OFFICIAL REPORT
AITHISG OIFIGEIL

Economy, Jobs and Fair Work Committee

Tuesday 16 January 2018

The Scottish Parliament
Pàrlamaid na h-Alba

Session 5

Tuesday 16 January 2018

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ECONOMY, JOBS AND FAIR WORK COMMITTEE
2nd Meeting 2018, Session 5

CONVENER

*Gordon Lindhurst (Lothian) (Con)

DEPUTY CONVENER

*John Mason (Glasgow Shettleston) (SNP)

COMMITTEE MEMBERS

*Tom Arthur (Renfrewshire South) (SNP)
Jackie Baillie (Dumbarton) (Lab)
*Colin Beattie (Midlothian North and Musselburgh) (SNP)
*Kezia Dugdale (Lothian) (Lab)
*Jamie Halcro Johnston (Highlands and Islands) (Con)
*Dean Lockhart (Mid Scotland and Fife) (Con)
*Gordon MacDonald (Edinburgh Pentlands) (SNP)
*Gillian Martin (Aberdeenshire East) (SNP)
*Andy Wightman (Lothian) (Green)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Keith Brown (Cabinet Secretary for Economy, Jobs and Fair Work)
Craig Dalzell (Common Weal)
Michael Jacobs (Institute for Public Policy Research)
Lorraine King (Scottish Government)
John McLaren (Scottish Trends)
Ryan McQuigg (Oxfam Scotland)
Denise Swanson (Scottish Government)

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Economy, Jobs and Fair Work Committee

Tuesday 16 January 2018

[The Convener opened the meeting at 09:33]

Interests

The Convener (Gordon Lindhurst): Welcome to the second meeting in 2018 of the Economy, Jobs and Fair Work Committee. I remind everyone to turn off any electronic devices that may interfere with the sound system. I ask our new member, Kezia Dugdale, to make a declaration of any interests she may have.

Kezia Dugdale (Lothian) (Lab): Thank you, convener. I declare that I am a member of the Community trade union and of Engender.

Decision on Taking Business in Private

09:34

The Convener: Agenda item 2 is a decision on whether to take in private items 5, 6 and 7. Does the committee agree to take those items in private?

Members *indicated agreement.*

Financial Guidance and Claims Bill

09:34

The Convener: I welcome Keith Brown, the Cabinet Secretary for Economy, Jobs and Fair Work, along with members of his team from the Scottish Government: Lorraine King, head of the consumer, competition and regulation unit; Denise Swanson, head of the access to justice unit; Greig Walker, a solicitor with the legal directorate; and John St Clair, a senior principal legal officer.

The cabinet secretary is here to speak to us about a legislative consent memorandum on the Financial Guidance and Claims Bill, which is a piece of United Kingdom Parliament legislation. I invite Mr Brown to make an opening statement.

The Cabinet Secretary for Economy, Jobs and Fair Work (Keith Brown): Thank you for the opportunity to speak in support of the LCM, convener. The Financial Guidance and Claims Bill makes provision for establishing a new financial guidance body, including provisions on cold calling and a debt respite scheme; the funding of debt advice in Scotland, Wales and Northern Ireland; and the regulation of claims management services.

The bill's overarching focus is on ensuring that members of the public are able to access free and impartial money guidance, pensions guidance and debt advice. It also has an access to justice purpose, ensuring that members of the public are able to access high-quality claims handling services by strengthening the regulation of claims management companies.

The bill enables that in two ways. First, it creates a single financial guidance body, or SFGB, and makes provision for the funding of debt advice in the devolved Administrations. Secondly, it transfers claims management regulation from the claims management regulation unit in the Ministry of Justice to the Financial Conduct Authority.

The bill also makes provision for two connected purposes: the creation of a debt respite scheme, also known as a breathing space scheme, through regulations; and the introduction of a ban on cold calling through regulations.

The SFGB will replace three publicly funded services that are currently provided by the Money Advice Service, pension wise and the Pensions Advisory Service. It will be responsible for delivering debt advice in England and money guidance and pensions guidance across the UK. The provision of debt advice has already been devolved, and the bill devolves the levy funding that is associated with that debt advice provision. Those moneys are gathered from an existing levy on the financial services sector under the Financial Services and Markets Act 2000. However, under the terms of the new funding formula for devolved levy funding for debt advice provision in Scotland, the Scottish Government has negotiated an improved allocation that will ensure that Scotland's share takes account of our adult population share and the levels of indebtedness in Scotland. Accordingly, without the LCM, the provision for levy funding for that advice provision would not be devolved to Scotland, meaning that the existing, less favourable, financing arrangements would continue to apply.

As outlined in the legislative consent memorandum, other provisions under part 1 of the bill will have a bearing on Scotland. For example, it talks about the

> "statutory objective on the SFGB to work closely with the Scottish Government on the provision of information, guidance and advice"

and the requirement on the SFGB

> "to work with the Scottish Government in co-ordinating the development of a national strategy to improve: the financial capability of Scottish citizens"

and

> "their ability to manage debt ... as well as the provision of financial education to children and young people".

Beyond the specific core functions of the SFGB, the Scottish Government has also obtained agreement on certain wider principles that shall apply in respect of the new body. First, it must take greater account of differences in the money and debt advice landscape in Scotland to ensure that available resources are pooled effectively, delivering a more holistic and joined-up advice landscape. It must also establish a committee with membership drawn from representatives from each of the devolved Administrations, thereby embedding the Scottish Government in its governance arrangements, providing the Scottish Government with influence and ensuring that collaborative working is achieved in practice across money and pensions guidance. Finally, it must be capable of channelling funding in a way that best ensures effective oversight and co-ordination or delivery of debt advice in light of the devolution of levy funding.

Part 2 of the bill extends the regulation of claims management companies by the Financial Conduct Authority to Scotland, in a development that was sought by the Scottish Government and welcomed by the Justice Committee in its stage 1 report on the Civil Litigation (Expenses and Group Proceedings) (Scotland) Bill.

I hope that the committee supports our view that an LCM is necessary. I am happy to answer any questions.

The Convener: Thank you. I will start with a question about timing. The bill was introduced at Westminster on 22 June 2017. In normal circumstances, an LCM would be lodged no later than two weeks after the introduction of a bill but in this case, the LCM was lodged much later—on 13 December 2017. First, can you explain how that delay came about? Secondly, when do you envisage the provisions coming into force in Scotland, and is everything being set up and prepared so that it can take effect and be effective for those who need debt advice and so forth and for claims management companies here?

Keith Brown: I wrote to you on the first point. As I mentioned in my opening statement, the delay has been down to the discussions about the levy funding. Having come to the issue afresh, I was not willing to accept the level of funding that applied to Scotland. That initiated a series of discussions not just between us and the United Kingdom Government but with the other devolved Administrations. Because the UK Government's discussions on the bill were multilateral and involved different Administrations and different interest groups, the process has taken longer than we expected, but the delay is mainly down to the discussions that we have had about the levy funding. As a result of those discussions, our levy funding will increase—from around £2.2 million to more than £4.7 million, I think.

When the bill will be enacted is a matter that lies with Westminster, but I understand that the UK Government intends the bill to go through its next stage after the February recess. My officials might be able to give more clarity on that and the process that will follow.

Denise Swanson (Scottish Government): The second reading in the House of Commons will take place around 22 January and royal assent will be given at some point after the February recess; obviously, we do not know exactly when that will happen. The report stage and third reading will take place after 20 February, after which the bill will go through the House of Lords before receiving royal assent. We do not have the final timings for that process, but we expect the second reading and the committee stage to take place later this month.

The Convener: What about implementation?

Keith Brown: We are taking forward the bill's provisions, which build on the current provision. As you will know, we will introduce legislation to establish a consumer body. The consultation on that will take place over the next few weeks and months, and the proposals will evolve during that process. Grants are given to different bodies by the Scottish Legal Aid Board. The infrastructure is already there, but it will be developed over time.

The Convener: Some committee members have questions.

Colin Beattie (Midlothian North and Musselburgh) (SNP): I have one or two questions about the funding provision. Will the funding that is based on the new formula directly replace the existing funding, or is it additional funding?

Keith Brown: It will be raised through the same process—through a levy—but it will completely replace the existing funding.

Colin Beattie: What is the formula for raising the levy from the financial services sector? It is easy to talk about imposing a levy on financial services, but on what basis will it be calculated? Will it be a turnover tax or a transaction tax, or will it be a fixed sum, depending on the type of company?

