

Written evidence from Scottish Government [PCW0053]

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Is there a need to consider new, long term approaches to addressing change in the labour market: for example, introducing a Universal Basic Income?

- **Is UBI an appropriate short term response to shocks in the labour market?**
- **What can the UK Government learn from international evidence on Universal Basic Income?**

The impact of COVID-19 on the Scottish economy and labour market has been rapid and severe. Latest business surveys have shown record falls in business activity in April, reflecting that an estimated 19% of businesses have been temporarily closed in Scotland. We estimate that these closures (and wider knock on effects) have impacted over 750,000 jobs in Scotland between those furloughed and the self-employed that are unable to work.

The latest official labour market data for Scotland still broadly reflects the pre-COVID-19 position with the unemployment rate (albeit rising) at 4.1% in the first quarter. We know from the sharp rise in the working age benefit claimant count for Scotland in April, which was up nearly 70 per cent on the month, that the unemployment rate will be closer now to 7 per cent. We anticipate that the unemployment rate may see another spike when the UK Government's furlough scheme winds down.

Our updated economic modelling suggests a longer recovery phase is increasingly likely given the loss of productive capacity and the change in market conditions for many sectors of the economy.

As the immediate challenges of COVID-19 subside, it will be vital that we prepare for the long-term impacts, including the widespread economic instability. Limited or precarious employment opportunities will likely result in increased reliance upon the social security system, particularly amongst the unemployed or self-employed.

We are of the view, alongside many stakeholders, that the COVID-19 pandemic has exposed the shortcomings of the UK Government's social security system and vulnerabilities in our labour market. The UK Government should take this opportunity to address some of the fundamental flaws with Universal Credit (UC). The most recent data for people living in Scotland who are in receipt of UC shows that in the period 13 March to 9 April 2020, 117,000 people made a claim. This corresponds to around 6 times the number claiming over the previous period (14 February to 12 March 2020). The temporary increases in Universal Credit standard allowance and Working Tax Credit, are a welcome move, but they show that the previous payment levels were insufficient and highlight that more needs to be done. We have long called on the UK Government to reduce the 5 week wait for first payment, replace debt inducing advances with non-repayable hardship grants, reverse the benefit cap and to scrap the two child limit, all of which are impacting on the poorest people in our society.

In addition to the significant increase in the numbers of people on Universal Credit, we have also heard from various stakeholder organisations across the advice sector, including Citizens Advice Scotland, that the demographic composition of UC claimants has changed. Specifically, we are seeing individuals who have not previously accessed the benefits system applying for support as they face a substantive loss of income due to unemployment or an abrupt shortage of work.

For example, the hospitality and catering sectors have been particularly impacted through high levels of business closures, reductions in firms' turnover, and workers placed on furlough – often earning only 80% of their previous income. This, and other customer facing sectors (e.g. Arts, Entertainment & Recreation) are expected to be among the last sectors of the economy to re-open, with firms and employees facing prolonged reductions in earnings and job opportunities. These sectors also often have a higher proportion of lower paid and precarious work to begin with.

It is also worth noting that groups in our labour market who traditionally face greater labour market barriers and multiple disadvantage are often over-represented in these industries and so may see disproportionate impacts relative to the population as a whole. For example, women, lone parents, young people, people from minority ethnic groups and disabled people.

It is now appropriate to consider more significant and far-reaching changes, such as a Universal Basic Income (UBI) in the longer term. To do that a pilot would be required first, to properly test whether a UBI would reduce hardship, poverty and reduce the effects of economic shocks. A UBI has the potential to mitigate the effects of job insecurity, whether due to COVID-19 or technological advancement and automation, and reduce the level of in-work poverty. It could encourage entrepreneurial activity, making it easier to start a new business or become self-employed. It could also provide a safety net for those who will soon need to navigate a very different path to employment than once expected, for example, helping them to re-skill or up-skill and thus be better equipped to thrive in the changing economy and the labour market. In particular it may reduce the uncertainties in the labour market that are associated with investment in skills by individuals in the context of rapidly changing technology. Workers may be cautious of investing in new skills if there is a risk that rapid technological development will make these newly acquired skills redundant. They may instead focus on making savings for uncertain future. A basic income could provide a safety net for individuals that would minimise the risk associated with spending their money on re-training or up-skilling.

In addition to supporting individuals to react positively to the changing labour market, a UBI could also allow people to balance work with caring responsibilities or voluntary activities or work in industries, such as the arts, where income is unpredictable. In this way, a UBI might provide financial security and help reduce poverty and inequality.

Given the wide range of potential benefits of a UBI, the Scottish Government's 2017 Programme for Government provided £250,000 to a consortium of four local authorities (Glasgow, Fife, Edinburgh and North Ayrshire) to undertake research into the feasibility of Citizens Basic Income (CBI) pilots in Scotland. An independent Steering Group, comprising the four local authorities, and supported by NHS Health Scotland and the Scottish Government, was set up to oversee the project.

The Steering Group was tasked with producing a feasibility business case which included full details of the ethical, legislative, financial and practical implementation of conducting a pilot as well as its potential costs, benefits and savings.

The final report, which is available at <https://basicincome.scot>, was published on 11 June. The report is very comprehensive and could make a useful contribution to the Work and Pensions Committee's inquiry.

It sets out a proposed model of CBI; the ethical, technical and legislative changes required for implementation; the potential impact on poverty, child poverty and unemployment; and the estimated costs to run a three year pilot. It also includes evidence from contemporary international CBI experiments, and a summary of published research in this field to date. The report is accompanied by detailed econometric modelling, produced by the Fraser of Allander Institute, exploring the potential impact of a full rollout of a CBI across all of Scotland.

