



Scottish Affairs Committee

Oral evidence: [The Referendum on Separation for Scotland](#), HC 140–xxi

Tuesday 29 April 2014

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Members present: Mr Ian Davidson (Chair); Mike Crockart; Jim McGovern; Graeme Morrice; Pamela Nash; Mr Alan Reid; Lindsay Roy

Questions 5319 – 5449

Witnesses: **Professor Kenneth Gibb**, Professor of Housing Policy, University of Glasgow, **Dr Sharon Wright**, Senior Lecturer in Public Policy, University of Glasgow, and **David Phillips**, Senior Research Economist, Institute for Fiscal Studies, gave evidence.

Q5319 Chair: Welcome to this meeting of the Scottish Affairs Select Committee. As you may be aware, we have been conducting a series of investigations and hearings into what the possible impact of separation might be on Scotland. In particular, we have been looking at the various Government papers as they have come out. Today we are basing what we want to discuss with you on the Government’s paper on work and pensions, benefits and so on, which I am sure you are familiar with and able to quote back to us.

I want to start off by asking something about the Scottish Government’s White Paper. It claims that social security spending is “more affordable” in Scotland at present than in the rest of the UK. Do you agree with that statement? If so, why? If not, why not?

This is where the witnesses all look at each other and decide which one gets the short straw. Usually we just start with the one in the middle.

David Phillips: I think there are several answers to that question. First, you can look at what is being spent in cash terms. In pounds per person, welfare spending is a little bit higher in Scotland—about 2% per person higher—than it is in the UK as a whole. The Scottish Government’s claim is based on looking at welfare spending as a percentage of GDP, measured as a percentage of their economy. If you do that, it is a smaller percentage of GDP. Scottish GDP is more than 2% higher per head when you include a geographical share of oil. Therefore, converting that higher spending into percentage of GDP, it is lower as a percentage of GDP.

I am not sure that really answers the question about affordability. To understand affordability you do not just look at what has been spent on one particular item of spending; you need to consider the budget as a whole, and to look at the overall fiscal

balance in Scotland. Doing that, you get a slightly different picture. In recent years it looks as if Scotland's fiscal balance has been broadly similar to the UK, perhaps a little bit better in some years and a little bit worse in others. Looking ahead, it depends quite strongly on what happens to oil revenues and other revenues. On the OBR's forecasts, Scotland's fiscal position looks worse than the UK. You need to look at the overall fiscal position rather than picking out any individual item to look at affordability.

Q5320 Chair: I will say two things. First, unfortunately nodding does not get recorded by the *Hansard* writer. Secondly, we quite like it if witnesses fight among themselves, because it helps to illustrate the issues. If there are disagreements, we would much rather hear them than not. Would you like to fight or concur?

Professor Gibb: I will say a few words, but whether we are fighting I am not sure. Another way of thinking about the level of social security spending is to go the other way and break it down into its individual components. We know from various analyses that certain parts of the social security budget are higher in Scotland and some parts of it are lower. Housing benefit, for instance, even though it is a big part of the budget—it is an eighth of the overall budget—is less than the UK equivalent. We know, however, that things like disability expenditure are much higher than the UK average.

Related to that, there is a sense of the dynamic over time. Clearly there is a long-term question about the demographic structure of Scotland and the fact that society is ageing. It starts off being a little bit older in the first place. The kinds of social security expenditure are going to reflect those trends themselves. Those issues create questions of long-term affordability, as it were.

Q5321 Chair: Where does that lead you? Does that mean that in the longer term it is less affordable or more affordable in Scotland?

Professor Gibb: In the long term it means that the ratio of people who are paying into the system relative to people who benefit from it—working age people relative to non-working age people—is going to become more difficult. In that sense, relative to the UK as a whole, the system becomes more expensive to pay for and it becomes less affordable. Whether that makes it non-affordable is another matter, but it certainly makes it less affordable.

Q5322 Lindsay Roy: Would that be a reason why the SNP Government is saying that it would have to bring in people of working age from outwith Scotland to complement that?

Professor Gibb: That's right. In a sense the way that you compensate for these things is perhaps by generating more income, because the economy grows quicker. Clearly, if you have more working age people by net in-migration, it is going to have a similar kind of effect.

Q5323 Lindsay Roy: The volatility in the price of oil is quite crucial in all of this.

Professor Gibb: The revenue it brings in total is partly dependent on the price of oil. That would be very important, yes. In a sense that is the thing that can compensate for the current deficit between revenue and spending in Scotland.

Q5324 Lindsay Roy: Depending on which way you look at it, it is either a relative strength or a relative weakness.

Professor Gibb: Sorry; I do not understand.

Lindsay Roy: The volatility of the oil price.

Professor Gibb: The volatility creates uncertainty, and I guess uncertainty is always a problem. I do not think I can say any more than that.

Q5325 Chair: Coming back to the question of inward migration, the figure of 1 million over a period has been mentioned. Is that the sort of figure that you recognise as being necessary?

Professor Gibb: By?

Chair: By 2050. Sorry.

Professor Gibb: I do not know if I can comment on that.

David Phillips: I was here several months ago when the IFS were presenting our long-term fiscal analysis. We looked at the impacts of higher migration. Most of the projections that the DWP focused on—the OBR—are based on the low migration forecasts from the ONS. We looked at the high migration forecasts, which roughly had migration three times as high: rather than 9,000 people a year inward migration, 27,000 a year. We showed that that was not enough to close the fiscal gap that opened up in Scotland. In part that was because of greater ageing, but it was mostly because of the declining oil revenues in the long term. Migration would certainly help fund the system, but I do not think that migration alone would be enough to close any potential funding gap.

Q5326 Chair: I want to come back to that. You said that 27,000 a year was not enough to close the fiscal gap. What sort of figure might be enough? Is 50,000 a reasonable number to take?

David Phillips: I would not want to put a number on it. We only looked at the actual projections that were made available by the ONS. We do not need to look at the number of migrants; we need to know what the impact is on the age structure, and all the other things they produce. We were not able to model the impact of higher levels of migration, but 27,000 was not enough to close the fiscal gap unless you did other things—for instance, if you had higher growth or higher tax revenues or managed to reduce your debt.

Q5327 Jim McGovern: The Committee recently heard evidence—possibly the Chair has covered this point and you, Mr Phillips, may have answered it—that migration to Scotland would need to be in the region of 60,000 per year over the next 20 years, all of whom were

paying tax and national insurance just to keep the benefits system, the welfare state and the pension system going. Is that a fair reflection?

David Phillips: I am not aware of those numbers, so I would not want to comment on that.

Q5328 Jim McGovern: Your colleagues might.

Dr Wright: I do not know.

Professor Gibb: That is the first time I have heard that number.

David Phillips: Who was it that mentioned that number?

Jim McGovern: One of the Clerks might be able to tell you who it was.

Q5329 Chair: The person able to give us the answer to all these things is not here today—that is always our explanation for these things. You have not heard those particular figures, but we pick up from that that 27,000 a year is not enough and it would have to be a higher figure. Sharon, do you want to add anything?

Dr Wright: Yes. Whilst I do not disagree with what has been said by Ken and David, I think there is a really important opportunity to take a step back and for us to consider not just how welfare arrangements could be made in Scotland but also the fitness for purpose of current arrangements in the whole of the UK. We need to step back and look at our system in historic and international comparison and say, “What does it do? What can it do?” and consider the question of affordability not just in terms of how much money we need on the spreadsheet for this particular scenario, but in the context that Scotland and the UK are both two of the richest nations in the world and yet we have child poverty on a massive scale. We have one of the highest levels of child poverty.

If you are looking at this question, it is not just about what can be afforded in a particular scenario according to basic assumptions but what, as a society, do we want and what can we have. Regardless of how you might be inclined politically or ideologically, there is much to be commended in the SNP’s proposal for a good society. That is not currently on the agenda at UK level. The UK priority for social spending is a cheap society. It is time that we looked at those basic assumptions and questioned them, rather than just taking the broader context for granted. It is extremely important that we get some accuracy about that context rather than relying on the anti-welfare myths that are prevalent in this field.

Q5330 Chair: I have some sympathy for some of that, but the issue that I come back to is that we started by asking about affordability. Presumably, even if it is a social security system drawn up for a good society, it still costs money.

Dr Wright: Yes.

Q5331 Chair: If we assume for a moment that a redrawn system would not be designed simply to save money but better designed within the existing cost envelope, it is quite reasonable for us to start asking about affordability within current parameters. Then we can

go on to questions of change. Later on we will come to issues about universal credit and so on and so forth.

Dr Wright: Yes, but my point was also about the assumptions we make about taxed income—how much income we are assuming there is going to be. The SNP is proposing an integrated tax and benefits system. There are different scenarios and different perspectives for how tax revenue could be generated and how the income side of the equation could fund the expenditure.

Q5332 Chair: Maybe you could help me with that. Presumably the income side of the equation helping to fund the expenditure means either more tax or less tax. We have been looking at the question of the spending going out and the affordability. Presumably anything can be afforded if you put more money into it.

Dr Wright: Yes.

Q5333 Chair: We were working on the basis—and I think we have a conclusion from yourselves—that depending on whether or not you take the spending per head or the GDP figures, the results are not all that widely apart. Effectively, going forward, depending on the oil question as the only unknown in all this, it is basically affordable within certain parameters. Then we come back to the question of whether you want to put more money in from tax, and charge more in taxes to make a better and more generous system. I can understand that, but we were starting off from the view that could what was being provided at the moment be afforded under separation with the existing sources of income.

David, you are bursting to say something.

David Phillips: I was going to say two things. First, Sharon's point is really important. As well as looking at the risks and the funding balance, independence would give an opportunity to consider the type of system in Scotland and also to reassess the system in the UK. Having said that, it is important to realise that, unless you put in substantial additional resources from higher taxes, any fundamental large-scale reform will create many losers as well as winners. There is no such thing as an easy reform where everyone is a winner. You need to find the money from somewhere to pay for it.

On the other point regarding the affordability question itself, our research at the IFS would suggest that funding the Scottish state in the long term—not just welfare but also other public services—will require tax rises or spending cuts because of the ageing population and falls in oil revenues. That affects the UK as well. It looks likely to be a bit harder in Scotland.

Q5334 Chair: It is likely to be either higher tax rises or bigger cuts in public expenditure in Scotland compared with the UK as a whole.

David Phillips: Given long-term projections for oil revenues going away over the next 40 or 50 years, that is what it looks like would happen unless the economy could grow more quickly for other reasons, unless they manage to boost productivity and investment. All else equal, it looks as though either the cuts or the tax rises would have to be a little bit bigger in Scotland than in the rest of the UK.

Chair: I must confess that I am always a bit wary when people say that this can all be overcome by boosting productivity or boosting growth. In a sense, if there had been a magic bullet, presumably people would have found it and it would apply to the UK as a whole. If we are comparing levels of affordability, it would balance the two of them out.

Q5335 Lindsay Roy: Sharon, you spoke about a number of myths. Can you tell us what they are?