Keith Brown: I will let my officials answer that. The formula for its disbursal operates on a population basis. The population of England is extrapolated and applied to the devolved Administrations. Crucially, account is also taken of the levels of indebtedness in the parts of the UK that are covered by the different devolved Administrations.

Lorraine King (Scottish Government): The levy is set out in the Financial Services Act 2010, and I believe that it is based on the turnover of the companies that are covered by that act, but I will have to check. I could write back to the committee later today, if you would like more information on that.

Colin Beattie: I am interested in the language that is used. The levy has been described as a direct levy on financial institutions in Scotland, but it is clear that it is not—it is applied across the UK, and we receive a proportion of that. Is that correct?

Lorraine King: Yes, it is levied on all UK financial services companies, and it is collected by the Financial Conduct Authority, after which it goes to the Treasury.

Colin Beattie: Will the new system be better than the existing one?

Keith Brown: I can think of a couple of million reasons why it will be better, which relate entirely to the additional funding—the funding will be almost doubled.

As I said, we have new consumer protection powers in relation to guidance and so on. In using that mix of new powers, it will be helpful to make sure that we have a debt advice and consumer advice landscape that is as rational as possible.

I understand that there are about 400 different advice bodies in Scotland, although obviously they are not all to do with finance. The additional resource will help us to ensure that we can dovetail as best we can with the work that Citizens Advice Scotland and other bodies do. I think that it is an improved basis on which to go forward.

09:45

Colin Beattie: Obviously, the increase from £2.2 million to £4.7 million is a tremendous plus point and will enable a better service. Will there be any transitional arrangements as we move from one service to the other? How will that work?

Keith Brown: Obviously, we are involved in discussions with bodies such as Citizens Advice Scotland on the bill and on potential changes under the legislation that we intend to bring forward for a consumer protection body. However, the day-to-day services will be relatively unchanged.

I do not know whether the officials want to add anything to that.

Denise Swanson: We are in discussion with the Money Advice Service. We have a partnership agreement with MAS under which it puts money into a grant funding pot to which the Scottish Government also contributes, and that grant funding programme is operated by the Scottish Legal Aid Board on behalf of MAS and the Scottish Government. During the final part of last year, we had discussions with MAS on how we manage the transition from having MAS direct funding to a situation in which the Scottish Government has the funding directly in its budget. Those discussions are continuing.

Colin Beattie: Given that the levy appears to be a turnover tax, is there potential for the amount raised to go up or down and, if so, how will that impact on us?

Keith Brown: If the quantum that is taken in increases, the formula that I mentioned will apply. For Scotland and the other devolved Administrations, a share according to the adult population and levels of indebtedness would apply to whatever the quantum is. That is how the share would be flexed, if you like, if the quantum goes up or down.

Colin Beattie: Will the Scottish Government have on-going discussions with the Treasury to manage how the levy is being allocated?

Keith Brown: Yes, we will do that directly, as necessary, and, I imagine, through the representative on the SFGB committee that I mentioned. We will have those channels of communication with the UK Government.

Kezia Dugdale: I have specific questions on the provision of debt advice services, but I think that we will get to those a bit further down the line.

On the overall principle of the UK legislation applying in Scotland, are you in any way worried about the potential for inflexibility? When I read the papers, I was struck by the point that, if there is a specific problem in Scotland with claims management companies, we might not have the flexibility to address that. For example, if a company such as Scottish Provident, which is very prominent in Scotland and Northern Ireland but less so in England, perhaps mis-sold a product, would we have the flexibility in Scotland to respond to that under the arrangements?

Keith Brown: I think that we would. You are right that, up to this point, we have had a very different landscape in Scotland in relation to claims management companies. Again, the officials will be better versed in this than I am, but claims management has largely been done through legal companies such as Digby Brown Solicitors, which means that there have probably been lesser requirements in monitoring their behaviour. However, the situation is changing and claims management companies in Scotland are now more like those that operate elsewhere in the UK. For that reason, I do not think that there should be a problem.

I do not know whether the officials want to come in on that point.

Denise Swanson: The FCA already has a UK-wide remit, so it is familiar with the Scottish landscape. It has already been in contact with the Scottish Government, and we have had discussions with it on how it might properly address the Scottish context with regard to the new regulatory power that it will have. I will meet with it again later this week. The FCA is keen to ensure that the Scottish landscape is well accommodated in the way in which the body regulates claims management companies here.

Subordinate legislation will be required to implement the main provisions of the bill. Again, we are working closely with HM Treasury on the development of that subordinate legislation, so a lot of the detail of how the approach might be delivered, and how it needs to be delivered for the Scottish context, will be dealt with by the Treasury. That is an on-going process that we are already drilling into.

Kezia Dugdale: I would like to ask about indebtedness, or overindebtedness, which you have mentioned a couple of times. The amount of debt that someone is in does not necessarily correlate proportionately with the amount of help that they need. If somebody is in a part-time job and on a low wage, they might have one pay day loan that is causing them no end of trouble, and they might need serious long-term debt advice that covers more than the sum of the debt that they actually owe. Is that built into the formula, or is the way that it works based purely on the amount of money that people owe? Does that make sense?

Keith Brown: It is a good question. I think that the level of indebtedness relates to the number of people rather than the actual quantum of the debt, but my officials can tell me if the position is otherwise. However, your point is that the situation can be very different for different individuals, and although that is not necessarily an issue for the UK Government or the FCA, it should be reflected in how we figure out what debt advice we are able to provide in Scotland through various agencies. The documents that I have seen refer simply to the level of indebtedness, so it will be interesting to get an answer to that.

Lorraine King: The level of indebtedness comes from a formula that the Money Advice Service currently collects data on, based on a range of criteria, including deprivation indexes, level of debt, income and other factors that are brought together to come up with an indebtedness ratio. It is not just the quantum of debt that an individual has.

Kezia Dugdale: Are you confident that, if debt in Scotland is predominantly low level but hard for people on low incomes to deal with, that will be incorporated into the amount of money that we will receive in Scotland?

Lorraine King: Yes, we believe that it will be.

Kezia Dugdale: That is helpful.

Cabinet secretary, you mentioned that the amount of money that we will get from the levy is double what we have previously received. Can you give debt advice services the assurance that they will see double the money in return?

Keith Brown: No. We have a proposal to establish a consumer protection body, so it will depend on how that progresses. If we have more resource, we obviously do not intend to shovel it off to some other function. This is the purpose that we want to put it to, but exactly how it will be disbursed remains to be seen.

You asked about our ability to influence the legislation, and the response is that we will continue to have discussions with the Financial Conduct Authority. It is worth pointing out for the benefit of the committee that we made representations on that last year, when I came into post, and the Financial Conduct Authority now has a full-time person in Scotland. It is also the case that the Competition and Markets Authority—its initials are CMA, but it is not to be confused with the Country Music Association awards—is about to substantially increase its presence in Scotland, creating a potential 35 positions here, and we have also made representations on that. We are keen that the FCA and other regulatory bodies should have a presence in Scotland, as that means that we will get a better fit, not just in terms of an improved financial situation for debt advice but in relation to how we reflect what we do in Scotland in the practices that we can get the UK Government and its agencies to follow. It is a promising picture on the regulatory front.

Gillian Martin (Aberdeenshire East) (SNP): The first issue that I wanted to ask about has largely been covered by Colin Beattie. However, the cabinet secretary also mentioned cold calling. I appreciate that the details have yet to come on that, but given that quite a lot of the regulations around telecoms and cold calling are reserved, what can we do differently here to protect people?

Keith Brown: We cannot legislate or bring in regulations in relation to cold calling, but it is specifically laid out in the legislation that the new body will be able to take action on that, so it could ban cold calling, or particular types of cold calling.

I have written to the UK Government on a number of occasions asking it to take a tougher line on nuisance calls. Through the processes that I have mentioned, not least through the SFGB committee, we will have a direct line to continue to seek the UK Government’s support for taking stronger action on cold calling. Cold calling on pensions is one particular bane but there are others, as you know. The new body will increase our ability to put pressure on the UK Government to take action on cold calling, which is a huge issue for people.

