost activity will not be concentrated in one site. Conceptual planning for this can begin immediately.

More pressing is the hospitality industry. Quite how affected it will be is not clear, but both businesses that fail to reopen and businesses that will struggle to keep going will have both social and economic impact. As it is almost certain some restrictions on size of gatherings remain in place for a protracted period, smaller venues may have more chance of being sustainable than bigger ones. Larger venues are much more likely to be corporately owned so bailing them out does not fit with this Plan (though finding legal ways to differentiate will not be straightforward). If restrictions remain in place then they may require either to be mothballed or allowed to close with the possibility of reopening as a venue later. The focus should be on supporting small, independently-owned bars, restaurants and cafes. To support those in the short term a *voucher scheme for hospitality and entertainment* as for tourism should be introduced with every resident of Scotland getting a £30 voucher to spend in one of these establishments.

Beyond this and the support that can be provided by public procurement (the public sector should be ordering lunches and coffees for events from local small businesses) the biggest factor for the hospitality sector will be rents. Generally the level of 'rentier' activity in the economy is far too high and is one of the main wealth concentration mechanisms encouraged by recent economic policy. In many cases it is the high property rental costs which put most pressure on small and medium-sized hospitality businesses and it is the continued collection of that rental during lockdown which is the primary cause of businesses going bankrupt. The result of this and the almost certain decline of high street retail will put downwards pressure on property values but probably not quickly enough to save small businesses. While it is more complicated to implement than for housing, a process of *'convert to social landlord'* similar to the 'rent to mortgage' scheme should be explored. The public sector can negotiate (through SNIB) the purchase of the venues being rented by at-risk businesses or if that is unproductive can use Compulsory Purchase Orders. They can also purchase long term vacant retail spaces and support businesses to relocate. In all cases aggressive negotiating would enable purchase of these properties at a price well below previous market value and therefore can rent them with much lower costs and more security to support small businesses.

Arts rescue

The arts sector is varied and different sectors of the arts will be impacted differently. However many artists will struggle after lockdown and especially performing artists as gathering size remains limited. Scotland cannot lose a generation of artists or leave them in penury. There must be very sharp increases in public investment in the arts. First, the flawed Creative Scotland model must not be used to provide artists support. Rather a means of enabling a flourishing arts scene via a form of Universal Basic Income for Artists should be developed, with a means of identifying eligible artists. In return they would be expected to help deliver a massive national project to stimulate arts and culture in Scotland. This could be linked to a Festival of Scotland.

But there will still need to be funding for those whose arts practice requires infrastructure (especially theatre, film and visual arts). Grant funding should be provided on a project-by-project basis. This may need to be handled creatively – for example, if theatre is impossible to stage for a period of time then broadcast and film may be the route for artistic output. There is a very strong case for *immediate and substantial funding for domestic film and broadcast* anyway and making this happen would be a valuable legacy of the virus.

In the longer term once restrictions are removed a *national campaign to get people to support the arts through attendance* should be mounted. This could be supported by a voucher scheme similar to that for hospitality and tourism.

Set up a Diversification Agency

It is very important that policy-makers and economic development practitioners quickly come to terms with what is likely to be happening in the economy. Attempting to 'return things to normal' is almost certainly futile. Scotland's economic strategy has been largely focussed on retail, entertainment and the construction of buildings for retail and entertainment. Ironically it is the latter which is likely to make the former unviable – booming retail was used to speculate on land and buildings which became large (and largely over-priced) elements of the wealth management industry. It is the fact that these buildings have been used to leverage other borrowing in the complicated financial markets that mean there are now major consequences of them losing value – and this is why landlords continue to milk rent despite the fact it is cannibalising their own market.

Policy-makers must recognise this immediately and refrain from trying to restore the economy 'as it was' – because it will fail as a strategy. The economy can diversify as a result of creative destruction (letting industries and businesses fail and waiting until the 'market' replaces them) or creative adaptation (actively working with at-risk sectors and businesses to transition to a new role in a diversified economy). Scotland simply cannot absorb the volume of pain that would be inflicted by creative destruction – a process likely to be substantially worse than the 'creative destruction' the nation saw through the deindustrialisation of the 1980s. *A policy of creative adaptation* must be taken

There are conditions for this. First, there needs to be a vision for what we are diversifying into – and guessing is risky. This is why the plan is based on a model of Green Import Substitution Reindustrialisation – this is predictable and largely within our control in Scotland. It is also why it is important to see this as a transition into a Green New Deal because that too provides some certainty. So long as we can *guarantee there will be sustained demand for new industries* we can support existing industries to transition.

Second, there needs to be a mechanism for delivering a diversification strategy. This is a departure from existing economic development practice in Scotland which currently mirrors the UK's 'bail it out or let it fail' binary so *a Diversification Agency should be set up*, which will require a rapid recruitment process. It must then be given political guidance – the instruction to allow the retail sector to contract, the guarantee of future demand for timber products in a Green New Deal, the promise of the support of public procurement and so on. Within that framework the Diversification Agency should analyse opportunities at every stage in the supply chain, provide this information to transitioning businesses (or 'phoenix enterprises' which are rebuilt from the ashes of businesses which failed because of the virus). The Scottish National Investment Bank should then lend to and support these businesses based on the solidity of a business case, with that solidity a dual function of the enterprise and the state.

