THE WHITE PAPER PROJECT

Social Security For All Of Us
— An Independent Scotland as a Modern Welfare State
— Executive Summary
Introduction

Through the late 19th and the first half of the 20th century the concept of the “welfare state” comprising one of the core functions of government emerged. It was intended that this would aid in redistributing wealth to poorer segments of society and thus help avoid poverty and destitution. In recent decades, this system has begun to come under pressure in the UK due to demographic shifts and direct political attack. UK Government austerity has resulted in the marginalisation of those who rely on social security and the application of ever more stringent regimes of means-testing and sanctions in the name of cutting expenditure and the overall national budget deficit.

In the context of Scottish independence, despite devolution of some aspects of welfare, very nearly the entire welfare infrastructure will need to be reproduced or rebuilt once Scotland becomes an independent country. The prospect of independence therefore raises questions about how Scotland could do this, which policies it could implement and why. This paper outlines some of the options for an independent Scotland for the purposes of discussion and debate as well as to test the adherence of those policies to the principles of social security and how well they may or may not contribute to social wellbeing.

The Anatomy of a Welfare State

Whilst the concept of a “welfare state” is difficult to define in terms which comprehensively cover all countries which describe themselves as such, common strands can be identified which help classify the various kinds of benefits and social securities which are offered.

Most expansive are the universal benefits which are offered to all or nearly all people within the country and are generally restricted only by demographics (such as free or discounted education for children or a basic income offered to all but tiered by age).

Somewhat more restricted are contribution-based benefits which are delivered based on payments into the welfare system covering a defined amount or period of time. The UK State Pension is an example of this with final pay-out being based on the number of years of National Insurance contributed.

Finally, a selective or conditional benefit is based on the present circumstances of the claimant and can be delivered based on criteria such as present income or employment status of the claimant or criteria such as disability or family status. For those benefits with an income-based component, the “taper rate” or the rate at which the benefits are reduced as income increases may be important.

With these multiple categories of benefits in use, it can be expected that the UK’s welfare system is complex. Over 30 different benefits exist, each with different access criteria. However, over 80% of total expenditure is accounted for by the top six benefits which cover pensions, housing benefit, child tax credits, employment and support allowance, disability living allowance and child benefit.

It is also noted that the UK’s welfare system is currently undergoing a major period of restructuring, simplification and reduction with the roll-out of Universal Credit and the replacement of Disability Living Allowance with Personal Independence Payments.
Scotland’s Welfare Post-Independence

As of the time of writing, only 2% of Scotland’s annual social security expenditure is devolved to the Scottish Government. This is set to rise to 17% under the terms of the Scotland Act 2016.

The complexities involved in smoothly devolving these powers have resulted in the implementation process being extended over the course of several years which has led to questions over how long it would take to fully implement the social security system of an independent Scotland.

However the challenge of splitting a unified welfare system is not entirely comparable to the challenge of creating an entirely new one and it is anticipated that a transition period of around three years would be required between an independence referendum and formal independence which would allow the time required to design and implement a Scottish welfare system in time for it to be fully operational at the point of independence.

Social Security for Immigrants and Asylum Seekers

One of the decisions to be made regarding social security is eligibility. 16.6% of the current population resident within Scotland were born outside of it so the duty of care that the government has with regard to social security should be seen as extending to all residents, not just Scottish citizens. This duty is seen as being particularly acute with regard to the status of asylum seekers and the Scottish Government should seek to overturn the present UK Government’s attitude of actively attempting to create a “hostile environment” for what is already a particularly vulnerable group.

Maintaining the Status Quo

Even if Scotland seeks merely to replicate the UK welfare system upon independence it must still contend with the fact that much of the infrastructure to run the system is reserved. Scotland would be well placed, therefore, to address the issues surrounding IT and management of the system so that a bespoke “Person-Centred” system is adopted. This practice, based around the concept of “citizen identifiers” and control of data being retained by the person to whom it refers, could then be adapted in the future should policy regarding welfare change.

However, given that considerable effort must be made to design and implement such a system, doing so merely to maintain the status quo may be a missed opportunity to resolve known issues within the UK system.

It is noted that the personnel tasked with delivering welfare in Scotland are already largely based in Scotland thus it is possible that delivery of a Scottish social security system could be implemented without concerns of a shortfall of necessary staff.
“Nordic Horizons”

The comparatively low levels of social spending in Scotland and the UK compared to other OECD countries and particularly those which follow the “Nordic Model” should be noted. If Scotland were to increase health and social care spending to the equivalent percentage of GDP of that spent in Finland then it would represent an additional €8.2 billion worth of spending per year. The Nordic countries also raise a comparatively high level of tax revenue as a percentage of GDP. If Scotland were able to increase tax revenue from the current 34% of GDP to the Nordic average of 43% of GDP, this would represent an additional £13.7 billion per year in revenue. The benefits of such taxation and spending approaches are found in the Nordic countries high rankings in wellbeing and happiness index.

Job Guarantee Scheme

Where many welfare schemes promise, at their core, some form of guaranteed income, an alternative proposal is that of a guaranteed job for any who wish it. Under a Job Guarantee Scheme the government becomes the employer-of-last-resort and, in effect, replaces welfare schemes such as Jobseekers Allowance with an automatic job offer.

The benefit of this scheme is a reduction in long term frictional unemployment and the ability for the government to specifically target employment sectors or deprived geographic areas. It would have the effect of providing a floor for wages and job conditions in the private sector (as those who were unhappy with their conditions or were receiving lower pay could quit their job in favour of one from the JGS).