Andy Wightman (Lothian) (Green): The review of regulation of legal services is due to report later this year. It may propose ideas on how to regulate claims management companies, but we will already have ceded authority to the UK Parliament to legislate on that. Are you comfortable that there will be sufficient flexibility to incorporate any of the review’s recommendations—for example, in any necessary secondary legislation?

Keith Brown: We have discussed the matter with legal colleagues in the Government and other officials and have listened to what the Justice Committee has to say on the issue. We want to stay in touch with, and go with the grain of, what is being said. To quote somebody else, devolution is a process, not an event, so future change is always a possibility. The case will have to be made if we want any recommendations to be reflected. If that is how the situation develops, we are open to dealing with it.

Andy Wightman: So we will have maximum flexibility. A UK regime will be in place but we will be able to amend that in future if you see fit.

Keith Brown: I concede the point that we are dealing with a set of powers that, if not extremely complex, are interrelated. Some, such as those on pensions, are clearly reserved and some, such as those on debt advice, are devolved. The matter is complex and I do not pretend that the two Governments are completely of the same view as to what will be devolved and what will be reserved. That discussion has been going on and I am sure that it will continue. Depending on other developments, if it seems best to move forward in the way that you describe, we will do that. We have already signalled that to the UK Government.

The Convener: As there are no other questions from committee members, I thank the cabinet secretary and his team for coming. I suspend the meeting for a few minutes to allow our next witnesses to take their places.

09:57

Meeting suspended.

09:59

On resuming—

Scotland's Economic Performance

The Convener: We return to our inquiry on Scotland's economic performance. I say good morning to our panel of witnesses. We have John McLaren from Scottish Trends and Ryan McQuigg, who is the policy and public affairs manager for Oxfam Scotland. I welcome them both. We also have Michael Jacobs, who is the director of the Institute for Public Policy Research commission on economic justice, and last but not least Craig Dalzell, who is the head of research at Common Weal. I welcome the two of them as well.

I will start by asking a couple of general questions. Please do not feel that you have to answer every question—some of you might want to respond on different aspects of different questions. We do not want it to be too formal a session, in which everyone thinks that they have to put in their penny's worth on every question. How do you think that the Scottish economy has performed since 2007? Are there areas in which it has done well and others in which it has not done well? Perhaps we could have some general comments on that. Who would like to start?

10:00

John McLaren (Scottish Trends): I am happy to go first. It is very difficult to say how well the economy has performed in the past decade because it has been such an exceptional decade. In particular, at the start of the decade we had the financial crisis, which moved us into a completely new era of economics, with exceptionally low productivity. On top of that, we had the euro crisis, and Scotland was affected first by a very high oil price and then by a very low oil price. Historically, Scotland has done very badly in gross domestic product terms, although the labour market is doing quite well, which represents a change from what has happened in the past.

Compared with the performance of the United Kingdom economy, the performance of the Scottish economy has been fairly similar over the whole period, but they have taken different paths to get to where they are. The most worrying thing is what has happened in the past two to three years, when Scotland has barely grown—it has grown in only one or two out of the past 10 or 12 quarters. That is partly to do with what has happened in the North Sea sector, but it might go wider than that, which is a particular worry as we think about where the growth will come from in the future.

The standard of the statistics for Scotland is such that it is extremely difficult to identify sectors that have done well and sectors that have done badly. I think that there was a Scottish Parliament information centre paper that said that one of the best areas for employment growth was information and communications, but if we use a different measure, we find that employment in that area has fallen. Moreover, the growth all came in one year, when there was an increase of around 20 per cent. Apparently, there was also a 20 per cent increase in employment in the arts. It is clear that those figures are not realistic, but they are the official figures. Equally, it appears that there has been no increase in output in the hotels and restaurants sector in Scotland in the past 10 years, whereas there has been considerable growth in that sector in the UK. Again, I do not believe those figures, but they are the only ones that we have. Because of the poverty of analysis of the Scottish economy, it is difficult to say who has done well and who has done badly.

The Convener: Why do you not believe those figures?

John McLaren: Why would there be a 20 per cent increase in employment in the arts in one year? Why would there be a 20 per cent increase in employment in telecoms in one year? Nothing happened for nine years and then there was supposedly a 20 per cent increase. I do not understand why that would be the case. Those statistics are also not borne out by what happened in output, which barely changed in the year in question.

Therefore, I think that there is a problem with the statistics. Sometimes the problem might lie at UK level and we might have to discuss it with the Office for National Statistics, and sometimes—as with the hotels and restaurants figures—it is probably more to do with the understanding of the Scottish statisticians.

The Convener: Who would like to go next?

Craig Dalzell (Common Weal): I echo some of John McLaren's thoughts—it can be difficult to see what is going on. As we will probably discuss, we might need to think about what we mean when we talk about an economy that is doing well. In other words, we might need to think about how we are measuring the economy and whether our measures are appropriate.

The financial crash, in particular, marked a massive change in the global economy and in how we look at economies, and we might need to examine the measures that were developed before that event to see whether they are still appropriate. As John McLaren said, we might be starting to see some anomalies in the statistics in that respect.

The Convener: I will bring Gordon MacDonald into the discussion at this point and then move to Michael Jacobs.

Gordon MacDonald (Edinburgh Pentlands) (SNP): Thank you, convener. I apologise for being late—I got held up in traffic.

I just want to set the scene before we get into some nitty-gritty. The inquiry's remit is to compare the divergence between Scotland and the UK as a whole, and other UK regions and nations. I think that John McLaren has mentioned this already, but how is Scotland performing in relation to the other regions of the UK in terms of GDP per capita? My understanding is that the ONS splits the UK into 12 regions and has a lot of numbers for comparison.

John McLaren: You would think that GDP per capita would be fairly straightforward, but this is a difficult question to answer. After all, what are you looking at? Are you looking at onshore alone, or are you including offshore? Are you looking at this in real terms or cash terms? There is actually very little data available at UK and regional level; it is all in cash terms, and it is not really being analysed. If you try to use it to work things out, you will find that quite a lot of things do not seem to add up. I would therefore put a question mark against the robustness of the data—much more so, indeed, than I would against Scotland's data, which is far superior to that in other regions. Even Wales and Northern Ireland do not have very good GDP data, and it is certainly not broken down by sector or in the form of the national accounts that we have, which look at the issue in terms of expenditure and income. As I have said, it is a very difficult question to answer.

If we look at the issue from the labour market side, we find that Scotland continues to do relatively well—not as well as the south-east and the south in general, but better than most other areas. The level has come down a little bit over the past 10 years; 10 years ago, it was doing particularly well and was above the UK average, and now it is slightly below it. That said, in international and even UK terms, Scotland is doing relatively well.

Gordon MacDonald: According to Eurostat data released on 30 March 2017, it seems that, if we take onshore and offshore into account, only two areas of the UK have better GDP per capita than Scotland: London and the south-east of England. Does that come as a surprise?

John McLaren: Not if you include the North Sea, no. There are two ways of looking at this. If we include the North Sea, we see that Scotland has done very badly over the past decade, because the price is now very low and production has been falling. However, if we look at the issue in level terms, we will see that Scotland's performance is still relatively good, because that is being added on. Because almost everything in it is foreign owned, most of the income and GDP related to the North Sea ultimately ends up abroad. We do not have a measure of gross national income that would take that into account, but that would give a more accurate reflection of where Scotland was. I think that the order would still be London then the south-east, with Scotland coming third or fourth, so its position would still be relatively high.

Gordon MacDonald: So, excluding North Sea oil, Scotland would be in fourth position.

John McLaren: That sounds about right.

Gordon MacDonald: The east of England is the other area that comes on to the list.

John McLaren: It is also noticeable that Wales and Northern Ireland are the two constituent countries that are doing very poorly.

Gordon MacDonald: How is Scotland performing against the EU28? Would that be in any table using Eurostat numbers?

John McLaren: I looked at that a while ago, but I cannot remember the figures off the top of my head. Within that, certain areas such as Aberdeen and Edinburgh will be doing well, while others will be doing pretty badly. However, I do not have enough knowledge in that area to put things in relative terms.

Gordon MacDonald: According, again, to the Eurostat data that was released last March, Scotland would come ninth out of the EU28 countries in terms of GDP per capita. Does that come as a surprise?

John McLaren: Are you including or excluding the North Sea?

Gordon MacDonald: That is including the North Sea. If we were to exclude it, Scotland would drop another two positions to 11th. At ninth, however, Scotland is above Finland, France, Italy, Malta, Spain and so on.