Dr Wright: Current welfare policy, in terms of social security policy design and also employment services, is based on myths about so-called cultures of dependency and lack of motivation among those who are out of work. I believe that is deeply damaging to the type of policies that have been designed and undermines their possible effectiveness.

Q5336 Lindsay Roy: Are these myths prevalent throughout the UK or just in one part of the UK?

Dr Wright: They are prevalent throughout the UK, but in Scotland there is some sign that policymakers, and also debates more generally, are more concerned with issues like dignity and respect.

Q5337 Chair: What evidence is there in practice for that? We will come on to the bedroom tax later. I am slightly stuck for words here because there is often a difference between the warm words that are expressed and the things that are actually done. I find it difficult to identify things in Scotland that have been done which are fundamentally different and have not depended upon the additional money that Scotland gets through the Barnett formula. In a sense, Scotland is better funded than the rest of the UK and therefore is able to fund more things, as distinct from choices being made that are more generous to those who are perhaps at the bottom of the pile.

Dr Wright: Currently the Scottish Government has not had the necessary powers to make major changes in welfare. We would have to wait until those powers were transferred to be able to really tell how that would go.

Q5338 Chair: Right, but you can read the book to some extent rather than just simply depending on the crystal ball. There is scope for raising tax at the moment, which has not been utilised, in order to transfer money into welfare benefits. There is the opportunity to cancel all the debts on the bedroom tax, for example, which has not been utilised. What evidence is there at the moment in terms of things that have been done that show an entirely different philosophy?

Dr Wright: I am not arguing that there is an entirely different philosophy. What I am saying is that the current social security system is based on assumptions that are questionable, and that we can have better policies if we base them on evidence and people's lived experiences. There is a real opportunity here and now in this debate, for the UK and for Scotland, to develop social security policies and employment services that listen to evidence and listen to people's lived experiences.

Q5339 Chair: That would be an opportunity for other parties or organisations in the UK as well, wouldn't it? It is a general issue; it is not something that is intrinsic to separation as such.

Dr Wright: Sure, except that the paper "Scotland's Future" sets out a vision for how that would look, and that has not been done in other parts of the UK to that extent.

Q5340 Lindsay Roy: You say a paper has been produced. Some people have called it a wish list without a price list. Is there any indication of the cost in the White Paper?

Dr Wright: For what?

Lindsay Roy: For the welfare benefits system.

Dr Wright: My colleagues can speak about specific costs, but when we think about cost in terms of poverty, because the purpose of a social security system is to eradicate, or at least temper, the effects of poverty, we need to look at the current outcomes that the current system produces. The current system—the UK-wide system—produces poverty on a mass scale. The welfare cuts are going to worsen that situation, and destitution is rising. Work is not the answer because in-work poverty now exceeds out-of-work poverty. There is something fundamentally wrong with the status quo. The proposals that have been set out offer an opportunity to rethink that.

Q5341 Lindsay Roy: That is an opportunity for all parties to look at.

Dr Wright: All parties in all parts of the UK.

Q5342 Lindsay Roy: That is very helpful. David, your paper stated that the gap between spending per head in Scotland and in the UK as a whole has been shrinking over recent years. Why is that, and would you expect that pattern to continue?

David Phillips: There were a couple of reasons why the gap has been shrinking. The first was that employment trends and earnings trends were better in Scotland during the 2000s than they were in the UK as a whole. The employment rate caught up with the UK level, as did earnings to a significant extent.

Rents went up less quickly in Scotland, and the number of people claiming housing benefit went up less quickly, so that brought down the housing benefit bill. With disability benefits, more is still spent in Scotland but the gap used to be bigger in the past. A lot of the gap was because high numbers of people started to claim benefits in the 1980s, some suggest as a result of deindustrialisation; people moved out of industrial jobs on to disability benefits as opposed to unemployment benefit. As they have been retiring or dying, they are coming off the benefit rolls and pushing down spending. The other thing is that the number of children in Scotland has been increasing more slowly. That means less being spent on child benefit and child tax credits. A number of benefits have seen their levels fall relative to the UK as a whole.

Q5343 Lindsay Roy: Is this a legacy from the mining and old established heavy industries?

David Phillips: From the disability benefits side it looks as if there could be something in that. What you notice by looking at the very detailed figures is that incapacity benefit in particular had very high claims in Scotland. That started in the 1980s. As those people have been moving off incapacity benefit into retirement, or unfortunately dying, it has been coming down. Disability living allowance is also higher in Scotland, but not to the same extent. Part of it is to do with the disappearance of that generation of industrial workers from the figures.

Q5344 Lindsay Roy: It is still significantly higher—about 10%.

David Phillips: It is still higher, yes. Looking ahead over the next few years, DWP have produced some projections looking forward—I am not sure if you have those in front of you—that suggest that over the next five or six years the spending gap will continue to narrow, and actually spending per person will become lower in Scotland than it is in the UK as a whole, but that beyond that the gap will then start to grow again as the ageing population in Scotland starts to slowly push up the figures. The gap will not go back up to where it used to be. Of course, those are just projections. They are not a full forecast. They just look at the age structure of Scotland. Many other things could change as well.

Q5345 Lindsay Roy: But with a pooling and sharing of resources, that would be met by the UK Government if we stay within one Union.

David Phillips: Under current devolution arrangements that is the case. If benefits were still a non-devolved part of the budget, those spending risks would be borne by the UK Government. However, if there were to be a change in the current devolution arrangements so that benefits were devolved, that could affect it and Scotland might have to bear the risk in that case even if it was part of the Union. It depends on the devolved arrangements for benefits.

Q5346 Lindsay Roy: If Scotland became independent do you think there would be a need to raise taxes to a higher level to meet the costs of welfare, or is that just one option?

David Phillips: I think it is just one option. We know that in the long term both the UK and Scotland will need to make either spending cuts or tax rises to pay for the ageing population. They look to be a bit bigger in Scotland. One option is to put up taxes. Another option is to cut spending, either on welfare itself or on some of the other areas of spending on public services. Our analysis of public service expenditure shows that Scotland spends a lot more than the UK on things like economic development, transport, housing, the environment and culture and media. It does not have to be taxes or benefit cuts; it could be cuts elsewhere, but you would need something to balance it unless you can find that growth. As Ian Davidson said, that is easier said than done.

Q5347 Lindsay Roy: And the Barnett formula in part compensates because of the reasonably big size of the country in relation to the small population. The £1,400 per head is a contribution towards a whole range of things that the Scottish Government can use at their discretion.

David Phillips: At present, the Barnett formula delivers higher spending per person on public services in Scotland—we think it is about 18% to 19% higher spending on public services. In the long term, the Barnett formula is designed in such a way that that potentially gets squeezed down. It has not been happening, in part because Scotland's population has been going up less quickly. The Barnett formula does not actually squeeze spending when the population is growing more slowly in Scotland. Depending on what happens to population, that gap could narrow or it could even potentially grow over time.

Q5348 Chair: There is the question of how this is described. You speak about the gap narrowing. A lot depends upon the angle of your hands. It could be that it is more like this—with England and Wales catching up more quickly and Scotland continuing to rise—rather than the suggestion that Scotland would actually be falling.

David Phillips: Yes. If you look at the figures from the 2000s, it was the case that benefit spending was growing more quickly in England. It was still growing in Scotland but not so quickly.

Chair: Television will pick up the hand movements even though the *Hansard* writer cannot be guaranteed to do so.

David Phillips: Another important point to bear in mind is that welfare spending increased substantially during the 2000s. There was a substantial increase in the generosity of benefits and tax credits for families with children, and also for pensioners. The one group that did not benefit from increased generosity was working-age people without children. They did not see their benefits go up during the boom years and they are now seeing them being cut during the subsequent austerity we are going through. It was a case of Scotland growing less quickly than the rest of the UK, but benefits were not going up for everyone. It was very well targeted at pensioners and children.

Q5349 Lindsay Roy: Sharon's point is quite crucial here. There is a culture among many in our society that we meet legitimate needs, and care for the vulnerable, the weak, the disabled and those who are disadvantaged through unemployment or low pay. There is an issue that we are tackling overall. That is not a question; it is just an observation.

Dr Wright: It is important in relation to what we were saying about how you think about costs and benefits. The needs of human beings do not disappear. If the UK as a whole has more than £20 billion of welfare cuts, the needs of those individuals do not disappear. You do not save money by cutting welfare bills; you just redirect it. It will appear somewhere else—in health or homelessness—because human needs do not disappear just because welfare reduces.

I would add one point to what David said about the relative generosity of benefits and tax credits. Benefits in the UK now still do not guarantee an escape from poverty. If you are receiving benefits you probably live in poverty, and increasingly being in work is not an escape from poverty. The UK has a much bigger problem with poverty than most other rich nations.

Lindsay Roy: As is seen with food banks and various other things.

Q5350 Chair: I want to clarify that last point. I am trying to remember the exact phrasing: “The UK has a bigger problem with poverty than most other developed nations,” I think you said.

Dr Wright: Most other rich nations.

Q5351 Chair: Is that taking into account not simply cash transfers but also provision of public services as well?

Dr Wright: The clearest way you can observe it is if you look at rates of child poverty. If you look at the median rate of child poverty in rich nations—the analysis produced by the OECD, for example, in their 2007 report—you see a graph or chart of all rich nations and their level of child poverty. At the top is the USA and second is the UK. Far below are countries like the Czech Republic, and right at the bottom, with tiny levels of child poverty, are the Scandinavian countries. Clearly the tax and benefit arrangements in different rich nations have different effects on the outcomes of child poverty. In the UK we have been very ineffective in eradicating child poverty.

Chair: In the UK we have been innovative?

Dr Wright: Ineffective.

Q5352 Chair: Sorry. There is a difference.

In terms of the figures for Scotland, my understanding was that, since devolution, child poverty figures had fallen. Is that correct, or have I picked that up wrongly?

Dr Wright: I am not sure of the most up-to-date figures for Scotland. I do not know if anybody else has them.

Professor Gibb: There is certainly some research, which was published at the weekend, from colleagues of ours at the University of Glasgow which suggested that poverty in Scotland was now lower than the rest of the UK, as measured by a material kind of income. It was 60% of median income or a material debt provision measure. I cannot recall exactly what it said about child poverty, but for poverty in general it was deemed to be evident going back to about 2003-04.

Q5353 Chair: There are obviously separate possible explanations for that. One is simply that the economic circumstances in Scotland have changed and that that has been the result. On the other hand, it could be that policies taken by the Scottish Parliament under the devolved system have resulted in a reduction in child poverty. Have you any impression as to which?

Professor Gibb: The main drivers that my colleague Nick Bailey suggested, as I think David mentioned as well, were that more people are in work—the employment rate was higher—and that more people who had been on low income were working. Secondly, the burden of housing costs was different because the social rental sector was larger and the private rental sector was smaller. Compared with England in particular the level of social

rents had not risen nearly as much as had been the case in England, because the funding regime and the attitude to rent setting were different in Scotland.

Q5354 Chair: That is right. That is as a result of deliberate policies adopted by successive Scottish Governments under devolution.

Professor Gibb: And councils as well.

Chair: Yes, councils and registered social landlords, but largely driven and led by the successive different parties in Scottish Governments.

