Summary

- **Ensuring the well-being of people across Scotland should be the leading principle behind any vision for Scotland’s economic future.** A continued focus on an economic model that has led to poverty, inequality and the degradation of the natural environment is detrimental to Scotland’s people and the communities they live in; we question the value of this approach.

- **The need to rebalance the economy is critical to creating a more equal and sustainable society.** Our economy is a means to an end. That end is tackling Scotland’s endemic social, health and economic inequalities.

- **In-work poverty will remain a significant challenge regardless of this year’s referendum vote.** We fail to see why the Scottish Government is not planning to legislate for the Living wage within the Procurement Bill currently passing through Parliament. Regardless of the result of the Referendum, developing solutions to our low wage economy is vital.

- **Employment policy must recognise changing demographics, and flexible employment must be promoted and supported.** Economic and social policy must increasingly reflect our changing lives, communities and responsibilities.

- **Tax policy in Scotland should have a redistributive focus, encourage positive behaviour, and be transparent and easily understood.** Any future tax system should also discourage behaviour that is less desirable. Designing a far simpler, more accessible and more easily understood tax system – as well as an effective one – must be a priority.

- **There must be a more progressive approach to welfare and welfare policy in Scotland regardless of the result of the Referendum.** The Scottish Parliament should also review alternative approaches to employability and the work programme, and invest in more supportive approaches in employability.

- **More unusual ideas should be considered.** A Citizen’s Income could solve many issues around welfare, low pay and employment. Moving to a shorter working week is another potential way to combat some of the problems within our economy and society.

**Our response**
SCVO welcomes the opportunity to respond to this call for evidence, and contributes the following:

**Economy**

When the economy failed in 2008, the impact of fewer jobs and lower wages affected many people across Scotland. These are often the people who are found queuing up outside foodbanks, suffering from chronic illness, and falling into rent arrears. As
welfare reforms hit across the UK, and ever increasing numbers are penalised for not having a job, we need to consider how we can make the economy work better.

What do we mean by ‘better’? First we must decide what the aim of economic policy in Scotland should be. Is it to promote growth? What kind of growth and growth felt by whom? What kind of work will be created, in terms of pay and stability? What about environmental effects? If the goal is health, happiness and a decent standard of living – rather than solely GDP growth – then economic strategies will need to have a very different focus than they have to date, whatever the result of the Referendum.

As SCVO have previously stated, a continued focus on the economic model that has led us to our current situation in regard to poverty and inequality is detrimental to Scotland’s people. In Scottish Government documents, we continue to see a strong focus on GDP and on economic growth alone as something to strive for, and we question the value of this approach. We are unsurprised but disappointed that none of the areas for economic focus listed by the Committee in this call for evidence focus on people, their relationship with the economy, and the benefits it may bring them or otherwise.

SCVO, representing as we do many members who work with some of the most vulnerable people in Scotland, believes that ensuring the well-being of people across Scotland should be the leading principle behind any vision for Scotland’s economic future. Alongside Oxfam Scotland – whose Humankind Index determined the priorities of Scotland’s people in terms of wellbeing – WWF Scotland and others, we firmly believe that prioritising economic growth above all else does little to address the widespread societal issues facing Scotland today nor improves the lives of people in Scotland in the ways that are most important to them.

It is imperative to rebalance the economy – and this is not just a moral question. Doing so will have positive financial impacts. As has been highlighted in recent years, less inequality within countries leads to improved lives for all, including better health outcomes and lower crime levels. Employment also positively impacts on a wide range of wellbeing indicators, including health and crime: for example, studies in a number of countries have shown that losing one’s job can trigger problem drinking for 1 in 5 men and 2 in 5 women. So a more equal economy reduces the spend needed across a range of public services.

Furthermore, as Stewart Lansley in his book The Cost of Inequality demonstrated, and Joseph Stiglitz showed in his work for the Scottish Government, whilst economic inequalities lead to poor economic outcomes, by moving towards a promotion of economic equality we can create a more sustainable and prosperous economy.

Pay and conditions

The operation of the labour market in Scotland is a significant challenge, as seen in the recent growth of in-work benefits and in-work poverty – for example, 6.7 million people who are currently working are in poverty - and people ‘cycling’ between insecure jobs and Jobseeker’s Allowance, with 4.8 million different people claiming Jobseeker’s Allowance across the UK in the last two years. The number of people
working part-time who want a full-time job has also risen to 1.42 million people – a new record – and last year, for the first time ever, those suffering from in-work poverty outnumbered those directly affected by out-of-work poverty\textsuperscript{viii}.

Whilst measures announced in the Scottish Government’s White Paper on Independence may help mediate elements of in–work poverty (e.g. dual earners in Universal Credit), they won’t eradicate it. In-work poverty will remain a significant challenge regardless of this year’s vote, and a different approach to the economy is needed with economic growth seen as the means and not an end in its own right: it is clear that the current economic model is failing to help people to work their way out of poverty.