John McLaren: The Scottish Government has published such data for a while. If the impact of the North Sea sector is included, Scotland was around fourth and is now perhaps ninth or 10th because of it. Therefore, we need to take that out in order to get a better impression. The classic example of a country whose GDP is distorted in that way is Luxembourg. Ireland has recently had to change the way in which it compiles its GDP, because of international flows. Scotland is in a difficult position for us to get a good idea of what its relative standing is, because it is not just about the North Sea. There is also quite a lot of foreign ownership in areas such as whisky, financial services and the energy sector. The more quickly that we can get to international flow by getting to gross national income, the more quickly we will have a better idea of Scotland's true international standing.

The Convener: Perhaps we might have some comment from Michael Jacobs before we come to a question from Kezia Dugdale.

Michael Jacobs (Institute for Public Policy Research): I am not an expert on the Scottish economy, and do not pretend to be. In this context, it is worth saying that the UK economy as a whole has been—and is—performing pretty disastrously. As John McLaren pointed out, the Scottish economy is performing better than average. However, the average is very distorted, because the UK economy is overwhelmingly dominated by London and the south-east. As the economic geographer Philip McCann has pointed out, there has been a decoupling of the London and south-east economy from that of the rest of the UK for 30 years, but it has been exacerbated over the past 10 years. Of the rest of the UK, as John McLaren said, Scotland is doing better than most of the English regions, Wales and Northern Ireland, but the gap between London and the south-east and the rest of the economy is very great.

The reason for my saying that the UK has been doing badly as a whole is the performance of GDP per capita, but most of all it is because of earnings. The extraordinary thing that has happened in the UK economy over the past 10 years has been the decoupling of GDP growth and earnings. We used to have a fairly reliable relationship between national income and average earnings: when national income rose, average earnings rose. There have been changes in the degree of inequality, but, by and large, that relationship has held pretty much throughout economic history. However, over the past 10 years, those two things have been decoupled. We have had GDP growth—even per capita—but we have not had earnings growth. Earnings have now been stagnant since 2007, which is very fundamental. We all need to be aware of how fundamental it is. We assume that what we want is a growing economy. Those of us who have spent a little bit of time thinking about it assume that the reason that we want a growing economy is that it means that we have growing incomes—but we do not, any more. That calls into question the nature and content of our economic growth and its relationship with earnings. This is a bit of a crisis for policy makers throughout the UK.

However, the other thing to say is that that situation is not confined to the UK; since the financial crisis, and in some cases—particularly in the United States—since long before then, most countries have been going through a similar problem, whereby the benefits of growth are not flowing to the majority of households. The US is the most stark example of that, in that almost the entire benefits of its growth over the past 30 years have gone to the top 10 per cent and a very high proportion has gone to the top 1 per cent. All developed economies—even those with much lower levels of inequality—have experienced that.

The committee will want to look at the performance of the Scottish economy, but it is part of a wider UK economy that is in turn part of a wider global, western, capitalist economy that has not been performing well in very fundamental respects.

Gordon MacDonald: How would you rectify that situation?

Michael Jacobs: Do you want me to take up the rest of the session in answering that question? [*Laughter*.] I have a whole series of things that might form the subject of further questioning after you have done some ground laying and which are exactly what I have come to talk about. However, we should probably have some more general comments first and then we might go through some of those things.

The Convener: Perhaps Craig Dalzell could give us his two best points at this stage.

Craig Dalzell: I have nothing to add at the moment.

Kezia Dugdale: I have a question on which I would like to hear from all our guests. However, before I ask it, I want to pick up a point from John McLaren's opening remarks, in which he discussed a "poverty of analysis" around Scotland's economy. I ask him what he means by that. What is missing, and what would he do about it?

10:15

John McLaren: When the Scottish statistics on GDP and the labour market are released, there is no analysis of why something has changed. Occasionally, if something such as Longannet closes down, there is a footnote to say that that is why a figure is low. However, by and large, there is no analysis on things that have changed or concern about not really knowing why that is. If you ring up the statisticians, as I do, they often have quite a lot of information about why a sector has done particularly badly but, for some reason—I know that there is a debate within the department—that is not put out into the public to a large degree. That is the first element.

The second element is that very little research on the Scottish economy is done in Scottish universities, because it is seen as a regional economy and, due to the way that academia works, looking at it does not have the same kudos as would looking at the economies of other countries. When I was in the Scottish civil service a few years ago, I tried to organise a piece of work with experts in Scottish academia to look at the 10 main sectors of Scotland, but I got only one application—on the whisky sector. That was 20 years ago and it is not that different now.

Unlike in places such as Ireland, which is smaller but has a more detailed understanding of its economy, the lack of research in Scotland makes it more difficult to know what to do about the economy and what the underlying problems are. That is also made more difficult by the fact that there are not many economic think tanks in Scotland. The exception is the Fraser of Allander institute, which has beefed up its analysis. If you compare that to London or even to Ireland and most other countries, there is not much analysis of the economy done in Scotland by half-way houses between politics and academia.

Kezia Dugdale: That is helpful, thank you.

I have a more generic question. There is a debate on the degree to which public policy influences Scotland's economy and economic growth. I would be interested to hear from our guests about one policy from the Scottish or UK Governments that has had a direct impact on Scotland's economic performance. You can determine whether that has been a positive or negative impact and share it with the committee.

John McLaren: At the Centre for Public Policy for Regions I worked with Richard Harris, who did an interesting piece of research on productivity in Scotland. Traditionally, Government tries to spur on two areas: getting more inward investment and having more entrepreneurs, so that more companies are started. However, Richard Harris's research found that inward-investing companies and new start-ups had contributed negatively to productivity in Scotland, which is contrary to his findings for most countries internationally and for the UK as a whole. Probably, as with all research, more research needs to be done to understand it better, but there is a fundamental issue there.

The findings on inward investment in Scotland could be related to the impact of silicon glen, which, ultimately, was negative. However, it is pretty dispiriting if the evidence is that, if we have more start-ups and more international investment, it will worsen our productivity. That cannot be good in the long run. That is what you would want the policy to be for an area such as ours, but it seems to be having a negative impact in Scotland so we need to understand that better.

Ryan McQuigg (Oxfam Scotland): I am not sure that it is a policy area as such, but we talked about what we measure, and what a country values is important for that. The national performance framework was a stepping stone, or a step in the right direction, towards the path of what really matters to Scotland.

Back in 2012, Oxfam consulted 3,000 people on what mattered to them for leading a good life. People did not say that their number 1 priority was economic growth or that they wanted fast cars or big TVs. Instead, they talked about social foundations: affordable and safe housing, good physical and mental health, living in a neighbourhood where it is safe to go outside, having satisfying work—whether paid or unpaid—and having good family relations.

The national performance framework is a step in the right direction, but it has growth at the heart of it. If Scotland values what its people want, it needs to invest more in social measurement, with policies that rectify those issues. As we said about GDP—

Kezia Dugdale: I am sorry to interrupt; I will have questions on inclusive growth, but I would like to push you a bit further on interventionist policies from either the Scottish or the UK Government, and whether those have had a positive or negative effect. I am sure that Oxfam would have a view on that.

Ryan McQuigg: The fair work convention has gone out to people and asked what matters for work and how to do business. We were not overly critical of the business pledge; we said that it was a good step, but it has not compelled businesses enough and more can be done on that aspect. We talk about fair work and decent work, whereas in the UK it is just said that "jobs, jobs, jobs" will get people out of poverty. In-work poverty levels have shown that that is not the case. A lot more needs to be done on the measures of the national performance framework and such things as fair work and the business pledge.

Craig Dalzell: Common Weal was excited to see the announcement of the Scottish national investment bank with a start to getting planning and funding behind it. It has not had an effect yet, because it has only just been announced, but it has the potential to have a major positive effect on the Scottish economy and to reform the way in which we fund housing, energy and other projects.

Kezia Dugdale: I appreciate that point, but we are looking at the past ten years, rather than the future. I support the Scottish investment bank, but we are trying to analyse the past ten years. Do you have something else to raise?

Craig Dalzell: I will let others speak to that.