Q5355 Jim McGovern: I want to go back a couple of questions and put something to Dr Wright. I am sure every elected Member here would say that we aspire to try to achieve full employment in our constituencies, so I am rather shocked, to say the least, to hear Dr Wright say that work is not the answer. Obviously the priority in having a job is to bring home a wage each week or each month, but for me there is a lot more to it than that. If you are saying that work is not the answer, what is the answer?

Dr Wright: Clearly, if you want to eradicate poverty, you have to give people adequate incomes, and there are different ways of doing that.

Q5356 Jim McGovern: Via work.

Dr Wright: You could do it via work, but work is never going to be enough for all citizens. There are people who have caring responsibilities in particular, and ill and disabled people who cannot work, and among the working population there will be people who come into periods of unemployment. Work can be part of the solution to poverty.

Q5357 Jim McGovern: But it is not the answer.

Dr Wright: It is not the answer just now in the UK, because wages are not high enough, tax credits are not high enough and benefits are not high enough.

Q5358 Jim McGovern: So we should dismiss the aspiration for full employment as not the answer.

Dr Wright: No. I think that is a different sort of argument. What we can see quite clearly is that the UK and Scotland both have a very strong work ethic. Before the global recession there were very high levels of employment—the highest ever level of employment in the UK as a whole, and Scotland exceeded that. Scotland exceeded the highest ever rate of employment since comparable records began in 1971. Since the recession Scotland has recovered better than other parts of the UK, and currently has the highest employment level as well. It is really important to understand that that is a crucial part of the accurate context within which social security policies operate. For the most part people work, but work is not offering people enough money to escape poverty.

Q5359 Jim McGovern: The point I made in my initial question is that there is possibly more to work. The primary reason for working is to get a wage, but for a lot of people it is a reason to get up every day and go out; they have a routine and there is an element of self-satisfaction in having a job or employment. You say work is not the answer. Is that really how you feel?

Dr Wright: Certainly there are many benefits to paid employment, but it is not as clear-cut as saying that you will have a good life if you are in paid employment and a bad life if you are not in paid employment. The labour market is a deeply divided institution. We still have significant gender pay gaps. Women are paid 15.7% less than men. The labour market is divided according to age. Young people have different prospects from older people. People of different ethnic groups have different prospects. The labour market is a deeply divided and problematic aspect of our social life. It is not as straightforward as saying, "Have a job and everything is fine."

Q5360 Jim McGovern: I agree with you. I understand there are various divisions of gender, age, demographics or whatever. I agree with that, but I think to say that work is not the answer is glib.

Dr Wright: I apologise if I seemed glib. I am not at all glib about these issues. My emphasis on paid employment is in response to the overwhelming emphasis in UK-wide social security policy, which for the last 15 years has been predicated on the assumption that people need to be motivated, or changed in their attitude, towards work. What I am saying is that people in Britain and people in Scotland have a very strong orientation towards paid employment. When jobs are available they do take them.

I will rephrase what I said earlier. Work is important. Work is an important part of daily living for most people, but it does not guarantee in the current UK situation an escape from poverty. There is plenty of opportunity for the UK Government and for the Governments in the other nations within the UK to change their policies to reward work better and allow people to escape from poverty.

Q5361 Chair: It was presumably in that context that you would have welcomed the initial introduction of the national minimum wage.

Dr Wright: Absolutely. It only took us a century.

Q5362 Chair: That is right. Some people voted for it and some people didn't. Presumably you would see the adoption of the living wage as a move in the right direction?

Dr Wright: Yes. Personally I think the living wage is a positive development. It has certainly been popular among people in Scotland who have benefited from receiving the living wage. The living wage is one of a range of options that the Scottish Government could develop in independence. The UK Government also has a similar range of options open to address poverty.

Q5363 Chair: Presumably you must regret, as I think all of us here do, that the Scottish Government recently voted to reject the use of the living wage as being applicable to all Government contracts.

Dr Wright: I do not know anything about that; I cannot comment.

Q5364 Chair: I can assure you that they did, which was unfortunate, because it was a move in the right direction. You are probably aware that we have been pursuing various employment issues like blacklisting and zero hours. Those of you from Glasgow university will be aware that Glasgow university and Edinburgh are the worst employers in Scotland in terms of the percentage of people employed by them who are on zero-hours contracts. That is an example that comes back to the question of there being a different philosophy in Scotland on these sorts of issues. Given that zero-hours contracts are so prevalent in two of our Scottish universities, it is hardly an indication that the Scots have a substantially different attitude to these sorts of issues from your colleagues in England, Wales or Northern Ireland, is it?

Dr Wright: I think it would be unlikely in any country that you would have one homogenous attitude towards any issue. There are different interest groups. Employers have different interests from employees, and they are different from what policymakers or politicians want.

There is another thing in relation to this point about employment that I think is important.

Q5365 Chair: Before we move on, I do not quite understand that answer. Earlier, I thought you seemed to be saying to us that there was a different philosophy prevalent in Scotland, which was inclined to be more generous, and that independence would allow that to blossom. But in Glasgow university and Edinburgh university we have the worst employers for zero hours in Scotland—as bad as, if not worse than, many establishments in the rest of the UK. That does not tend to support the idea that we are uniquely progressive in Scotland, unless I have misunderstood the position. Is that fair?

Dr Wright: My view is that there are some indications—for example, in the “Scotland’s Future” paper—that there is an intention towards more social democratic roles: for example, the good society. My previous point just now was to clarify that in any country you would not expect that to permeate throughout every sector of society or every interest group.

Chair: That’s right, but when we are looking at the question of what is in the SNP’s White Paper, it is also reasonable for us to judge the aspirations by actions at the moment, and, as I understand it, at the moment, they have just rejected a proposal that the living wage should be made mandatory for all Government contracts in Scotland. You would have thought that if the aspirations in the White Paper were going to be translated, there would be some manifestation of that intention at the moment by actions such as the one I have indicated. That is surprising us a little. It is this question of aspirations and expressed opinions on the one hand and behaviour on the other, and there being, as it were, a disconnect.

I do not want to hold you two responsible for all the evils of Glasgow University at the moment. Enjoyable though that might be, I accept that it is perhaps a trifle unfair. We will move on to a couple of points that Mike wants to make.

Q5366 Mike Crockart: I want to turn to the particular changes that are going through at the moment relating to universal credit and personal independence payments, and the view expressed by the Scottish Government, through their White Paper, that they would stop the roll-out of those programmes. I want to understand what that would mean, and how it would leave people who are currently on those benefits and such like. Do you have details of how many people this would affect? How many people in Scotland are currently on universal credit?

David Phillips: At the moment I imagine very few, given how long it has been delayed. The plan is now for roll-out to start ramping up in 2016-17. At the point at which Scotland would become independent there would be very few claimants already on the benefit. The initial plan was that there would be quite a lot, but, as I said, it has been delayed quite a long time.

An issue involved in that is to understand that universal credit will create winners and losers; some people will gain by not being rolled on to universal credit. Even though there is some transitional protection in cash terms, it is not real-terms protection. It is only freezing the benefits in cash terms. Also people's circumstances change, and they move off that protection. There will be some losers. For instance, unearned income is going to be treated more harshly under universal credit. That could affect some lone parents who get money as spousal maintenance. Others will gain under universal credit, and will obviously then lose out if it is not rolled out. That includes certain people who might want to work eight, 10 or 12 hours a week who would not get tax credits but would get more under universal credit.

Q5367 Mike Crockart: The DWP paper puts that at 300,000 households.

David Phillips: We have not had a chance to crunch the numbers as a whole. The IFS has looked at universal credit for the UK as a whole. It looks like you get roughly equal numbers of winners and losers; on average it looks like a slight take-away from households now.

Professor Gibb: One of the most striking things from the whole DWP report is that figure of 300,000. The way it is written is a little bit disingenuous; it appears to be the people who benefit from it, without telling us how many would lose out. They should be quite clear about how many winners and how many losers there are. They are only saying who the winners are. It at least casts some doubt over that figure because you cannot tell if it is gross or net.

David Phillips: I agree with that. I think that universal credit is not a policy under which everyone gains. It is a policy under which certain people do, but certain people lose out.

Q5368 Mike Crockart: But equally it is not a policy that everybody loses under.

David Phillips: Indeed.

Q5369 Mike Crockart: The way that it has been portrayed is: “We will have a new system which will be better for all.” In actual fact, if universal credit is not brought in there will be losers from that.

David Phillips: That is true. Those on lower hours of work—some parts of the population—will be worse off under that system. One of the things that DWP also mentions is work incentives. They say that work incentives will be less strong by not rolling out universal credit. For some groups universal credit does improve the incentive to go into work; for instance, it improves the incentive to have so-called mini jobs—small jobs that might act as stepping stones into higher employment. But actually you get less incentive to go into jobs of 16 or 30 hours, so some people might find themselves having weaker work incentives. In particular, second earners in couples often find themselves with weaker incentives under universal credit, whereas first earners find stronger incentives.

I do not think it is fair to say that not rolling out universal credit is going to be wholly a bad thing for everyone. It will be bad for some people, but it will be good for others who get more under the current system than they do under universal credit.

Q5370 Chair: But presumably, as with so many other things, a lot will depend upon how much money is spent on it. To some extent universal credit methodology is capable of being adjusted to allow more money to go into various bits, and for tweaks and so on to be made. Therefore, a lot will depend upon how generous particular Governments wish to be. It very much depends not just simply upon the methodology, the mechanism or the envelope, but upon the cash injections and the particular rules and fine tuning. Is that fair?

David Phillips: Indeed. A few years ago the IFS put out a proposal, in its Mirrlees review, for reform of the benefits system to be called the IFS—the integrated family support system, a slightly strange name. That was something very similar to universal credit: a system where you have an integrated benefits system. I think you are right in pointing out that the levels can be varied. In itself, universal credit is potentially a simpler system than the existing six benefits that it replaces. In particular, it could act to ease the transition into work because you do not have the delay and complexity of having to switch from out-of-work to in-work benefits. There are some benefits of it. If you made it more generous, you could make fewer losers and more winners from the system.

It is interesting that the UK Government have been cutting universal credit before it has been introduced. There have been three cuts to the work allowances before it has even come into place. That has done two things. First, it has meant it has been less generous. Secondly, it has reduced the work incentive effects of it. Universal credit could be a better thing for more people if it was made more generous, but that is the opposite direction from which policy has been moving at the UK level, in part to save money as part of the fiscal consolidation.

Q5371 Mike Crockart: We have wandered into a general debate around whether one system is better than the other, but my question is more about the practicalities of leaving a system, if we stop a roll-out, where some people are on one benefit and some are on an

entirely different one—the older system. What complexities are involved in trying to make sure that they are treated equally in the benefits system?

Dr Wright: They will not be treated equally, but the idea of having different people in different parts of the country receiving different benefits is quite a usual part of our social security system. For at least 15 years Governments have run pilot schemes in particular parts of the country and not in others, so the system as it stands—

Q5372 Mike Crockart: But we are not talking about running a pilot system; we are talking about stopping a change, which potentially leaves people in neighbouring houses in receipt of different levels of benefit.