We are very concerned that so little has been done in the past decade or more to combat in-work poverty in Scotland. Research by KPMG shows that 18% of Scottish workers are paid less than the current Living wage\textsuperscript{viii}. We fail to see why the Scottish Government is not planning to legislate for the Living wage within the Procurement Bill currently passing through Parliament – particularly as the arguments around the EU preventing such legislation are disputed. If just half of workers in Scotland were to receive the Living wage who do not currently do so, almost 200,000 people would see increases to their pay packets.

Low pay also has a direct negative impact on public finances through the payment of working tax credits. Increasing wages to levels which provide a decent standard of living will remove the need for such support whilst also benefitting public finances through higher tax receipts. Regardless of the result of the Referendum, developing solutions to our low wage economy is vital to the wellbeing of all those who live in Scotland.

Employment policy must also recognise changing demographics, and the Scottish Government and other public bodies must promote and support flexible employment in recognition of the complexity of family life: rather than people having to give up work to care for elderly parents, cope with mental ill-health, look after children and so forth, flexible working practices keep people in work and help them to lead independent lives. Again, this is not just a moral issue: it has been estimated that 300,000 carers are forced to give up work to care each year, at a cost of £5.3 billion to the UK economy\textsuperscript{ix}.

So whilst we welcome the commitment to invest in childcare and expand childcare provision both pre- and post-Referendum, we recommend that the Scottish Parliament considers how we value such professions – in some northern European countries, childcare staff are trained to university level, bringing improvements to early-years education and the wellbeing of children and their families, as well as increasing wages in a traditionally low-wage sector. We also recommend that much more is done to help other carers remain in the workplace whenever possible\textsuperscript{x}.

Tax

We have a clear opportunity with new taxation powers under the Scotland Act for tax policy in Scotland to have a redistributive focus, and we would like to see a clearer commitment to redistribution and fairness within a future tax system. We recognise
that the policy memorandum for the Revenue Scotland Bill highlights that tax should be levied on the principle of "proportionate to ability to pay"x, and we welcome the Cabinet Secretary's stated aspirations to move towards a "progressive system of taxation" within the powers conferred by the Scotland Actxii, but we would like to see a stronger commitment to this agenda whatever the outcome of the Referendum.

We also recognise that taxes can encourage behavioural change and set a precedent for relationships between the individual and the state, so we welcome the potential introduction of a Scottish general anti-avoidance rule (GAAR), as detailed in the Revenue Scotland and Tax Powers Bill, and look forward to seeing this being brought into legislation and pursued robustly. Similarly, we would like any future tax system to encourage positive behaviours that benefit our communities – such as an improved charity tax system – and to discourage those that are less desirable.

It is also important to recognise that how taxes are implemented sets a precedent for how Scotland engages some of the most vulnerable in our community – from accessibility and transparency to the tax system, to how tax is designed with the most vulnerable in mind. The latent UK approach is mired in case law and can only be understood by accountants. Designing a far simpler and more easily understood tax system – as well as an effective one – must be a priority.

Finally, discussions of how an alternative and progressive system could be created – through altering National Insurance, for examplexiii – must be forthcoming. We are keen that, in the event of a ‘yes’ vote, the Scottish Government doesn’t simply go down the route of replicating the UK’s current system with a few tweaks. Rather, we wish to see a clear precedent set following the key principles outlined above.

Welfare

We would wish to see a more progressive approach to welfare and welfare policy in Scotland regardless of the result of the Referendum, and the third sector has an ambitious vision for welfare regardless of the Referendum results. This has been outlined in SCVO's positive principles paper, and in many responses to the Expert Group on Welfare's recent call for evidence.xiv Investing in an inclusive and empowering welfare state also makes good economic sense.xv

A wide range of policy reforms lead by the UK’s Coalition government were recently forecast by the Institute for Fiscal Studies to increase both child and working-age povertyxvi - even though in the UK we already have 3.5 million children living in povertyxvii. The impact of this on families and communities in Scotland is well-documented, with increasing evidence of real hardshipxviii. The need to tackle such increases in poverty and hardship through changes to labour market and welfare policy, and by an increase in the amount of redistribution performed by the tax and benefit system, is highlighted by the Institute for Fiscal Studiesxix. The Scottish Government has responded to tackle the impact of UK welfare reforms, with this being a key strategic feature of the Budget for 2014, and we welcome the discussions taking place between the two main parties to look at how best to mitigate the impact of the bedroom tax.
There is now an opportunity to create a new approach to welfare: one that is holistic and broad in the range and scope of policies used to tackle welfare issues in Scotland. Policy often remains compartmentalised in a way that fails to reflect people's lives but it is crucial to move into more joined-up thinking, creating policies that mirror life today and in future. SCVO recommends that consideration is given to areas of policy that are not always associated with welfare, including looking at employment, transport, housing and planning policy, and capital investment, through a "welfare lens". With boundaries between services a key frustration for many families despite the public service reform agenda, there also remains a clear need for greater links between services – something that could happen within the current devolution settlement.