Michael Jacobs: There has been something called austerity for the past eight years, which has affected the whole of the UK economy, including Scotland's, more than any other simple thing. The economy, jobs and earnings depend on demand, and we have had a massive withdrawal of demand over the past eight years. Demand has been lost not just in the public sector; after the financial crisis, the private sector retrenched. It had huge debts—the crisis was about private sector debt, not public sector debt—so the private sector saved, and it has been saving ever since. UK companies are net savers in the economy. Companies are meant to take other people's savings and borrow, invest and grow. British companies, including Scottish ones, have been net savers in the economy, which means that they have been withdrawing demand.

At the same time, until very recently, overseas demand was very weak. If that happens, and private sector investment is weak, with net saving, and the public sector withdraws its demand by cutting public spending, then, mathematically—because all saving and borrowing in an economy has to balance; all savers are matched by borrowers—we are left with household debt. If we look at the source of growth over the past seven years, it has been household debt, which has risen again as people have borrowed and has got closer to 2007-08 levels. The Bank of England has already warned about unsustainable levels of debt.

That was not a context in which the UK Government could afford to withdraw demand: the private and overseas sectors were not spending in the British economy and we have been left with household debt. We have had not enough demand in the economy at a time when the UK Government could have borrowed very cheaply, with record low interest rates. Ultimately, that is the main reason why the UK's recovery from the 2008-09 recession has been the slowest of all European countries and, indeed, almost all developed countries and why we have only recently, in the past two years, got back to the per capita household income as it was before 2008. That is the overwhelming policy context for Scotland, as it is for the rest of the UK.

The Convener: May I follow up on that? How would it contrast with the position in other EU country economies—for example, Germany, which has surpluses and yet has introduced what might be called austerity measures? The issues that you have touched on for the UK, such as rising household debt, do not exist there, yet the same measures were introduced. You seem to suggest that the same measures have caused certain results in the UK, but not in other countries, to put it in broad terms, so I am not sure how you can say that one thing follows from the other.

Michael Jacobs: Germany is a very instructive example. The structure of the German economy is different from that in the UK. German firms have been investing. The overseas balance for Germany is also much more favourable, which allows it to have had a much lower level of austerity, so the degree of withdrawal of demand by the public sector in Germany was much less. The conditions in the rest of its economy have therefore allowed it to have a package of mild austerity measures over the past seven years, and with much less impact on its economy, which is much stronger. I am not saying that, in every economy and at all times, austerity and reduction in public spending are bad. However, in the British economy, at a time when British companies were not investing, our overseas balance was poor and we could not afford for household debt to rise, it was the wrong policy. That is the context.

We have to look at different economies, which behave differently at different times. If we look at the United States economy, we can see that it has had a stimulus package that was maintained for much longer, so the American economy did not go through the depth of austerity that ours did, and it came out of its recession much earlier than we did ours. We need only look at both the depth to which economies got into recession and the speed with which they came out of it, together with the overall balance of each of the four sectors of their economies, to see the way in which Britain has been an outlier. That is where our very low growth rates come from, in my view.

The Convener: Is the situation also reflective of how countries plan, and whether there is proper long-term planning? For example, would the German approach to such matters be to have very long-term planning?

Michael Jacobs: I would absolutely say so. However, Germany's approach is about many factors. It has a much more resilient business sector, with banks that are much more involved with their companies. They take a longer-term view of investments and tend to be much more tolerant and invested in companies than British banks. German companies do not lay off workers as easily; they tend to retain them. The interesting thing about Germany is that it has strong trade unions, but not very strong wage growth. The trade unions organise collective bargaining that moderates wage growth, in return for relatively stable employment in companies. Therefore the German economy is structured very differently. I hope that we will get on to the issues of employment, employment regulation and bargaining power, which are a very important part of the German story.

The Convener: Thank you. We now move to a question from Dean Lockhart.

Dean Lockhart (Mid Scotland and Fife) (Con): I want to continue the discussion on policy, but bring it back to the subject of Scotland. As the panel will know, the Scottish Government's economic strategy is centred around the four Is of investment, internationalisation, innovation and inclusive growth. I would like to hear each panel member's views on how the economy has performed in those four areas over the past 10 years.

Perhaps I could start with Professor McLaren. You publish an index of social and economic wellbeing that covers a number of such areas. It shows that, over the past decade, Scotland has slipped from 16th place in Organisation for Economic Co-operation and Development rankings to 20th place. Perhaps you could give us an idea of the trends behind its downward move in the index.

10:30

John McLaren: Part of the reason for Scotland's having slipped is that the index looks at GDP in cash terms, including the North Sea sector, so it takes in the fall in that sector. In a sense, it is the reverse of the point that I made earlier to Gordon MacDonald that that is not a real loss to Scotland, because the money is largely going overseas. Therefore, the index exaggerates a little bit the drop in Scotland's position. On the other hand, the earlier high position also flattered Scotland, because the GDP level was artificially high, as most of the North Sea money ended up overseas.

However, another aspect that I looked at was the decline in education standards, as measured by the programme for international student assessment. Scotland is one of the worst performers; I think that the only country that performed worse than Scotland over the period was Finland, but Finland was first when the PISA survey started—it is no longer first, but it is still pretty high, whereas Scotland's performance was mediocre and has fallen down. Countries that did particularly well tended to be in eastern Europe; Estonia did well.

Scotland is still relatively at its lowest position in relation to health factors—that is, life expectancy, which has always been low and has not caught up. One would expect that a country with particularly low life expectancy would take examples from other places and catch up, over time, but that has not been the case with Scotland. There has been a slowing down of life expectancy increase in a number of countries, but a slow-down is particularly worrying when life expectancy is already fairly low.

The fourth measure in the index is participation. I used the employment rate to measure that; it is not perfect, but it gives some indication. Scotland has done reasonably well in that regard, but we also have to look at what sort of jobs are being created.

The approach that I took offers a way of widening out consideration from just GDP. GDP is the most difficult factor to measure, because—as I said before, in relation to Ireland and various other countries, as well as Scotland—there can be hiccups in the data that have to be adjusted for. The approach gives a wider perspective. The two worries for Scotland are the decline in education, which obviously affects the skill levels of the future workforce, and the continued low levels of health, which affect participation as well as productivity.

Ryan McQuigg: On inclusive growth, a recent report of ours called for a poverty and inequality commission because levels of inequality in Scotland are currently at a record high—such levels have not been seen since the early 1990s. The wealthiest 10 per cent of Scots own more than 9.4 times the combined wealth of the bottom 40 per cent in Scotland. Inclusive growth has not transpired in Scotland.

That takes us back to the conversation about what we value. Do we measure GDP? We know that, rather than trickle-down economics, we are seeing more of a treacle that sticks to the top. We need to do a lot more on that particular I, that is, inclusive growth.

Dean Lockhart: Does anyone else want to comment?

Craig Dalzell: I will pick up on the point and consider whether the inclusive growth element is even appropriate. As other panel members said, we are not seeing a growing economy, and where growth is occurring it is decoupling from the lives of most folk in the country. When we talk about inclusive growth, it is probably quite natural for politicians to focus on the growth part—that is a bit easier to measure and it gives a good headline. However, we can easily get into a position in which we get growth in the economy but it all goes to the top 2 per cent or so, which is not very inclusive.

If the economy then shrinks and there is another recession, that tends to hit the bottom 20 per cent more than it hits the top, so the economy is even less inclusive—we get into cycles in the economy in which inequality is rapidly ratcheted up, and I think that we have been seeing that over the past decade. We need to start thinking more about the inclusiveness than about the growth.

Dean Lockhart: Innovation, which can be read together with productivity, is one of the other Is. Productivity is a focus point across the UK and the world, and productivity in Scotland has declined for the past seven quarters. Why is productivity in Scotland falling?

Michael Jacobs: Productivity is stalling over the whole of the UK, including in Scotland. It is interesting that you raised innovation and productivity together. There is a bit of a myth about the relationship between innovation and productivity, which unfortunately has been rather perpetuated by the Government’s industrial strategy. Both the green paper and the white paper focus, quite correctly, on the productivity problem, but then focus the policy attention on our frontier innovation firms, which do not have a productivity problem.

The firms that are at the leading edge of innovation—in, for example, aerospace, fintech, pharma and motor manufacturing—have very high productivity, and it has been growing about 6 per cent per year. The productivity problem lies in the rest of the economy—what we in the IPPR commission on economic justice have called the everyday economy—which is where the vast majority of people work. By that, I mean retail, wholesale, hospitality, food and drink and light manufacturing. The problem for those companies is not that they need to be at the frontier of technological innovation—that is not what they do—but that they need to adopt innovation. They need to be at the end of innovation, which means the diffusion of innovation throughout the economy. That is very different from what the high-tech sectors do; most of them are not about diffusing innovation through the rest of the economy.