Third, this absolutely must be a coordinated and networked approach. Building up supply chain resilience cannot be done unless the Diversification Agency is working with the entire supply chain to ensure that approaches are properly integrated. Diversification will require innovation and research and development so *close links with universities must be built*. There will be substantial training requirements which will need to be coordinated with this plan (see next section).

There is one sector which it is worth mentioning specifically. The factors which are threatening the North Sea Oil industry are accumulating all the time. The collapse in oil prices (and the sustained likelihood that they will remain lower as travel reduces) may prove a final nail in the coffin of North Sea Oil. If it doesn't then climate change will, just at a slower rate. There is a real opportunity for an *oil industry diversification strategy* (many of the supply chain companies in the oil industry can be adapted to supply the hardware for delivering a Green New Deal). An immediate start should be made on developing a plan for a post-oil Scotland.

Skill Transition Programme

If this Plan is followed it will lead to the creation of many new jobs – but in many cases they will require different skillsets to jobs which are being lost in the economy. On the whole this is good because the new jobs will be higher skilled, more sustainable, more productive and better paid. But it does leave a skills gap and this must be addressed quickly. There is another way to look at this; virus or no virus Scotland has to start taking climate change and the other environmental crises seriously by introducing a Green New Deal. But the biggest barrier to a Green New Deal is lack of workforce, so this is an excellent opportunity to prepare that workforce.

The exact nature of the skills will depend to some extent on the industrial strategy which is adopted. If this Plan is followed then some elements are clear. First, we will need many, many more skilled trades to undertake the installation of heating networks and to improve the thermal efficiency of all homes. This means training as many as ten thousand joiners, electricians and plumbers, but since they will be guaranteed employment for 25 years this is a good investment. In the short term this skillset can support a rapid public rental housebuilding programme. Second, there will be a need for many more people in land-based industries, especially professional land managers. Eventually we may need as many as 20,000 of them.

Then there is a wider range of other training needs. As we move to a greater volume of advanced manufacturing (particularly in wood) then we will need a workforce with the skills that industry sector will need. This will vary from materials science, computing and engineering to forest management and primary wood processing. As we stimulate a larger domestic food growing and processing industry we will need everything from horticulturalists to butchers and bakers.

Then there is going to be a lot of set-up of new systems and structures for an extended period of time. For example, if Scotland moves quickly on a domestic and publicly- or cooperatively-owned food distribution system or a People's Bank or new multi-manufacturing sectors then a wide range of different skills will be needed. All of this provides both hope for a new economy and an immediate route forward for people who were in industries or businesses which are declining or collapsing with little chance of recovery.

But there is more than individual skill required – businesses will need to learn to adapt too. For example, construction companies will need to be supported to transition to the new building practices that will be required to create a resilient and sustainable future for housing and construction in Scotland. Others may make even more radical departures in business model (for example supply chain providers may be encouraged to move from managing imports to domestic production and manufacture) and new businesses will be set up. They need to be supported in the transition.

Of course Scotland is already a high-skill country with many businesses already working in new ways. We need to make use of existing skills and not only focus on retraining. For example, for many years the financial services sector has recruited engineers and scientists who have been attracted by large salaries and as financial services declines as a proportion of the economy those skilled people can return to using their core skills again.

So Scotland needs *a Skills Transition Agency* which would do seven things:

— Work on a *national skills plan* based on the industrial strategy, mapping out what skills are likely to be needed and when

— Liaise with transitioning and potential start-up enterprises in a two-way process, identifying their training needs but also providing them *advice on emerging business opportunities*

— *Provide a guarantee of relevant retraining* for anyone who has lost work during this crisis or was out of work before, provide them with a menu of options and help them to make the right choice for them

— Liaise with the college and university sectors to *create the necessary training programmes* and then match people with those programmes

— Work with universities and colleges to create *business transition consultancy services*

— *Match businesses (new or existing) with transition support*, both consultancy services and also peer support from other businesses

— *Match people* who have retrained with businesses who need them

Begin what comes next

This phase of the Plan may not last long depending on when it can begin properly. It has focussed on a smaller number of actions mainly in the economic field to deal with the immediate economic impact of what is happening. But this does not mean the rest of government should try to return to normal. It shouldn't. The most nonsensical thing to do would be to spend time restoring approaches that it was already clear needed to be changed or adapted.

There is only a limited amount of this which can be done during the emergency phase but it should be begun. The elements of this will mostly be delivered during Phase Two and so the policy approaches will be discussed there. But some of them will need to begin immediately anyway (dealing with the school exam problem) and others may turn out to be urgent (establishing a People's Bank). The following is a list of some priorities which should begin immediately:

— Move away from the system of school exams as it exists and replace it with a new system which does not have the distorting effect on how schools teach

— Start preparations for the creation of a People's Bank for Scotland

— Create a National Infrastructure Agency

— Set up a National Food Agency and task it to come up with a 'resilience strategy' for Scotland's food system

— Quickly develop a land reform plan

— Begin to develop full proposals for a National Energy Company

Emergency industrial strategy

This early action provides the outline for an national industrial strategy. Phase Two of this Plan greatly fleshes out what will be needed in that strategy and its contents won't be repeated here. But the emphasis must constantly be put on long-term strategy so that all activity can push together in the same direction. So the creation of this industrial strategy should begin immediately. Serious thought must be given to what body or agency can develop this since it is such a massive change from current approaches to economic development in Scotland.

Part Two of this report will cover the four-year term of the next Scottish Parliament