Dr Wright: But that is currently the situation.

Q5373 Mike Crockart: We are going round in circles. A transitional arrangement in moving to a different system is one thing. The stated aim is to treat people equally. But if we are stopping the roll-out of a system and leaving people in different situations, surely that is a worse system to be in, because we are not trying to move anywhere; we are just saying, “You are going to be treated differently.”

Dr Wright: My understanding was that the proposal was for a transitional arrangement, so that after 2018 that system would replace the existing system. It is a transitional arrangement. I would also say in relation to universal credit that many people would be very happy for it not to be introduced in Scotland. As with ESA and PIP, there is a lot of controversy surrounding the so-called work incentives. As we have already established today, there is no need to incentivise work, because people in Scotland are very keen to work and when there are jobs available they take them.

Q5374 Mike Crockart: You would have to agree that there is a need to reward work.

Dr Wright: Absolutely.

Q5375 Mike Crockart: With the system we had previously we potentially had taper rates of 90%, which made it much more difficult to move into work because it was not rewarding. If we change the language and stop talking about incentivising and start talking about rewarding—

Dr Wright: It is much bigger than a language change. I agree with what you have just said regarding the transition into work—to make it a smoother taper so that people can move from small hours of work to increase their hours of work to full-time work, as David said as well—but there are a couple of major issues. It is not just an issue with the language. What universal credit represents is a very punitive system. It is a system in which benefit sanctions are much harsher and they are much more frequently applied. Benefit sanctions in the last couple of years, particularly under JSA and ESA have been increased, so there is an increasingly punitive part of the system. Under universal credit they take on a new ubiquity because it brings in people who were never part of the sanctions regime before. Partners of claimants will be subject to sanctions. People in work will be subject to sanctions and fines. It really means that there will be a huge effect of conditionality

applied to millions of people who previously did not have it applied to them. That has risks for citizens, because it will be much easier for them to lose their benefit entitlement, and that can have a very serious impact in terms of poverty and destitution.

Q5376 Chair: I want to ask about the extent to which benefit sanctions are, as it were, an optional extra that can be applied or not applied to a universal credit system.

Dr Wright: It is fundamental. That is what universal credit is. It is fundamentally a punitive system. It is about coercion, compliance and punishment.

Q5377 Chair: I am not quite sure that that was my understanding of how it was designed. That is in many ways the intention of the Conservatives in applying it, but I thought the main thrust of it was to make less complicated a system that very few of the recipients of benefits comprehend, and to draw together a whole string of things into a much simpler system. They then bolted on other things like the elements of coercion, which are not integral to the operation of a unified system itself. They are however integral to the thinking of Conservative Ministers, which is not necessarily the same thing.

Dr Wright: Conditionality was always central to universal credit. The stated aims were to simplify the system and to make work pay. As we have already said—David’s point and Mike’s point—there are definite benefits, real benefits, in people being able to move off benefits and into work more easily and not lose income as a result. That is a definite value of the system.

Q5378 Mike Crockart: It does not sound punitive.

Dr Wright: The punitivity comes when you look at how conditionality will be applied. In the previous system, if you got a job, you no longer claimed jobseeker’s allowance or employment support allowance, so you were free from any sort of system of conditionality. Under universal credit, if you get a job, you may still be under the universal credit system because that is the system that will top up your wages. You will still have expectations to increase your hours or work and your hours of pay. If you fail to comply, you can be subject to a benefit sanction. Those sanctions are really very harsh; they go up to three years of removing payments from people.

Q5379 Mike Crockart: I would love to continue this and ask the other two panellists whether they feel the system is punitive, but we are wandering off what we are trying to achieve in this session, so I will move on.

One of the other things contained within the White Paper is that the Scottish Government have suggested that those already claiming universal credit would be able to choose to have the housing benefit element paid directly to their landlords, and could split the remaining payment among household members. They are proposing a change to the benefits system as it stands at the moment. How could that be brought in?

David Phillips: In terms of the logistics, that is not my area of expertise. It has obviously been operating under the current system. For instance, families can elect to have the

working tax credit paid to one person and the child tax credit to another. The architecture is there but it goes against some of the grain of what universal credit was about, which was trying to make it a single payment and more like a wage to encourage people to learn to budget and so on. I am not an expert on the feasibility. We do it for current benefits and it has been done in the past. In the future it will probably come in, but it would be going against the grain of what universal credit did. It would be up to an independent Scotland if they wanted to do that.

Professor Gibb: I think you start from the point that one of the problems universal credit roll-out has at the moment is dealing with housing costs. One of the reasons it is a big problem is that currently housing benefit for social tenants, generally speaking, will go directly to the landlord. In some respects that is a problem, in the sense that 30 years ago people tended to get their housing benefit cheque and then they paid their rent, but over a generation or more the system has moved. The system where direct payments are made benefits a lot of other stakeholders, like private lenders, for instance. Lenders who are aligned with the housing associations like the guarantee that their rental income is going to be met by housing benefit because there is no middle person—no tenant—involved in the process.

It is understandable from social landlords' point of view, and other people like lenders, and indeed probably the regulators of housing, that this is a way by which you can reduce arrears. You do not deal with the personal tenant responsibility issue; you deal with the issue of those organisations having their rents paid and being able to repay their loans and paying for investment, modernisation and all the things that they do. It is a pragmatic and practical response, even if not the first best response, so I can perfectly understand why the case is made for that kind of way of doing universal credit.

David Phillips: That is an important point. There is a trade-off between the personal responsibility aspect and the practicality and the guarantees to social landlords. Private landlords were often paid directly in the past as well. It is feasible and there are benefits in doing it.

Another thing they mention in the White Paper is that it would be a separate benefit. That is potentially more problematic. It is one thing making a separate direct payment to landlords, but having it as part of the system is important so that it interacts correctly with the other elements of the system. One of the things we have seen recently is the localisation of council tax in England. In some cases that led to systems of council tax support that differ vastly across the country, but also in many cases do not interact that well with either the current benefits system or universal credit. It often brings back the very high taper rates we are trying to get rid of under universal credit—sneaked back in via the council tax support system. One of the things they hint at in the White Paper is a separate housing benefit—not just a payment but a separate benefit. That would probably be a bad idea if it was not set up in a way that properly integrated with whatever other benefits system they have, whether it is universal credit, similar to our current system or a completely different system. It is important that it all fits together and works together as a system.

Q5380 Chair: But that is the argument for not devolving housing benefit if you are not devolving welfare benefits, isn't it?

David Phillips: That is an interesting question. Housing benefit is one of the benefits that sometimes gets mentioned as being potentially devolved. The point you make is one argument against it, although you could set it up in such a way that the taper rate is defined, and the amount that gets withdrawn is defined, so that it fits in nicely with the system, while allowing some other priorities to vary, such as whether it is paid directly or whether you can split it off from the payment.

There could also be some gains from having housing benefit as a devolved benefit, even if other benefits were not. For instance, at the moment Scotland pays for social housing and pays for investment in social housing, and because that is generally cheaper than private housing it reduces the cost of housing benefit. But a lot of that benefit then goes to Westminster, so the incentives for Scotland to invest in social housing are lower than they would be if it had housing benefit devolved to it, or under independence. Again, there is a trade-off between simplicity of the system and getting the incentives right.

Q5381 Chair: I understand the arguments about devolving or separation and so on, but presumably the same argument then applies even in an independent Scotland as to whether or not local authorities are themselves given degrees of discretion over their housing benefit structures, and how they would then tie in with a centrally determined—in an independent Scotland—benefits system. That is an argument for running everything from the centre, wherever the centre is, isn't it?

David Phillips: Housing benefit is run at the local level. It is operated at local level but the parameters of the system have always been determined centrally at Westminster. There are benefits in doing that. It is such an important and large part of the benefits system that if you get it wrong and it does not integrate properly with the rest of it, you can completely mess up people's incentives or rewards for work.

Q5382 Chair: One question that you raised, which can be separated off—as our investigations into the bedroom tax would indicate—is whether or not it is paid directly to tenants or to landlords. In a system either operated by one centre or split, neither of those predetermine that it has to be paid either to the individual or to the landlord. That is presumably entirely a separate choice. Is that correct?

David Phillips: If you were to have a separate payment for housing benefit as opposed to having all that payment in one single universal credit payment, the payment could be made either to individuals or to landlords. That seems to be the case.

Q5383 Chair: Yes. That is the basis we have been working on in our previous reports. I just wanted to check whether or not we had got it wrong.

Professor Gibb: I want to make a few points. First of all, the case about devolving housing benefit, which the IPPR and also the Labour commission recently talked about, rested on the fact that they thought housing policies were devolved and also that there was a case for devolving benefits that were less cyclical or volatile. They argued that it was the private renting component that was volatile in housing benefit, so that might make a case for social housing benefit to be devolved.

I am not completely convinced by that kind of argument. It depends on your longer-term vision of what you want low-income housing subsidies to be. I would probably disagree with my colleague to the extent that I would want to separate a housing allowance of some kind from the rest of these cash benefits in the long term, and try to have a different kind of settlement. For many decades we relied on a generous housing benefit system effectively paying almost all, if not all, of the housing costs of very poor people, and by doing so giving them less cash benefits. That is the kind of trade-off that we have worked with for many years.

In many other parts of the world we have systems that have more generous cash allowances and have more of a gap in funding housing allowance, which can effectively be tenure-neutral. I would be much more content in the long term with moving towards or at least contemplating something like that, but that is long-term vision stuff.

Dr Wright: It is also worth noting, in terms of international comparisons, that the UK is very unusual in having such a centralised social security system. Most countries have less centralisation. Most countries have more functions at municipal level.

Q5384 Chair: It really comes back to the issue that we identified in a number of other investigations we have had: are you willing to accept a postcode lottery as compared to having equality, or do you place the emphasis on local democracy and so on and so forth? That is the dilemma. You cannot have both uniformity of provision and local decision making.

Professor Gibb: That is the other point I was going to make. The other side of IPPR's argument is that they have been pushing and arguing for some time that they would combine capital housing subsidy with housing benefit at a local level, and in a sense give individual local areas more resource to address housing. That scares me for the very reasons that you are talking about. What do you do when you take housing benefit out of the system and bundle it up with other kinds of subsidy, and then leave it to local people basically to use those resources as they want? There are all sorts of issues about transition and winners and losers, and the effective use of that resource and the fact that where you happen to live will determine the kinds of housing support that are available. I would be very nervous about that.

Q5385 Mr Reid: The DWP's analysis said that if a future Scottish Government were to abolish universal credit, the Scottish population would have "poorer incentives to move into work or work more," meaning "employment is likely to be lower" and hence costs higher and tax receipts lower. What comment do you have on that analysis?