I think that innovation is really important. It keeps you not only at the frontier of technology, which is important in itself, but at the frontier of exports, which is critical. After all, it is the innovating firms that tend to be the exporters. However, if we want to deal with productivity—which we do, because it is one of the sources of low and stagnant wages—we need to look at the rest of the economy where the majority of people work and, indeed, where those with stagnant earnings work.

We have to look at the structure of the labour market, because it is a key question in both Scotland and the rest of the UK. Because our labour market has become so flexible—it is literally possible to employ people by the hour or at a piece rate; indeed, that is how the gig economy is organised—companies have very little incentive to invest either in technologies, equipment, machinery and capital or in the training of their own workforce, which is actually where productivity comes from. Improvements in productivity come from investment in physical and human capital, but if you can increase output by a little bit simply by employing a worker for an extra hour with no responsibilities towards them and therefore no other costs, that is what you will do and that is what we have seen. The huge growth of a very flexible, casualised labour force has helped repress productivity, which is about investment. We have now reached the point at which the great advantages that we wanted from a flexible labour market, one of which was more jobs, are now working against the kind of economy that we need.

Those of us who were around when there was mass unemployment should never want to go back to that situation. There is no question but that getting more people into work and having record-high employment levels are good things. However, with that record-high employment comes record-high insecurity of employment, which not only helps to lower productivity but makes people not spend any money, because they do not know where the next pay packet is coming from, they have no savings and so on. I therefore think that we need to look at the structure of the labour market if we want to get to the bottom of the productivity problem.

John McLaren: First of all, the Scottish pattern of productivity has been very different from the UK pattern in recent years. Scotland's productivity improved substantially up until the last seven quarters; since then, it has declined quite sharply, but it had been doing particularly well at catching up with the UK average.

Neither of those trends is particularly well understood, and I would not put an awful lot of faith in the productivity figures; again, there has been very little interpretation of the issue. Rising productivity is not necessarily a good thing. It could be rising as a result of factors that are not really improving productivity, innovation and so on in the long run. However, the figures that are out there need to be looked at in more detail.

As for what Michael Jacobs was talking about, Nick Crafts did some work on this for the David Hume Institute back in 2013, and one of his worries was the lack of diffusion and the low share of innovation-active businesses in Scotland even relative to the UK, where the situation is not seen as particularly good in the first place. Again, it is a difficult area. Richard Harris might have looked at it in some of his work, and given that there is precious little work on this area with regard to Scotland, we might as well use what work has been carried out.

Dean Lockhart: Thank you very much. I will finish with a question on the labour market, about which Michael Jacobs has made a number of interesting points. In previous economies, there was a jobless recovery as a result of automation; however, in this economy, we are seeing almost the opposite, with high levels of employment not feeding through to economic growth. Many of the new jobs that are being created are low value and are not having the same multiplier impact on the economy.

We all want higher-value jobs to be created. Given that we now operate in a global economy, is there a country out there that has a policy framework that is creating higher productivity and higher-value jobs?

Michael Jacobs: Within Europe, Japan—sorry, that is obviously not in Europe, but I will come on to Japan later if we need to, because it is an interesting case.

Within Europe, Germany has a very different kind of labour market, as I said, and Sweden's is rather similar to it. The structure of the labour market in those two countries and in some other Scandinavian countries has two features, both of which we have moved away from in the UK. The first is that they have quite a lot of labour market regulation, which is largely about requiring employers to have minimum standards for wages and particularly on things such as how overtime is paid and benefits. That is combined with relatively high levels of trade union density. That is not the case throughout the German economy but it is in parts of it, and the levels are certainly higher in Sweden, and that gives workers a kind of bargaining power in the labour market.

In a more fragmented labour market, individual workers find it difficult to bargain up their wages, because they are not doing it collectively. They are not even doing it now as part of a common workforce, because they are not part of a common workforce; they are self-employed. That lack of bargaining power inevitably keeps wages down, and it is coupled with a lack of regulation in the UK system, which means that employers can have more or less any structure of wage rates over time and of hours. Those two economies have maintained relatively high employment—although we have higher unemployment, so the flexibility has resulted in higher rates of employment—and have those two features.

We need a rebalancing in our labour market, and we need to move back to more regulation, so that employers have to do certain basic things, with stronger trade union densities to help bargain wages upwards. The historical shift that has happened in the UK and elsewhere is that the labour share of national income has been in significant decline. Of total national income, more has been going into profits—the owners of capital have received more of it—and less has been going into wages and salaries. That is partly because workers cannot bargain their share of it upwards. That is an important part of what we need to think about.

Ryan McQuigg: I would not necessarily talk about "low-value" jobs; I would talk about low-paid jobs. Oxfam did a consultation with 1,500 people in low-paid work, in which we talked about "decent work". Obviously, decent work is one of the sustainable development goals—it is goal 8—so it is incumbent on all countries to provide or help to create decent jobs. That is key.

To go back to in-work poverty, 64 per cent of children who are in poverty live in a household where someone works, and the figure goes up to 70 per cent for working-age adults. The issue is what Scotland can do to help people who are on low pay. Sweden takes another avenue in which, if a job has social value, it pays a better wage, particularly for people such as childcare workers. The Scottish Government and companies can do that. We now have organisations such as B corporations and more co-operatives.

We have done a lot of work with low-paid workers, who tell us that they work in the gig economy—they turn up for work and they do not know whether they will be told that they are not needed that day and sent away. They keep going in and out of employment and they have no safety net. It is incumbent on the Scottish Government, employers and society as a whole to deal with that, especially given that we have signed up to the SDGs, which means that we are meant to provide decent work for all. We need to look at that in more detail.

Craig Dalzell: It is interesting that Dean Lockhart raised the idea of low multiplier jobs, because our economy is going into a bit of a shift and we have demographic changes happening that mean that one of the growth areas for jobs is personal care. Personal care is a sector in which measuring productivity might not be appropriate. Increasing productivity in personal care, if done badly, could mean seeing more clients in a single shift, which would mean cutting visit times from half an hour to 15 or even 10 minutes. In that case, it would be an increase in productivity, but it would not necessarily give you a better service. That is an example of why you must be careful what you measure and where.

10:45

Gillian Martin: I want to look towards the future. We have had many discussions about inclusive growth and about the impact of poverty on the success of a country. What are your views on the idea of a universal basic income and the impact it might have in stimulating the economy and improving the wellbeing, welfare and happiness of the country? I am interested in what Michael Jacobs said about having a different measure of a country's economic success.

Ryan McQuigg: I might have to plead the fifth amendment on that. Oxfam's analysis is evidence based, so we are still at an early stage and we have not taken an overall view on that. We called for the Poverty and Inequality Commission, which has been tasked with looking at how a universal basic income would operate in Scotland. We are all for having pilot areas to see what evidence emerges. If the evidence suggests that it is a good way to reduce poverty and inequality, we would support it. That is a holding answer, because we would want to see what sort of pilot was happening in Scotland and the evidence that emerged from that before taking a view.

Craig Dalzell: Common Weal actively advocates for the policy of a universal basic income. We recently published a paper on reform of social security, in which a universal basic income plays a key part. The evidence shows that there is a lot of potential to reduce poverty and the number of people who fall through the cracks in means-tested systems. They avoid losing out on money that they are due because they did not know how to apply for it or because they have been sanctioned for various reasons.

Universal basic income is a broad term and there are many different models for how much it would be, so it is difficult to make a general statement about what the impact would be. We would also want to couple a basic income with other policies such as better social housing so that it did not get eaten up by private rent.

We are very much in favour of a universal basic income. We are excited about the pilot schemes and are looking forward to getting the data from them. We will keep following the policy with interest.

Gillian Martin: Do you have a view on how a basic income might stimulate the economy? Finland, which has been trialling it, has found that some of the people who have been involved have earned money on top. The basic income has meant that they are not kept out of the labour market because of the worry of losing their benefits.

Craig Dalzell: There are a couple of strands to how it could improve the economy. First, the marginal propensity to spend means that, if people who do not have a lot of money are given a little extra, they tend to spend it rather than saving it, which stimulates demand in the economy. The other strand is that people who have enough money to meet their basic needs live happier, healthier lives and so cost the healthcare system less, for example. They can also be more productive in their work, which can boost the supply side of the economy.