The Scottish Parliament should also review alternative approaches to employability and the work programme, and invest in more supportive approaches in employability. As SCVO has demonstrated before, Community Jobs Scotland is one such successful approach. Phase two of the programme will offer wage incentivised jobs targeted at disabled young adults with a further extension planned for ex-offenders and young people leaving care – recognising their distance from the labour market and specific challenges in accessing employment. We look forward to the review of employability provision in Scotland recently led by Alistair McDonald, and would hope it recognises the potential role for the third sector in this regard.

Thinking 'outside the box'

We work for money so that we can live. But many of the things that we need are necessary only because we don't have the time to do things ourselves, such as caring for our children after school hours. One possible solution to this is for everyone to move to working fewer hours. nef (new economics foundation) started this conversation in the UK in 2010 with their report 21 hours, and they have looked at it in more detail in their report entitled Time on our side. Whilst this would lead to a drop in earnings, moving to a shorter working week would have multiple positive benefits: less damage to the environment; more time for civic engagement and connecting with our communities; more time to look after those in our social circles who need extra care. Through moving to this model we could reduce unemployment, decrease the welfare bill, and solve the underemployment crisis.

The issue of low wages would also need addressing, something that nef explores in its work. Interestingly, the UK Labour Party has stated that it would offer tax incentives to business if they employed people at the Living Wage, a voluntary minimum wage rate that pays £7.45 per hour; whilst this would have to be much higher if everyone was to move to much fewer working hours, it shows a way that we can move in that direction without endangering job numbers.

Another more unusual idea that could be considered is that of a Citizens' Income. Academic Ailsa Mackay recently spoke at the Scottish Parliament on a citizen's basic income alongside Anne Miller from the Citizen's Income Trust. The idea is that everyone is paid a set income by the Government, regardless of their work status. Such a scheme could replace much of the current welfare system, and may also help push up low wages as unattractive jobs would need to be seen as worth
the time. Such a scheme will be voted on in Switzerland in the next year or two in a public referendum.

These are just two ‘out of the box’ ideas that the Committee might like to consider – especially as the Referendum, whatever the outcome, has given us such a good opportunity to really rethink the way we run our economy and welfare system.

Conclusion

As we have said above, when the economy failed in 2008, the impact of fewer jobs and lower wages affected many people across Scotland. These are often the people who are found queuing up outside foodbanks, suffering from chronic illness, and falling into rent arrears. As welfare reforms hit across the UK, and ever increasing numbers are penalised for not having a job, we need to consider how we can make the economy work better.

We must ensure that the well-being of people across Scotland is the leading principle behind any vision for Scotland’s economic future. A continued focus on the economic model that has led to poverty and inequality is detrimental to Scotland’s people and we question the value of this approach. Whatever the outcome of this year’s vote, we should look to ensure that Scotland’s economy becomes one that is beneficial to all.

Developing solutions to our low wage economy is vital, as is recognising changing demographics when designing employment policy. Tax policy in Scotland should have a redistributive focus, and designing a far simpler, more accessible and more easily understood tax system – as well as an effective one – must be a priority.

Finally, there must be a more progressive and supportive approach to welfare, welfare policy and the related employment policy in Scotland regardless of the result of the Referendum. A Citizen’s Income is one possible way forward, and should be explored. Moving to a shorter working week is another potential way to combat some of the problems within our economy and society, and should be looked into.

About us:
The Scottish Council for Voluntary Organisations (SCVO) is the national body representing the third sector. There are over 45,000 voluntary organisations in Scotland involving around 138,000 paid staff and approximately 1.2 million volunteers. The sector manages an income of £4.5 billion.

SCVO works in partnership with the third sector in Scotland to advance our shared values and interests. We have over 1400 members who range from individuals and grassroots groups, to Scotland-wide organisations and intermediary bodies.

As the only inclusive representative umbrella organisation for the sector SCVO:

- has the largest Scotland-wide membership from the sector – our 1500 members include charities, community groups, social enterprises and voluntary organisations of all shapes and sizes
our governance and membership structures are democratic and accountable - with an elected board and policy committee from the sector, we are managed by the sector, for the sector

SCVO brings together organisations and networks connecting across the whole of Scotland

SCVO works to support people to take voluntary action to help themselves and others, and to bring about social change. Our policy is determined by a policy committee elected by our members.

Further details about SCVO can be found at [www.scvo.org.uk](http://www.scvo.org.uk).

References:

2. [http://www.scottish.parliament.uk/S4_EconomyEnergyandTourismCommittee/Inquiries/SCVO(1).pdf](http://www.scottish.parliament.uk/S4_EconomyEnergyandTourismCommittee/Inquiries/SCVO(1).pdf)
6. See also Stiglitz, J. (2012), *Macroeconomic Fluctuations, Inequality and Human Development*.
13. [http://www.scotland.gov.uk/Topics/People/welfarereform/EXPERTWORKINGGROUPONWELFAREPROCESS](http://www.scotland.gov.uk/Topics/People/welfarereform/EXPERTWORKINGGROUPONWELFAREPROCESS)

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