Dr Wright: Employment levels are already high and have exceeded UK levels, so I do not think there is a problem with incentives to work in Scotland. There is a problem with a mismatch between the types of vacancies that are available and the type of work that jobseekers are looking for. That works in terms of the type of employment, and there are also big regional variations. Even if you just look at jobseekers, and ignore lone parents and disabled people who have been redefined as workless—if you just look at official unemployed people claiming jobseeker's allowance—there are somewhere between five or six jobseekers per vacancy. There are then large shortages in elementary occupations. There is analysis recently which compared different types of employment before and after

the recession. It showed that in many occupations there were vacancy shortages. That uses the employment and skills survey. If you look at the jobcentre notified vacancies, there are shortages. There is a different profile before and after the recession, but the biggest gap in vacancies was in elementary occupations. That is the place where you might expect people who are more likely to be unemployed to be looking for jobs.

Q5386 Mr Reid: What do you mean by “elementary occupations”?

Dr Wright: I do not know the definition off the top of my head but, for example, not professional occupations, not management occupations and not skilled occupations.

Chair: It is essentially unskilled. That is my understanding of that category.

Q5387 Mr Reid: You have described the job market as it stands today, but we are looking at policies that will last for a very long time. The Government say that universal credit is to incentivise people to go into work. It is a policy for the long term, and obviously the job market changes from year to year. You said that before and after the recession were different. Is the basic principle of universal credit in incentivising people to work something that you would agree or disagree with?

Dr Wright: I disagree with it. There is no need to incentivise people to look for work, because when there are vacancies people take them.

Q5388 Mr Reid: But under the present system there may be no financial incentive for people in certain circumstances to take a job, whereas the Government’s principles behind universal credit are that people would always be better off working. Do you agree with that proposition?

Dr Wright: The principle is important: people should be paid fairly for their work and they should be able to escape poverty by working. Having work pay is an important principle and having work pay at a level that is adequate to meet basic needs is important, but there is no need to threaten to take away people’s benefits for not looking for jobs.

Q5389 Chair: I want to clarify the evidence base for what you are saying. I am aware that if jobs are created, people will take them, but the people who will take them are by definition a subset of those who are unemployed, because there are not enough jobs to go round. On what basis are you assuming that when jobs become vacant everybody who is unemployed is equally willing to take them? My understanding is that the driver of much public policy is that enthusiasm for employment is variable among those who are unemployed, and that some perhaps need a little more incentivisation and in other cases they require a bit of compulsion. Can you clarify for me the basis for making your assumption that everybody is equally keen to work?

Dr Wright: First of all, I did not say that. It is important to put this in an accurate context. If we look at employment levels, there are not enough vacancies for everybody who wants to work, and there are differences between the types of jobs available and the types of jobs that people are qualified and able to do. There are major differences between regions, what

level of vacancies exists and how many people are competing for them. For example, 400 or 500 people compete for every 100 vacancies in elementary occupations. That is just talking about jobseekers, but you are more likely to get a job if you are already in employment, so unemployed people are competing with people in employment. They are also competing with the newly defined so-called workless groups—lone parents and ill or disabled people. What is currently happening in the recovery from the recession is that more people are employed part-time than before, so in that sense they are under-employed. A lot of people have taken jobs that do not adequately meet their needs or aspirations, rather than be out of work.

If you look at unemployment trends and how people respond to benefits, nine out of 10 people get themselves a job before becoming long-term unemployed. In the first six months of being out of work most people find themselves a job. The one out of 10 that remains after that usually has some good reason for why that is the case. There has been a lot of debate, and long-term unemployment and other so-called worklessness has been attributed to lack of motivation, differences in attitude or so-called cultural factors, but actually very little support is given to people in that situation. The sorts of employment services that we have in the UK are very cheap; they are the cheapest in Europe. There is very little investment in helping people to find a job. Since the major contracting-out of employment services in 2006, the results have been deeply disappointing. The intended effects of contracted-out were that it would be more efficient, cheaper and more effective. There is no evidence that those intended effects have appeared.

The current Work programme does very badly at helping people who are long-term unemployed, and especially people who are ill, disabled or have caring responsibilities, to find employment. We need to understand the issue of motivation in terms of what support is available and how much people help themselves. Most people find themselves a job, because the UK system is basically a self-help system. Jobcentre Plus, for example, has changed its policy over the past few years. It has reduced the number of people working on the front line. It has inquiries online or by phone. They have a policy called “Minimising footfall,” which means that if you want to go to a jobcentre and get some help finding a job, it is very difficult to speak to someone who will give you help with doing that. There are many challenges in providing employment services in the UK in such a residual system, which has been chronically underinvested in for decades.

Q5390 Chair: I understand most of that—though I am not sure I could have expressed it quite so eloquently or in the right order. The point I was making was this. Do you not accept that there is a general feeling that there require to be some incentives for some people—or carrots and sticks for some people—who would otherwise simply choose not to take employment and would rely upon the benefits system? I accept that that then results in lower levels of benefits than are necessary for those who would be deemed to be the deserving, as it were, in an effort almost to starve people into work. You seem almost to say that there is never any need for sanctions of any sort under any circumstances, and that things will automatically sort themselves.

Dr Wright: I accept that there is broad acceptance of anti-welfare myths about welfare dependency and so-called cultures of worklessness. That is an important idea in our culture. As far as evidence goes, policies for unemployed people have always been designed with ideas about conditionality. You have never been able to simply claim

unemployment benefits just because you fancy it. It has always been conditional. Since the first national scheme in 1911, you have always had to prove that you are involuntarily unemployed. National insurance was an important principle for unemployment schemes. The whole idea is that there have always been conditions that have to be fulfilled in order to claim unemployment benefits. What has changed in the last 15 years is to extend those conditions, which were for unemployed people, to other groups, who are called workless groups but actually can be seen to have other barriers or other responsibilities. Lone parents, for example, clearly have caring obligations. Ill or disabled people have impairments that affect their ability to look for work and their attractiveness to employers.

David Phillips: I want to take a slightly different tack from that response. I do think people respond to financial incentives, whether to work or not. There is a correlation between those with the best incentives to work and the employment rate of those who have the worst incentives to work. I agree that most people want to work, but whether work pays or not does influence whether people go into work. If you are going to be worse off going into work, I imagine that most people would not want to do that.

There is a question about what happens and how universal credit affects the gain to work. It is not a clear-cut picture that improves everyone's gain to work, as I said earlier. Some people do see a bigger gain to go into work, particularly if they want to go into the mini-jobs I talked about—eight, 10, 12 or 14 hours a week. Currently there are very poor incentives to go into those at all. You get very little additional money if you work in those kinds of jobs. You will get more money under universal credit. However, some other people will see a weaker work incentive. For instance, because universal credit gets tapered away more slowly as your income goes up, it is more likely that you will still have some left if your partner is in work and you are thinking about whether to go into work yourself. Universal credit often weakens the incentive for a second earner to move into work.

One of the things we did at IFS was to look at modelling the impact of universal credit, knowing what we do about how people respond to the existing benefits system. We can model how people respond to that and then use it to predict how they might respond under universal credit. We did that, and we found that it is quite uncertain what the impact would be on work. Some of our model suggests that you could see an increase in employment. Again, we did this for the UK as a whole rather than just for Scotland. One of our models showed somewhere between 50,000 and 200,000 additional workers. Another model suggested that universal credit could actually reduce the numbers of people in work slightly, because it has different effects for different types of people.

Yes, it could be the case that universal credit would encourage work, and therefore not rolling it out would mean that fewer work, and there would be less tax and more benefits, but it is very uncertain and our model suggested it could be the opposite; universal credit might actually discourage work among some people. Unfortunately there is not a clear-cut answer on that question.

Professor Gibb: There is another kind of myth in all of this, which is the myth of which marginal tax rates apply under what circumstances. Earlier, mention was made of the 90%-plus effective marginal tax rate that some very unfortunate people on benefits may receive as their income rises. David will correct me on this, but that would only apply to a certain minority of people receiving benefits.

What is interesting with universal credit is that it generalises to 65%, so it is a 65% effective tax rate. That is still an extremely high tax rate, and we should not forget that; compared with income tax rates it is a very high net tax rate and would be unacceptable to the mass of people. As I understand it, if the Ministers responsible had more resource, they might have cut that marginal tax rate to less than 60%. It is a trade-off and that is what they ended up with, but it is still very high and it is high for everybody.

Dr Wright: I think there is confusion because of the word “incentive.” The word “incentive” implies that people who are not currently working or who are working for a small number of hours need to have their motivation changed in some way, but it is not a question of motivation; it is a question of what is possible and what is rewarding. It is what David said about how people move into employment. Is it possible to move into employment or not? That is not just about how much work pays relative to benefits and how housing costs are accounted for; it is also about what hours of work are available, if jobs are available and what quality of jobs. Child care is a crucial component in that equation. In the UK we still do not have enough high-quality, affordable accessible childcare. The cost of child care is very high in international comparison. It is high in relation to wages and it is very high in relation to benefits.

The question of second earners is really important because, as David said, universal credit has a disincentive for second earners going into work. If you imagine the situation of a traditional family set-up, where there is a male breadwinner and a partner who works fewer hours and has a role in child care, there is a potential very significant long-term effect for women in that equation. If women in families claiming universal credit do not take on work, they will be left financially vulnerable if that relationship ends. They will be left vulnerable in the long term because of their overall lifetime earnings or lifetime income. They will also be left vulnerable in relation to pensions. Universal credit for second earners really gives us significant concern for women.

Q5391 Chair: The point about costs for child care is that unless you are going to grossly underpay those who are delivering the child care, which is traditional in the caring social services—they are underpaid—or further drive down their wages, it is going to have to be paid for from somewhere. That therefore presumably requires public subsidy and it therefore requires additional public expenditure. It is a question of spillover back to the whole issue of tax raising and so on and so forth, isn’t it?

Dr Wright: Yes. If you look at the countries that have successfully done that—for example, Scandinavian countries like Norway, Sweden and Denmark—they have invested in child care and as a result have had more sustainable labour market participation of women.

Q5392 Chair: That comes back to the question that is also being debated elsewhere about the Scottish Government’s proposals to fund an enormous expansion of childcare on the basis that it would be self-financing. I think that has effectively been blown out of the water. I can understand the political reasons for wanting to pay for that, but it certainly would not be self-financing.

David Phillips: I can add to that. The report you are referring to is SPICe—Scottish Parliamentary Information Centre—which did an analysis of the SNP’s proposals for child

care. They were not really costed. The proposals said, “Here is our plan for child care.” If you want to spend more money on child care, that is a perfectly feasible choice, if you are willing to spend the money and raise the taxes to do it. They made a comparison of Scotland’s employment rate with that of Scandinavian countries—for instance, Finland, Norway and Sweden. They said that if this policy was enough to get us up to that employment rate, in that case it could potentially be self-funding. However, they did not do the analysis to see whether that policy could get you to such an employment rate.

When looking at the actual number of potential beneficiaries from the policy, there were something like 67,000 mothers of one to five-year-olds not in work. In order to get the employment rates you needed, you needed 120,000 people to enter work, which is more than that 67,000. The point I want to raise is that there can be a strong case made for more affordable child care, and you can fund it by higher taxes or higher spending. The evidence that these kinds of reforms are self-funding is very weak. The evidence linking expansion of child care provision to increases in female employment rates, looking at studies across the world, is really quite weak. It might be a good thing to do, and a good thing to have more affordable child care, but the evidence that it becomes self-funding just is not there. It is good that that has been recognised in the public debate.