Michael Jacobs: It is really interesting that some experiments with basic income are now happening, because we have been talking about it in theory for 25 or 30 years. It is much better to have some evidence, and it will be very interesting to see what the pilots prove.

First, it depends on how much money people get. If we want to take people out of poverty, they need a greater income. A universal basic income that provided an inadequate sum of money would not do the fundamental thing that we want to do with regard to poverty. Obviously, the more money that is provided, the bigger the whole system must be, because much more money will be going through the public sector and back out again to individuals, and that will have to be taxed and spent.

The balance of the argument is the impact on work incentives in a marginal rate of taxation for people who would otherwise be on benefits. The problem in any welfare system is the ridiculously high marginal tax rate for people on benefits. It is at a rate that none of us would accept with our taxes. People have withdrawal rates from benefits of 70, 80 or 90 per cent. In principle, a basic income does away with that because everyone gets the money. That is its huge advantage. Without yet having the evidence, my assumption is that it would much improve the situation for people who would otherwise be on a means-tested or other benefit, because they will be more likely to work and to find security of income and so on.

The other side of the equation is that, in order to do that, we would be giving everyone an income, which would mean that there was an enormous flow of cash through the Government coffers, which would have to be taxed at a higher rate than most of us are used to, and a vast majority of that would not change the income circumstances of the people who were being taxed and given the income. There would be an enormous administrative burden, which in itself would be costly, in order to improve the lives, as I think it would be very likely to do, of those people at the bottom, who would otherwise be on means-tested benefits.

It is a difficult policy choice. The pilots will furnish much more evidence, including on whether a basic income is publicly acceptable. As I said, many people that the policy was not aimed at would be deeply affected in income terms through their tax and basic income. Ultimately, their situation is not designed to change—and will not change—very much. It will be interesting to see the evidence, but those seem to be the arguments on either side.

John McLaren: I do not know an awful lot about this area, but a couple of things come to mind. I know that Harry Burns, who sits on the Council of Economic Advisers and used to be the chief medical officer, is pushing a basic income more on health and equality grounds than on economic grounds. The examples that he has given from the USA in the 1970s or 1980s—I think that Reagan stopped the policy, so it was probably the 1970s—are convincing. That was a long time ago and far, far away, but it will be interesting to compare the results of that work with what is happening in Finland, because they are very different societies with very different levels of inequality. We would not have thought that the same policy would have the same impact in those two different countries, but it will be interesting to see how much commonality there is. If they are different, and we move more towards a Finland or Scandinavian-style system, we will need to move away from a more liberal market economy to a more co-ordinated economy and higher taxes; otherwise, the cost of the basic income will be competing with education and health spend.

It is certainly worth exploring the provision of a basic income but, as the evidence is quite tentative, the Scottish Government is doing the right thing by running pilot studies. It might be that there are a lot of social norms in a country that affect how well such a system works.

Gillian Martin: There are a couple of other policy areas based on improvements to productivity. One is about providing 100 per cent broadband across Scotland, which we hope will encourage parity of access to digital platforms in rural areas, for example. The other is the increase in childcare hours, which will allow families to access the labour market in a way that will not completely sting them through their wage packets. That used to happen to me when I was paying for two children in childcare—basically, I was running to stand still. How do you see those two policy areas impacting on the productivity of Scotland's population?

Craig Dalzell: In the 21st century, access to the intranet at a reasonable speed is verging on being a basic human right, so it is essential that we get full broadband access rolled out as quickly as we can.

I have heard from a lot of people in rural areas—I am from a rural area myself—where business owners say that they could invest and expand more if they could get better internet access. Similar views are expressed about childcare, although, to tie this back into the question about a universal basic income, some of the pilot studies show that one of the groups that dropped out of the labour market because of the universal basic income were parents who wanted to spend more time with their children, which may not be a bad thing in itself. I will not say that the two policies are competing with each other, but they might be providing for people who have different desires in life—both of which may be positive, depending on your point of view.

Gillian Martin: Do other panel members have thoughts on that?

John McLaren: I do not know much about broadband, but I have a comment on childcare. It is an important area, but I would say that it is more important to look at it in terms of early years investment. Childcare is passive because it is parentcentric, whereas early years investment is more active in developing the child, which also benefits the parents. That means that, further down the line, it can reduce inequality and improve skills. We need to ensure that childcare is high-quality childcare, verging on early years investment. That is what is most important in that area.

Michael Jacobs: I absolutely agree about the importance of the early years, but childcare is vital for gender parity in the labour market. Most young children are looked after otherwise by women, and it is very difficult to get gender parity in the labour market unless we have high-quality childcare. If we look at the correlation between those two things across countries, we see that it is very clear. Scandinavian countries with strong childcare policies have the lowest gender pay gaps.

We are now discovering that we have a proper equal pay problem with people not being paid the same for exactly the same work, and the basis for much of the gender pay gap is career progression. It is in the early childhood years when women fall behind, because many cannot get adequate childcare so they drop out of the labour market and then come back in at a lower level. For gender parity—which is part of productivity, since we should be using all of our workforce's skills—childcare is critical.

Gillian Martin: You have anticipated my next question. Where do you see the gaps in the Scottish economy? People are our greatest resource—forget everything else. Where do you see opportunities to provide parity in the future to people who may not be getting access to the labour market and are therefore less productive? What will be key to that? Is it as simple as childcare or is there more that could be done?

Michael Jacobs: Vocational training and skills training will become increasingly important. There have been important developments in Scotland, but some of the work that IPPR has done on future skills indicates that we are moving into a time in which the structure of jobs will be changing, and the real risk as jobs become automated is that middle jobs get squeezed. People at the higher levels will find themselves as complements to the machines that work around them, and because they have more bargaining power they are more scarce and will be able to keep their wages and salaries up. People in the middle will be displaced, and the risk—as we have seen over the past 25 years—is that people who had middle-ranking jobs that do not exist any more move down into lower-skilled jobs. We now have lots of people who are working beneath their skill and education levels. Cross-country comparisons suggest that we have more of those people in the UK than any other country in Europe has, so keeping people, particularly in the middle-skill levels, trained to do the new work that is coming will be really important.

The skills system has not really worked anywhere, but we will need more and more of an emphasis to ensure that people can access the skills that will keep their wages up in the new economy that is emerging.

The Convener: I believe that Tom Arthur has a follow-up question on that, and then we will move on to another area that could be headlined "inclusive growth", although we have already dipped into that, with questions from John Mason.

11:00

Tom Arthur (Renfrewshire South) (SNP): My question is a supplementary to the last point that Mr Jacobs made. We spoke earlier about productivity in the UK having stalled but the problem really lying in the everyday economy, whose structure is characterised by low wages and low regulation in the gig economy, which disincentivises investment in human capital and innovation.

Mr Jacobs spoke about the historical trend of the hollowing out of middle-income and mid-skilled jobs. To what degree are low-skilled jobs exposed to future developments in automation—in robotics and artificial intelligence? I am thinking of the self-employed delivery driver or the Uber driver, for example. What level of exposure exists? Are forecasts of a cliff edge and catastrophic levels of unemployment unnecessarily apocalyptic? Will we muddle on or will humans go the way of the horses, as one expression would have it?

Michael Jacobs: The IPPR has just published a report on automation. We have done some analysis of the differential impact on different sectors and then the impact on different parts of the UK, according to how those sectors are mapped geographically. There is a differential impact. Basically, areas where there are more low-skilled jobs are more vulnerable. Scotland has an interestingly mixed economy because it has a lot of high-skilled jobs as well that are, by and large, less vulnerable, although nobody is invulnerable. The matter really needs to be looked at by sector.

We need to be very careful, however, and we have tried to be cautious in how we describe this. We have had automation for 200 years—it is not a new thing—and the pattern of automation is not, by and large, that whole jobs get eliminated; rather, jobs get changed. According to a very famous survey of American politics—famous to people who follow the subject—only one job has been eliminated in the US as a result of automation, which is the job of lift attendant, although some of those jobs have come back in particular places. Mostly, jobs change, and they mostly change alongside new technologies, as we are all aware. We all use technologies, including things that were previously part of separate jobs. We do our own typing, for example. Formerly, a lot of people would not have done that. In effect, it has been a kind of automation, but there have been a lot more jobs.