It is, however, noted that whilst a JGS would aim to provide a job for everyone who wishes one, not everyone would necessarily want a job. Those in full-time employment, who care for others or who have a disability which precludes them from working would not be part of the JGS. Additionally, a JGS would have to be designed to take account of structural unemployment where the skills of those who wish to work do not match the requirements of the jobs available. This point is particularly important at a time when retraining times for degree level jobs may take several years.

A well designed JGS must also not be allowed to exploit workers in a manner similar to the UK’s Workfare scheme where people were induced to work low skill jobs at below market wages rates under penalty of losing other benefits. Whilst a JGS may provide a valuable addition to the government’s economic policy framework and could work closely in conjunction with the social security framework it is not, in itself, an adequate replacement for social security.

Negative Income Tax

A negative income tax provides an automatic tax credit which is proportional to the shortfall between a recipient’s income and a determined “threshold”. A model is presented whereby this negative income tax offers a credit to anyone earning below the UK Living Wage of £16,500 per year and is tapered such that someone with zero income would receive a tax credit equivalent to the current UK Jobseeker’s Allowance of £3,795 per year.
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The advantages of this system would be to streamline parts of the welfare system into the income tax network via systems equivalent to PAYE, although this would require the issuance of additional tax codes to include people who are not in and not actively seeking work.

An additional advantage would apply within the context of an independent Scotland which allowed its currency to float with respect to the value of the UK Pound Sterling. In the years following independence there may be residents of Scotland who are recipients of contribution benefits from the UK (such as a state pension). If these payments resulted in an income below the negative income tax threshold then the tax credits would provide an automatic stabiliser for such recipients. For example, if the Scottish currency appreciated with respect to the UK pound then the buying power of UK benefit income would reduce. The negative income tax would partially “top-up” this reduced buying power and ameliorate the impact of the exchange rate fluctuation.

The identified disadvantages of a negative income tax include the plausible vulnerability to fraud whereby someone may under-report earnings in order to qualify for the tax credit (although the progressive nature of most schemes would tend to limit the impact of this type of fraud) and the potential (absent from the model presented in the main report but possible in a poorly designed model) that an increase in wages may result in reduced total income which could induce a significant disincentive to take on additional working hours or accept a pay increase. Finally, the negative income tax maintains a strong link between the concept of earnings and work as well as reinforces the idea of someone being either a net “contributor” or a net “recipient” of the welfare system which may prove undesirable depending on political outlook.

Universal Basic Income

The concept of a Universal Basic Income, in which every applicable resident of Scotland would receive a fixed and equal payment regardless of circumstances, is discussed. Whilst policies such as this are generally described as being supported by elements of both the political “left” and the political “right” it must be acknowledged that the rationale behind such support is often mutually exclusive.

In this case, the left would support UBI on the grounds that primarily it reduces poverty by providing every recipient with the means to meet their basic needs. The ability to reduce administrative waste and redeploy tax revenue more productively is also valued.

For the political right, the advantage of UBI is often described in terms of reducing the overall size of the government by replacing government services (such as health and education) with a cash transfer which recipients can use to buy services from a private market. The reduction in service provision is then used to justify cuts in taxation.

The history and development of the UBI as a policy is noted with particular attention paid to MINCOME – a pilot study undertaken in Manitoba, Canada between 1974 and 1975. The benefits of UBI were found to include reduced illness and hospitalisations, increased mental health and wellbeing and significant reductions in overall poverty. Only modest reductions in employment were noted and these were found to be largely restricted to those who wished to remain in education, wished to retire early or were mothers seeking to spend more time with their families.
With respect to potential Scottish social security policy, an example of a “revenue neutral” UBI scheme is presented whereby three aged-based tiers of payment are created for children (£3,484.50 per year), working age adults (£3,801.20 per year) and pensioners (£8,091.20 per year). The gross cost of granting such a UBI to all Scottish residents would be approximately £24,547 million per year but approximately £16,600 million of this cost would be met by the displacement of relevant existing benefits leaving £7,780 million to be found from additional sources. To meet this amount, a change to income tax and National Insurance Contributions which takes into account the automatic increase in income for everyone results in a society in which income is more equally redistributed compared to present but also one in which a majority of Scottish households are better off.

Whilst the advantages of UBI are tempting and the policy is now being considered at the highest levels of government (including the United Nations) it is still noted that replacing a complex, means-tested system with a simpler, universal one remains challenging. Adequate provision must be made to account for any and all cases where the withdrawal of multiple benefits and replacement with UBI leads to a person or household being worse off. Transition schemes and/or top-up credits may be required in these instances to avoid hardship during the creation of the new social security system.

**Conclusion**

Independence offers Scotland the opportunity to break with the legacy of the UK’s benefit system and institute an entirely new system fit for the modern world. Even if minimal changes are intended it will still be a basic necessity that an independent Scotland review and replace the welfare infrastructure, so a natural opportunity is presented to design the system so that it is able to implement an entirely new approach.

Of the options discussed, a Universal Basic Income is identified as the most promising of these policies which should be explored in a more comprehensive manner than has been possible within the scope of this paper. The prospect of a Job Guarantee Scheme may be a valuable addition working alongside a UBI.

What is clear is that whatever path Scotland chooses, the mistakes of the UK’s welfare system cannot be allowed to be replicated in an independent Scotland. By eliminating the punishment and sanction ideology prevalent within the UK system and investing in a more universal system Scotland can use the opportunity presented by independence to build a social security system which works for all of us.