Q5393 Chair: My understanding is that the additional expenditure that the SNP have been keen to talk about after separation could be done now under existing powers. Given that it would not self-finance after separation, the fact that it does not self-finance now is not a reason for not doing it.

David Phillips: It could be partly self-financing. What they say is not completely without merit. At the moment the only additional revenue Scotland would get from 2016 onwards would be the 10p band of income tax under the Scotland Act. Under independence they would also get full income tax, national insurance and benefits. It would be more self-funding than it is under the current arrangements. The point I was making is that in all likelihood it still would not be very close to self-funding unless you get—

Chair: They would lose the additional benefits of the Barnett formula, and we then get back to the general questions of affordability. I understand that.

Q5394 Jim McGovern: I want to touch upon something that Dr Wright and Mr Phillips said. I hope I am getting the countries right. I think Dr Wright said that Norway and Sweden or Denmark have spent a lot of money on child care facilities. David possibly touched upon why, if we are going to try and apply that in Scotland, it would need a hefty increase in income tax. I think Norway and Denmark probably have the highest income tax rates in Europe. Would that be a fair comment?

Dr Wright: I don’t know off the top of my head. I would have to check the exact information on what the tax is, but the Scandinavian model is high tax, high spend. There is a concentration in the income distribution so that you do not have the extremes that we have in the UK, of very, very rich people who are paying in less and very, very poor people. You largely get rid of the problem of poverty, and you have high taxes to bring incomes more into the middle range.

Q5395 Jim McGovern: So when the current Scottish Government, who are obviously promoting separation, say, “We will cut taxes but we will also increase public services, including childcare,” does that bear scrutiny?

Dr Wright: I personally think that taxes would have to go up in that scenario. What they could learn from the Scandinavian countries is the value of individual tax rather than household level taxation and benefits spend. That could be very valuable.

The other thing that is important to note about that equation, if you are looking at child care and women’s labour market participation, is that the Scandinavian countries tend to achieve that through a very segregated labour market. Women tend to work in the public sector. There is another level of spending in which, if the women who are working are working in public sector jobs, it would fall to the Scottish Government or local authorities to create jobs for women to be employed in.

Q5396 Pamela Nash: I want to return to housing benefit. I know we touched on it a little bit earlier. First, Mr Phillips, you said in response to my colleague’s question that leaving housing benefit standing separately if universal credit is halted would be a bad idea. Could you go into that a bit deeper, please?

David Phillips: The point that Kenneth made was important. If we had a complete redesign of the system so that we supported housing in a completely different way, you might want to keep it as a separate system, but under the current system, where we subsidise housing as a cash benefit, it has to fit into the other cash benefits that we have. What could happen if you do not have it properly integrated is a situation where you have a nice low tax rate as part of the standard system but it is undone by having a high withdrawal rate on housing benefit. What we have seen with the localisation of council tax is that because some councils have cut the funding for council tax benefit, they have increased the rate at which they reduce your council tax benefit as your income rises. Doing that undid some of the good work that the reduction in the universal credit taper rate achieved.

The point I was making there was that if you want to have something fairly similar to our current system and if you want to have housing benefit as a separate payment, either going directly to the landlords or as a separate cheque to beneficiaries, so they know that is meant to be for their housing, do that, but make sure that the system is designed so that the allowances, withdrawal rates, rules and regulations fit together in such a way that you do not overcomplicate the system and end up having a housing benefit system that is in conflict with your universal credit system or your tax credit system. With council tax benefit that has sometimes been the case now with the new system.

Q5397 Pamela Nash: How does that fit into the argument about the constitution? There are a few different options where that scenario might happen, with housing benefit separate; if there was a separate Scotland and they do that, it would be within Scotland’s own new system. As was mentioned earlier by Professor Gibb, in the Labour party’s proposal there was the suggestion that there could be some devolution of housing benefit. What if universal credit carried on in the rest of the UK but in Scotland housing benefit was devolved separately? Could you foresee a system where that would work, or do you think that would provide more problems?

David Phillips: I think that could be potentially complicated. There is then a trade-off between having the simplicity and ease of operation of one unified system and the benefit of allowing better integration of social housing spend and housing benefit spend that you get from potentially devolving housing benefit. Ken was saying that in this context he thinks you could end up with postcode lotteries or complexity at the local level. I think that is a real risk. There needs to be some debate about what should be done on housing benefit. It has been mentioned as a possible candidate for devolution. Doing that would potentially create some problems with postcode lotteries, with different provision in different areas, or over how it interacts with the rest of the benefits system.

That is not the only place where it happens. It can happen with income tax. We have income tax partially devolved to Scotland. Even though the most common aspects are still the same, it means that changes can have differential impacts across the country now because of the partial devolution of income tax. It is just a trade-off: how much complexity do you want to allow to give more local freedom and better local incentives?

Q5398 Pamela Nash: It goes back to what the Chair was saying earlier. There is a tension between a postcode lottery and devolving power locally in terms of looking at housing benefit. If there is a very different requirement for housing benefit—a few of us here represent constituencies in Scotland and live half the time in Scotland and half the time in London—you only need to look round about you to see that there are very different requirements from people for housing and the cost for housing benefit. Would the complexity not be worth that difference in order to have that flexibility?

Professor Gibb: One of the things about housing benefit is that it was designed in a certain way. It is based on the actual housing costs that people face, so in a sense it does reflect local housing circumstances. That is the way it was designed. Part of the difficulty is that there is a problem with path dependency. Housing benefit has been in place in its current format since 1988, bar what has happened in the private rental sector. It is very difficult to disentangle it. It is very difficult to pull it apart. That is precisely why the universal credit system is struggling with how it is going to deal with housing costs. We still do not really know precisely how it is going to deal with the housing element in a satisfactory way.

That is why I see the constitutional question and the debates that are going on in Scotland, in the Unionist parties as well as the SNP, as a chance to take a step back and think much harder about how we might make housing benefit work more effectively as a housing policy that actually makes sense and is a durable way of doing these things. Before Iain Duncan Smith came along, there were all sorts of things wrong with housing benefit. It is not a new problem; it is a long-standing problem.

Pamela Nash: I would not claim that it was.

Jim McGovern: The implication there is that since Iain Duncan Smith came along everything is right now.

Professor Gibb: No. Things are bad, but they are differently bad.

Q5399 Pamela Nash: I want to concentrate now on the bedroom tax. Earlier this year the Scottish Affairs Committee published recommendations that the Scottish Government, who

are now forking out the bill for bedroom tax, should write off the debts previously accumulated by those who have been penalised by the bedroom tax. I would be interested to hear what your views are on that.

Professor Gibb: I did some work for the Scottish Parliament, for the Welfare Reform Committee, on the bedroom tax. That was in September/October 2013, and in the context that we were still learning about the impacts of the bedroom tax on the ground. It was at the height of some of the debates about writing off debt and such like. Whereas one can see absolutely clearly the personal distress issues, and that people needed help to support them in meeting some of the additional costs that they were facing, a lot of social landlords reasonably made the point that you could open a door by having a general writing-off of debt.

Q5400 Chair: This was the social moral hazard argument.

Professor Gibb: Yes.

Q5401 Chair: Maybe I ought to make it clear that our policy was threefold. First was to write off all accumulated debts. Secondly, because of the issue of moral hazard, we should make sure that those who scrimped and saved and paid their bedroom tax rather than ate were not penalised, and then that those who had paid should get it refunded. Do you see any difficulty with that?

Professor Gibb: Provided that can be done and it is a feasible—

Q5402 Chair: Why couldn't it be done?

Professor Gibb: One of the issues is that it is sometimes quite hard to determine where debt comes from. It becomes difficult to tell what the origins of somebody's arrears are. Are they in arrears because of the bedroom tax or because of some other non-payment reason or some other perfectly reasonable reason?

Q5403 Chair: Yes, but presumably that then becomes a technical question of implementation if your bedroom tax was £200 and your arrears were £200, even though it might not be exactly the same pound. If your arrears are £300, £200 is bedroom tax and you write that off. If your arrears are £150, £150 gets written off and you get £50 as your refund.

Professor Gibb: Yes, in principle, and if the world is as neat and tidy as that it is okay. It seemed pretty clear from the data that people at the Scottish housing regulator and some councils and housing associations were suggesting that there were real ups and downs in the pattern and flow of arrears. Certainly back in September 2013 it was quite hard to make some of those calculations. Some landlords could do that because they had the kind of systems where it was quite straightforward to do it, but other people seemed to say it was quite a difficult thing to do. Maybe that is not an issue now as we are through the first financial year. I was just making the point that technically there were some difficulties in arriving—

Q5404 Chair: Can I just develop this question? Surely it is perfectly straightforward. If the three of you were all liable for bedroom tax, looking backwards, it would be absolutely clear what amount of bedroom tax you were all liable to pay. It would be clear whether or not you had paid it, in which case you would get it refunded. If you had arrears, your arrears would be written off. If there was a combination of the two, a balancing payment would be made. I can see the complexities of doing it while you are progressing, but once the year-end books have been closed surely it is absolutely straightforward. It is then only a question of political will.

Professor Gibb: That is probably right. Another technical issue is whether you would work that by saying that at the end of the financial year we would work backwards and see what the position was for each individual and recognise that they will have had a year of hardship.

Q5405 Jim McGovern: It is perfectly definable. If someone is in arrears, it is written off. If someone has starved themselves or lived in a freezing cold house to try and pay it, it is perfectly definable. That is what they have paid and that is what they get reimbursed. What is the technical problem?

Professor Gibb: The problem is that you need to have enough data to be able to make that judgment. You could not do it as it happens.

Q5406 Jim McGovern: What do you have to judge? It is there on the balance sheet.

Professor Gibb: It is at the end of the year, but not as the year is progressing. That is the point I was making.

Q5407 Chair: We are where we are. We are at this date and therefore we cannot go back to the difficulties during the year. We can deal with all the bedroom tax for the last year now. The sorts of issues you are identifying are therefore issues for the current financial year, which is a different package. Let us deal with one problem at a time.

Professor Gibb: Chair, I was trying to make the point that if you were to look at the report that I produced it does have that comment in it at that point in time. I would go on, though, to say that clearly the bedroom tax has been a disastrous policy and is something that has been a phenomenal waste of money in a whole bunch of ways.

Q5408 Pamela Nash: To return to that, part of the White Paper was that the SNP Government in an independent Scotland would completely abolish the bedroom tax. Are there any complications or barriers that we should be aware of when looking at that as an option?

Professor Gibb: It would clearly cost a sum of money to do that, and that would have to be made good. On the other hand, of course, for the last year an almost equivalent amount of money has had to be spent to mitigate the effect of it. In a sense the saving is illusory. As we said on an earlier issue, I would argue that in this case the bedroom tax was a bad policy. It is a bad policy across the whole of the UK and it does not work. It does not do what it sets out to do.

Q5409 Pamela Nash: You are saying it would be a small amount of money.

Professor Gibb: In the greater scheme of things.