The report found that a CBI pilot in Scotland to support 17,100 people could cost up to £280m and could result in positive changes to poverty, child poverty and unemployment (no specific figures are produced). The economic modelling shows that a national CBI scheme could reduce the poverty rate by between 5.4 and 17.3 percentage points, and reduce child poverty rates by between 9 and 25 percentage points, but would cost between £27.6 billion to £57.8 billion and propose that it is funded through increased taxation levels.

There is no doubt that the cost, tax and economic implications of a CBI, as outlined in the Steering Group report, are significant, and how any viable scheme is funded needs to be carefully considered.

It is also clear from the report that a CBI which is unconditional, regular and generous enough to survive on would be difficult to set up quickly, as it would require a significant number of legislative, tax and technical changes to run a pilot, or to introduce a national scheme. For example, a key principle of the CBI model in the report is that participants are not at risk of financial detriment by losing access to passported benefits, premiums, or disability elements, as well as employment support, should they want it. This would necessitate a wide range of changes to both primary and secondary legislation which are mainly the responsibility of the Department for Work and Pensions and Her Majesty's Revenue and Customs. Technical changes to the Universal Credit and the older 'legacy systems' for Jobseeker's Allowance etc. would also be required.

The report also notes that if the UK Government was content to make these changes, it would take at least four years to run a pilot in Scotland, with one year of preparatory time followed by a three year pilot. However, once such challenges are overcome it is possible that basic income payments may provide stability and security for recipients.

Whilst a truly universal basic income cannot be introduced quickly or as a short term measure to deal with economic shocks, it is worth noting that there is growing cross-party support for some form of an emergency basic income. This issue has been raised by SNP MPs in Westminster and on March 17th a cross-party letter from 175 MPs and Peers, including those from the Labour Party, the Green Party and the Liberal Democrats, was sent to the Chancellor of the Exchequer requesting the consideration of emergency cash payments in response to COVID-19.

When considering what the UK Government can learn from international evidence it is helpful to be mindful of the report's acknowledgement that a basic income can take many different forms, with varying degrees of conditionality and generosity and different funding and delivery mechanisms. Sections 3.1 – 3.3 of the report summarise the existing evidence on the efficacy of basic incomes, and provides details on contemporary existing basic income studies from around the world.

As you will be aware there have been no pilots on UBI in the UK, although various local authorities in England, such as Hull City Council have expressed an interest and sought agreement from the UK Government. There have, however, been recent pilots of different

forms of a UBI in numerous countries worldwide, including Finland, Canada and the Netherlands.

Across the studies covered, the reported impact of providing unconditional payments on the labour supply evidence is inconsistent, but there are signs of mostly small reductions in labour market participation for men, with this trend being more pronounced among women with young children. Where there are reductions in labour market activity the evidence suggests the time was directed into other productive activities such as caring, education or entrepreneurship.

Whilst insight can and should be drawn from these studies, the differences in their approaches and social and political environments must be kept in mind. It is also worth noting some of these experiments have not published detailed results as they are either still underway, or were curtailed before an evaluation could be conducted.

There has also been work undertaken which, for issues of timing, was not included in the Steering Group report. This includes a recent paper from the Citizens Basic Income Trust and the London School of Economics¹ which explores the feasibility of implementing various basic income schemes, including an immediate emergency basic income, a recovery basic income (as a short term economic stimulus) and a more permanent basic income post-COVID. The report concluded that different forms of basic incomes would have differing levels of feasibility in the UK, but noted that a long term CBI scheme could provide additional employment market and business-creating incentives for the large number of households, an important factor in relation to the rebuilding of the economy following the COVID-19 outbreak. It should also be noted that the Spanish Government has announced a national minimum income scheme, which bears resemblance to a UBI, as part of their COVID-19 recovery plans. This scheme differs from a UBI in that it is not universal (recipients must have household earnings beneath a certain threshold and must be aged between 21-65) but has similar aims, with regards to providing stability and reducing poverty.

Finally, I would like to underline the Scottish Government's interest in exploring the idea of a UBI further. The pandemic has exposed the shortcomings of the UK Government's social security provision and many stakeholders feel this has made the case for exploring some form of universal basic income stronger. Increasing numbers of people are finding themselves ineligible for social security support provided by the UK Government, or that the social security payments they can access are insufficient to cover basic living costs.

The key conclusion of the Steering Group report, which the Scottish Government agrees with, is that although a pilot programme is desirable and worth exploring further, it must be done with the co-operation and collaboration of all relevant parties, particularly the UK Government

The Scottish Government does not have the powers to introduce a UBI. Under the current devolution settlement we only have responsibility over 15% of the DWP's benefit spend and we do not have the full range of powers over social security or tax that are required to make a universal payment to everyone in Scotland. A pilot in Scotland would require the agreement, collaboration and full co-operation of the UK Government.

Given this, the Scottish Government has written to both the Secretary of State for Work and Pensions and the First Secretary to the Treasury on 11 June highlighting the release of the report, urging them to engage constructively with Scottish Ministers on this issue (a copy of the letter to Therese Coffey is included in Annex B). We believe that a UBI is worth serious

¹ <https://www.iser.essex.ac.uk/research/publications/working-papers/euromod/em7-20.pdf>

consideration as part of a UK-wide COVID-19 programme of support to ensure a strong and fair economic and social recovery.

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