Q5410 Pamela Nash: How does that compare with UK-wide costs, if you have looked at that? I am thinking about the fact that the Labour party have also been very clear that they will abolish the bedroom tax across the UK should they win the general election next year. Will it make any difference to Scotland who abolishes the bedroom tax and how do the costs compare if it is just for Scotland, or Scotland within the UK?

David Phillips: For Scotland on its own it is about £50 million a year. That is how much it would have saved if it had gone ahead as planned. Restoring full housing benefit would cost £50 million a year. For the UK as a whole I do not have the numbers, but it would be around 10 times that figure.

Q5411 Pamela Nash: I did not ask that question as well as I could have. Is there any difference for Scotland in terms of the bedroom tax being abolished as part of the policy being changed across the UK?

David Phillips: In that aspect alone? If it was abolished across the whole of the UK under the current benefits system it would be Westminster that pays that in terms of benefits not being a devolved issue. If it was done in an independent Scotland, the Scottish Government would forgo that revenue. The difference would be: who would pay for it? Under the current system, Westminster would pay if it was abolished across the entire UK. If it was abolished in an independent Scotland, Scotland would have to find the resources to pay for that, although as Ken said, they are currently trying to find the resources from their own budget anyway to ameliorate the impact of it.

Chair: I think we would accept that if it is abolished by a Labour Government across the whole of the UK in 2015, the UK pays for it. The difference we saw was that it could not be abolished by the Scottish Government as is, but it could be mitigated in its entirety for an equivalent cost. That is why we are pursuing the point. We have been unable to identify any barrier to the writing-off of the debt, or indeed any barrier to the refunding. At the moment, I think the Scottish Government are hung up on the question of insisting that they do it through DHPs, which all the local authorities have been telling us—as you are probably aware—is not a particularly good system; lots of people fall through the cracks because of educational difficulties or mental health problems, chaotic lives or pride, and therefore there needs to be some other methodology. I think that covers everything relating to the bedroom tax.

I am recording that you shook your head and said, “No.” Shaking your head does not get recorded by the lady from *Hansard*; neither do hand movements.

Q5412 Graeme Morrice: I want to take Sharon back to what we were discussing earlier with regard to the Scottish Government’s view of the world in terms of the White Paper when it comes to the welfare state. It says it should be based on social investment, if indeed Scotland became an independent country. As we know, a lot of the policy areas that comprise the welfare state—for example, housing, health and education—are already devolved. What do you think would be the difference therefore in terms of Scotland being independent?

Dr Wright: The fundamental difference would be in terms of cash transfers. An independent Scotland with full welfare powers could tackle poverty in a way that the current powers cannot. For example, in an IPPR report that was recently published there was an argument that JSA and ESA should still be operated by Westminster, but I do not agree with that. If Scotland is going to have more welfare powers, then in order to make any real difference in terms of people's incomes they need control of key benefits and tax credits.

Q5413 Graeme Morrice: Surely Scotland would not have any more powers; it would have devolution of full powers, in the advent of independence, coming from Westminster to Holyrood. There may be different ways of applying the policies and resources, but surely it would be the same powers unless additional laws were to be passed.

Dr Wright: I am sorry; I do not understand the question.

Q5414 Graeme Morrice: I asked what difference there would be in an independent Scotland in relation to administering the welfare state, and you said that Scotland would have more powers. They would be the same powers that are being applied now by the UK Government, because obviously the policies apply to Scotland as they do to England, Wales and Northern Ireland.

Dr Wright: Yes. Under independence the Scottish Government would have control over the nature, character and generosity of the social security system, and the nature of employment services.

Q5415 Graeme Morrice: It would not be more powers. It would be the same powers but just administered by an independent Scottish Government.

Dr Wright: Yes. It would be more power than they currently have.

Q5416 Graeme Morrice: You are right. It would be down to policy decisions in relation to a future independent Scottish Government. Of course, things could change next year at the general election down here, as you are aware. Things could hopefully change quite substantially, but we will have to wait and see.

Do you not think the Scottish Government's objectives could be achieved with greater devolved powers to Scotland—remaining within the Union but with more autonomy coming to Scotland in this whole area of welfare?

Dr Wright: How would you imagine that looking?

Q5417 Graeme Morrice: We touched on this earlier, and Pamela mentioned Labour's devolution commission proposals, which will form the basis of the election manifesto for the Scottish Labour party in the general election. Those are obviously some proposals that have been mooted in terms of enhanced devolved powers to a devolved Scottish Government. To achieve the objective of the Scottish Government, do you not think that enhanced devolved powers could bring that about?

Dr Wright: Not entirely, no. The proposal in “Scotland’s Future,” as I understand it, is for a social investment state that integrates tax and benefits. With only partial increases in the powers they have, I do not see how they could achieve an integrated tax and benefits system without having full control of the social security budget and of employment policy.

Q5418 Graeme Morrice: In part, that has been suggested in the red paper, as you are aware. You obviously take the view that maybe it does not go far enough.

Dr Wright: Yes. I do not know; maybe somebody else wants to comment on that.

David Phillips: I have not read the red paper proposals in depth. I was going to make a more general comment about how far we have gone under devolution. There is a whole spectrum of potential arrangements between full independence and the existing system. For instance, devo-max would give almost complete control over taxes and benefits to the Scottish Government. Systems like devo-more or devo-plus would go part of the way there.

There is a range of options in between. The two trade-offs are about risk. For instance, the devolution of more benefit powers, or indeed full independence, gives greater financial risk to the Scottish Government. The other side of the trade-off is that it gives them more flexibility and more freedom to determine the generosity and structure of the system. Like the entire debate, it is one of trading off greater responsibility and potentially greater rewards with greater risk and potentially greater downsides. There is a spectrum between where we are today and independence.

Q5419 Graeme Morrice: Do you think that the Scottish Government’s plans for welfare support the claim that there will be a substantial difference between the Scottish and the residual UK welfare states?

David Phillips: I am not entirely sure. The suggested aims in the White Paper are laudable. People want a social investment state, one that integrates support through public services and benefits and fits together with the tax system. Those are objectives that the UK Government would certainly say they want to see as well. They are things that you cannot object to. For instance, when you read the UK Government’s child poverty strategy it says very similar things about wanting to focus on the causes rather than the symptoms of poverty, integrating benefits with support through public services, social services and health. Saying that is not a new thing. Where it is difficult is actually enacting it in practice. That is where it is not clear to me whether there are any really radical ideas out there at the moment. In part, that is what the Scottish Government’s welfare expert group is going to be reporting on fairly soon with some potential ideas.

As I said earlier, unless you are willing to throw substantial pots of money at it, any radical change will create losers as well as winners. Unless you are willing to put up taxes or cut spending elsewhere to spend more on the welfare state, there are no magic pills that can give everyone something.

Q5420 Graeme Morrice: That is a very pragmatic answer. I think you are also saying that perhaps it is not fully costed in terms of the proposals in the White Paper. They are laudable

aspirations. We have signed up to a lot of these things, but it is the practicalities of the implementation, as you have just said. It is also the funding. Where do you find all the funding? Kenneth, do you have a view on some of these issues?

Professor Gibb: No, I do not have anything to add to that.

Q5421 Chair: Sharon, do you want to disagree with him?

Dr Wright: No, it's fine.

Chair: You don't have to disagree. I was giving you the option.

Q5422 Graeme Morrice: As the Chair said earlier, it is good when you disagree. It makes life a bit more interesting.

David, one option you identified for Scotland would be a move towards a more contributory system. Could you explain what challenges and tensions the Scottish Government face in doing this while also meeting their goal of reducing inequality?

David Phillips: Yes. It was not so much a recommendation of ours; it was an illustrative example of a set of policies that show the trade-offs you face when you think about radical reform of the welfare system. One thing that does stand out from the UK system compared with other countries in Europe is that it is less contributory. In many other countries in Europe, particularly on unemployment benefit and pensions, you have a much stronger link between what you pay in and what you get out of it in terms of the system. We do not have that in the UK. All the parties say they are signed up to the idea of contributions, but the direction of travel in the UK has been exactly the opposite. It has become much less linked to the contributions you pay. There have been some indications from what the Scottish Government have said in the White Paper and elsewhere that they think that the contributory principle is important as well, because it helps bind people together in the welfare state, but—

Chair: Could I cut across? I am conscious that we have a vote coming up. Rather than coming back after the vote we will try to draw things to a close, if we can. I want to switch straight to Alan to tie up some technical questions and then we will come back to Jim.

Q5423 Mr Reid: I want to ask about the practicalities of an independent Scotland operating its own benefits system on day one, bearing in mind that if any changes are to be made, the software would have to be developed. What do you envisage happening to the administration of the benefits system on the first day after independence?

Dr Wright: The White Paper sets out a proposal for transition arrangements, so I do not think it would be the case that day one would be the day when everything changed. I hope that the Scottish Government would consult and listen to evidence and listen to people's lived experiences in a way that has not really happened at UK level.

Q5424 Mr Reid: But what is going to happen on day one? Are we going to continue with exactly the same benefits system that was operating at UK level the day before independence?

David Phillips: I think what they have said is that they would want to halt the roll-out of PIPs and universal credit, and abolish the bedroom tax pretty much, not on day one but within the first year of independence.

Q5425 Mr Reid: Is it practical to do that?

David Phillips: As Sharon mentioned earlier, we have had different systems operating in different parts of the country. For instance, for a while we had things like the lone parent obligations operating in some parts of the country but not in others. We had in-work credits and work-related activity payments operating in different parts of the country.

Q5426 Chair: But they were just variations on a theme.

David Phillips: They were variations on a theme, but in the first couple of years that is what these things are. DLA—the thing that PIPs is replacing—will still be operating in the rest of the UK at least for some claimants for most of that time. Most people will not be rolled on to universal credit until 2018 anyway. There is experience in the past of having two systems with slightly different parameters operating at the same time.

The difficulty comes if Scotland wants to make more radical changes. That is why in the longer term they would need to operate their own system. It is not clear to me whether two years are enough. Someone with a more operational background would know that.

Q5427 Mr Reid: How long will it be between the UK Government deciding to have universal credit and universal credit being fully operational?

David Phillips: It would be about six years.

Q5428 Mr Reid: Is it reasonable to assume that if a Scottish Government wanted a radically different benefits system it would take six years to design and implement?

Professor Gibb: It would certainly be very sensible of them to take their time and do it carefully and properly, whatever they chose to do, rather than to do it with haste.

Q5429 Mr Reid: Is six years a reasonable period of time?

Professor Gibb: I do not know.

David Phillips: I would not want to put a number on the time period. I would just say that there are some changes they have suggested from day one, or taking place in the first year. They have indicated that in the longer term they want a more root-and-branch reassessment of the system and how it works. There is no time frame for that at the moment, but doing it properly is better than rushing it and trying to do something quickly just to differentiate yourself from the rest of the UK.

Q5430 Chair: Some people have the impression that the benefits system would be changed almost right away, and that the 18 months' transition period between a vote in a referendum and the coming of independence would be enough for everything to change. You are saying that this is more like a "withdrawal of Trident"-type time scale—I am not tying the two together necessarily, you understand, but in terms of time scales.

David Phillips: I understand. What I think I am saying is that from day one of independence in 2016 they want to make some changes. The UK Government suggest that that might not be possible given that they will be going through lots of changes in the UK, and if we are sharing the system we need to be focused on the UK-wide changes as opposed to doing something a bit different in Scotland. On the other hand, we have seen in the past that we can operate different systems in different parts of the country, and quite broad parts of the country as well. Whether or not that is feasible is still an open question. Longer term, however, it needs to take time. We will hear a bit more in the next couple of months from the welfare group in Scotland and see how radical the changes are. I imagine that for a good few years they would want to start with something they have in the UK—

Q5431 Chair: "A good few years" is a wonderfully vague figure. Is it reasonable to say six to 10?

David Phillips: We have seen it with universal credit. It is very hard to estimate how long it takes to introduce a new system. I would not want to make the same mistake as—

Q5432 Chair: But we are talking about six to 10 years rather than six to 10 months, aren't we?

David Phillips: Closer to years than months, yes.

Q5433 Mr Reid: Does it cost the same to design a benefits system for a country of 5 million as it does for a country of 55 million, from a design point of view?

David Phillips: You mean are there economies of scale for larger countries?

Q5434 Mr Reid: Are there any economies of scale for designing software?

David Phillips: Yes. In certain areas there are economies of scale. At certain times there can be dis-economies of scale, so that larger countries face more problems because of the complexity of operating a system that has to cover many more differences in circumstances, such as differences in local labour markets and local housing markets.

We have looked not just at benefits but across the board to the public sector as a whole to see whether or not there is evidence of economies of scale mattering for countries the size of Scotland versus the UK. Looking at what countries like Sweden, Norway, Denmark, Belgium or other relatively small countries spend on the administration and design of public services, there is no real correlation between size of country and what they have to spend on those kinds of administration fees. It surprised me as well.

There is a lot of variation between countries. Some countries are much more efficient at designing these services. They can do it with a lot less resource when administering them, but it is not that big countries do it cheaper than small countries. The UK is normally fairly middle of the table for those costs.

Q5435 Mr Reid: The point I was trying to get at is does it cost the same to design the software for a country of 5 million as it does to design a piece of software for a country of 55 million?

David Phillips: I guess what I am saying is that, yes, there are certain examples where things would definitely cost more per person in Scotland. Designing software might cost Scotland a bit less, but not one tenth as much as it does the UK.

Q5436 Mr Reid: Is it 90% of the cost?

David Phillips: I do not know what the figure would be.

Dr Wright: It is also worth distinguishing between start-up costs and running costs. It depends on the character of the system. There have been some radical proposals that the working group have been listening to—who knows if they will choose to follow them or not—but one suggestion is a citizen's basic income, which could potentially have high start-up costs but then very low running costs. The more complicated a system is, the more the conditions that are involved, the more the paperwork that is involved, and the more the means-testing—these are all expensive things; but if you designed a system whereby everybody had a basic income at the same level, it would be relatively cheap to administer because you do not have to account for variation.

David Phillips: The point is that there are set-up costs like designing new software and the work involved in actually designing the system in the first place. Then there are the running costs. The running costs in the long term are by far the biggest part of the costs.

Q5437 Mr Reid: Do you know what it is costing the UK Government for all the welfare reform changes that the present Government are putting through? Do you know what it is costing in design costs?

Dr Wright: A huge amount.

David Phillips: I do not have the number off the top of my head, but it is a very small proportion of annual administration costs. Administration costs about £6 billion a year. The costs for the new system are less than that.

Q5438 Mr Reid: If an independent Scotland wanted radical change, it would have enormous set-up costs.

David Phillips: There would be set-up costs, yes. They would probably be more substantial per person than they would be for a bigger country to do it. But then in the longer run, as I said, the evidence is that smaller countries are not spending more per person on administering services than bigger countries. It seems that, while there are some

areas where there are economies of scale, as a whole it is not as important as I thought it would be. I thought we would see small countries spending a lot more of their resources on basic administration because of those economies of scale, but it does not seem to be the case.

Q5439 Mr Reid: I take your point on the administration, but I would assume that the set-up costs are going to cost a lot more per person for a small country than for a large country.

David Phillips: Yes, they are, but in the long term you do not let set-up costs and adjustment costs prevent you from implementing a system that you think will be fundamentally better. There will be transition costs, and they will probably be higher for a smaller country because you have certain fixed costs to pay, but you still should be thinking about doing radical reforms if you think they would be of benefit.

Q5440 Mr Reid: Is what you would envisage that for the first six to 10 years Scotland would just pay the UK Government to continue to operate the present system, and then, after about six to 10 years, it could implement the new radical system? Is that what you would envisage happening?

David Phillips: I do not know. That seems to me to be the subject of negotiation in terms of the existing assets of the Department for Work and Pensions—the existing computer software and data centres that runs the current system. I was saying that if they wanted to fundamentally reform the design of it, they will want to take their time doing that to make sure they get it right. Whether or not they need to have the UK operating the current system, or they can operate the current system themselves—

Chair: A lot of this will become clearer once the specialist group reports and we have something to get our teeth into.

Q5441 Mr Reid: What about currency? If Scotland was operating a different currency from the rest of the UK, do you see complications in operating a common system for the first few years?

David Phillips: In terms of having similar design of the system, not necessarily, but if you were pooling resources and trying to maintain the same levels, obviously currency volatility would then make that more difficult. If Scotland had its own separate currency and was initially trying to operate a system somewhat similar to the UK's, it would probably need to fix it in the new Scottish currency. That could mean that relative generosity goes up and down a little bit over time as the currency goes up and down. I do not know whether or not that would be something that the computer software could handle at DWP. Our computers could handle it at IFS, but I am not sure about DWP's.

Chair: Maybe we should get you to handle it. I think Jim wants to pick up a question.

Q5442 Jim McGovern: Going back to employment issues, the UK Government's Work programme has been failing my home city of Dundee pretty dismally. Dundee regularly comes at the bottom of the league table in terms of how many people they have helped get

back into work. The Scottish Government say that an independent Scotland would pursue “active labour market policies,” which would be “targeted” at Scottish circumstances. Can anybody enlighten us as to what that means?

Dr Wright: First of all, in terms of the Work programme, it is pretty clear that the Work programme is expensive and is not working for the people who need it most. In the first year of the Work programme, it failed to meet minimum service standards for any user group. In the second year, 40% of contracts underperformed, particularly for lone parents and disabled people. There is a lot of evidence of “parking” and “creaming”, so there are major problems with the Work programme. If Scotland did not have the Work programme, that is probably a good thing. If Scotland wanted to design its own Work programme, they could learn from the very robust evidence out there about how other countries operate active labour market programmes.

It has been indicated that it would be publicly provided rather than contracted out. I think that would be a good thing because contracted-out does not deliver its promises. Active labour market policy is a broad camp though. If you look at the other European countries, and at Australia, New Zealand and the US, there is a lot of variation in what an active labour market policy means and what it looks like in practice. It could be something like the Work programme, which is based on incentives, and works with a residual system that is about self-help, or it could be the other end of the spectrum; it could be about human investment. It could be about developing training and providing jobs.

Q5443 Jim McGovern: You are unsure about what it means.

Dr Wright: They have not specified what character of active labour market—

Q5444 Jim McGovern: The White Paper said, “We will answer every question that anybody has about independence.” I presume you have read it.

Dr Wright: Yes.

Q5445 Jim McGovern: But you are unsure about this particular subject. The White Paper does not answer it to your satisfaction. You are saying “It could be, it may be, it might be that or it could be that.”

Dr Wright: It could be a range of things.

Q5446 Jim McGovern: “It could be.”

Dr Wright: The Scottish Government would best design an effective system if they consulted widely with people who had lived experience of the sorts of issues it was designed to tackle, and if they looked at the evidence. That would be a major improvement on the current UK system.

Jim McGovern: It does not actually say, “We will.” It says, “We might” or “We could” or “Maybe.”

Chair: I want to bring this to a close. Maybe we will return to that if we can.

Q5447 Jim McGovern: Chair, there are a couple of supplementary questions. Would there be cost implications of the change from the UK Work programme to an independent Scottish Work programme?

Dr Wright: Yes, there would be cost implications, but there would also surely be major advantages given how poorly the Work programme performs. For example, the Scottish Government ran a working families fund a few years ago, in which 53% of users moved into hard outcomes—jobs or training—rather than the so-called “soft” outcomes. The Scottish Government have some success in this field that they could draw upon.

Q5448 Jim McGovern: In terms of delivery, could you define how it would differ from the UK Work programme?

Dr Wright: Not precisely, but I think—

Jim McGovern: That is okay.

Q5449 Chair: Can I clarify whether or not there are any answers you had prepared to questions that we have not asked? Are there any points that you think we have missed? I am sorry we have run through the last bit. I had anticipated that there was going to be a vote in about 30 minutes, but it is now going to be a bit earlier than that.

David Phillips: I do not have any questions but can I quickly summarise my key points from today?

Chair: Yes.

David Phillips: The key point is that the independence or devolution of welfare policy would give Scotland additional choices. It might want to make different choices about the more generous system that Sharon Wright outlines. The important point to bear in mind is that there is a trade-off with that; it would require either higher taxes or less spending elsewhere. If that is the decision that the Scottish Government wants to make, it is a valid decision. The UK is a relatively low-tax country in the context of Europe, but there are trade-offs that have to be made. It is not simply the case that you could have lower taxes and higher spending without something giving.

Dr Wright: I would like to say something in relation to the contributory principle point that we had to move on from. As David was saying, there are other countries, in Europe especially, that have more contributions-based systems. There are advantages to that, inasmuch as people who pay in feel that it is a more respectful, less stigmatised and less shameful thing to get back out of, but there are also downsides. There is a traditional insider/outsider debate with social insurance systems. They are not so good for people who are not as able to work traditionally. Men and women have been situated differently in relation to the demands and rewards of paid work and care obligations. The picture has changed in recent years as more and more women have taken on paid employment, but there is still a major issue that women tend to work part-time and they are definitely lower paid than men. A contributions-based system would have disadvantages for women.

Professor Gibb: I would like to echo something that David said. Part of the tenor of all three of us today is that we have noted some of the various issues of difficulty with the welfare reforms that are going on. Whatever happens in September in Scotland, there does seem to be across civil society much more appetite to debate different kinds of welfare. In a sense, regardless of the outcome of the referendum, it looks much more likely that Scotland, if it is devolved or if it is an independent country, will take some different route down the welfare road, and that they will have to confront the choices and trade-offs that David mentioned. It is quite exciting. I made the point earlier about the path dependency issue and how slow it is to make effective change. There seems to be a willingness to discuss these things in a way that there has not been before. That is really good.

Chair: It reminds me of the Chinese curse, “May you live in interesting times.” These are indeed interesting times, but not necessarily in a bad way. Thank you very much for coming. I am sorry we ended up in a rush at the end. We are just about to have the vote. I had anticipated we would have an extra half hour or so, but this has been particularly interesting. We have perhaps diverged on a couple of occasions—or two or three, or five or six—from the remit we had set ourselves, but thank you very much for coming along.