We are not looking at mass unemployment because the impact of automation on a particular sector has to be placed alongside the impact of higher productivity and higher demand on the rest of the economy. The simplest way to illustrate that is to look at agriculture. It has seen enormous automation over the past 100 years and almost nobody works in agriculture now compared with the number of people who worked in it 100 years ago. That is mass unemployment in the agricultural sector, but no country with what was formerly a very large agricultural sector, including Scotland, has seen mass unemployment in general because the demand went elsewhere.

If we look at other sectors that have had major technological change, such as healthcare, some people have been displaced, but the demand for healthcare has been massively increased, which means that, overall, many more people are employed. In the meantime, where else have jobs been created? They have been created in the automation sectors—in information technology, computing and so on. For every job that has been lost as a result of people now doing their own typing, for example, many more have been created in the new sectors—in information and communication technology and so on—so the overall impact is quite likely to be neutral or positive, depending on how the moneys are circulated.

From our point of view, we should not be worrying about mass unemployment; we should be worrying about the distributional implications, because that is really where the effects will occur. There is the risk that lower-skilled workers will be more easily displaced, for two reasons. Their jobs are cheaper so it is more cost effective to automate them, and they have less bargaining power to keep their wages up. It is the distributional effects that we need to worry about the most with regard to automation, which means that we need to manage that process. Skill levels will be critical to that as well, as I said in my previous answer, so we absolutely need to be on top of this.

The other thing to say is that this will happen relatively slowly. Technically speaking, lots of jobs are automatable tomorrow. However, it will happen slowly because every job that is automated involves decisions on the cost of capital versus the cost of labour, on policy and profitability, and so on. The fact that something is technically automatable does not mean that we are about to see it being automated.

Craig Dalzell: It is interesting that Mr Arthur mentioned horses. The invention of the automobile was fairly terrible for the horse-wrangler industry, although it was great for car mechanics. We may see changes to the nature of work but, as Michael Jacobs said, it is about how we respond to the distribution of productivity. I think that it was Bill Gates who famously suggested the idea of a tax on robots. Being a bit less tongue in cheek, maybe we need to refigure our taxes on output productivity, regardless of how it comes about—whether it is human or robot labour—and then feed that into a redistribution mechanism such as a universal basic income. That might increase the bargaining power of low-paid workers or simply free people up to do jobs that are—I do not want to say low value—low feedback, such as care, personal or art and culture jobs. We could end up with a very different society, but I am not sure that there will be a moment of mass unemployment or that singularity.

Tom Arthur: People talk about a fourth industrial revolution, but it strikes me that, compared with previous situations, such as those in the 18th or late 19th centuries, there is something qualitatively different about this situation, which is fundamentally about machines with the capacity to think. Potentially, by the end of this century, there will be machines that are conscious and able to learn and process information more quickly than a human being can. If we apply that to big data and big-data analytics, it will be transformative in a way that is perhaps difficult to imagine.

I appreciate that other people say that the most transformative inventions have been things as simple as the washing machine and dishwasher. I am still trying to weigh it up. It is reassuring to hear accounts such as those that have been given this morning, but equally credible sources suggest that the situation could actually be far worse than we might imagine. Does the panel agree that, however things progress over the course of the century, we will require to fundamentally restructure the economy and our idea of what an economy, social security and a welfare state are? Is that fair?

Craig Dalzell: Yes, I agree with that completely.

Ryan McQuigg: Yes. I think that we can use automation as an opportunity. It frees people from doing the type of work that is not well paid and which therefore means that they have to do multiple jobs. They can do more of the social good aspect, to the betterment of the country. It is incumbent on the Government to anticipate how it is going to tax things and how it will recalibrate the economy to make sure that it does not put people on the scrap heap, but frees them up for the betterment of the country with regard to what we are measuring differently. I see it as an opportunity instead of a risk.

Tom Arthur: That leads to my final question. What should Government be doing now? There is an argument that some of the mass unemployment that we saw in the 1980s could have been avoided if reforms in the UK had been staggered from the 1970s onward, rather than there having been that big bang moment. What action should Government be taking now?

Michael Jacobs: You talked about the course of the rest of this century, which is another 82 years. I am not going to make predictions over 82 years. I am sure that over the century we will have to reconfigure our economy and welfare state completely, but in the field of policy making—in which, if we are lucky, we think of the long term as 10 to 15 years, and for many of us it is much shorter than that—I do not think that we are going to see a complete transformation in that way.

We need to understand fully what the technologies do. As you said, machine learning is in many ways a qualitatively new form of automation, in which computers, by and large, learn from the data that they are handling. That will make a big difference in data analysis jobs; we know that radiographers are under threat. A machine can now read an X-ray or magnetic resonance imaging scan much more accurately than a human radiographer can, and that is changing the nature of radiography, because the machine input is generated and the radiographer is turned into more of an analyst of what to do next.

However, those machines are still computers—they are not robots. Robots have only just learned to catch a ball. The physical dexterity of robots is still really limited. They can spray paint cars, but they cannot do most human actions.

Machine learning means that lawyers and financial auditors are under threat, because a lot of their work is data analysis, and big data analysis is much better done by machines. There are definitely jobs that are under threat, but we have many more human needs to be met for which we have no conception yet of how a machine could do what a human being does. We simply do not have machines that can do anything to do with planning, decision making, emotional intelligence, caring or creativity. This process is not going to be very rapid. Who knows what will happen mid-century or later, but we should not think that in the next 10 years we will suddenly see machines taking over all the jobs.

Machines are also very expensive, so an economic decision needs to be made. Who will invest in automation? It does not just happen; companies need to invest in machines and so on for which, at the moment, there is relatively little application.

In answer to your question about what Government should do, the first thing is that we probably need more robots and not fewer. Britain is not suffering from a surfeit of robots that are putting people out of work. If anything, we have underinvestment in the most advanced technologies. I would like to see an industrial strategy—to its credit, the UK Government is beginning to put one together—that tries to diffuse new technologies much more widely. I am much more concerned about the diffusion of technologies that are 10 years old than I am about something brand new that will not diffuse very quickly, because we need higher productivity in the everyday economy.

I would like to see a much greater focus on skills training and ensuring that workers are skilled correctly. I would also like to see a much better debate about the ethics of all of this. Some ethical issues arise, and we have called for the creation of an authority for the ethical use of robotics and artificial intelligence in the same way that an authority for human fertilisation embryology was created 10 years ago. There are a number of things that Government should do before it starts panicking.

The Convener: You are surely not suggesting that lawyers are not creative and have no emotion.

Michael Jacobs: Would you be a lawyer, convener?

The Convener: We will leave what I said as a rhetorical question.

John Mason will move on to different subjects.

John Mason (Glasgow Shettleston) (SNP): One reason why we have the panel here is to look at one of our main themes: inclusive growth. That term has been used already today.

First, I would like to find out what it means. The Scottish Government defines inclusive growth as "growth that combines increased prosperity with greater equality, creates opportunities for all, and distributes the benefits of increased prosperity fairly".

Is that a fair definition? Could you improve on it? What is good and bad about it?

John McLaren: Sorry, could you repeat it?

John Mason: Seriously?

John McLaren: Yes.

John Mason: Right. It is defined as

"growth that combines increased prosperity with greater equality, creates opportunities for all, and distributes the benefits of increased prosperity fairly".

There are four bits to it.

John McLaren: There are four bits, but the second, third and fourth seem remarkably similar, although they can be interpreted in different ways. That is part of the problem. The fact that I had to ask you to repeat it is also part of the problem—I genuinely wanted you to repeat it because I could not remember it. The definition could be changed to include more about intergenerational issues; gender, geographical and racial equality; the environment; and stocks rather than flows. Eventually, inclusive growth just falls back to growth and GDP. In most countries, that is what still happens. There can be a bit more of a push for greater equality and for looking at different measures, but most countries are still fairly obsessed, especially politically, with GDP.

John Mason: If you do not like "inclusive growth", do you have a better term that we could use?

John McLaren: "Inclusive growth" is fine, but I would define it in a different way. It should be defined in the way that the Scottish Parliament, the Scottish Government—or the Swedish Government or whatever—wants to define it. Is it more about the environment? Is it more about gender and racial equality? As long as the term is kept vague, as it is at the minute, it means that people do not really know what is being focused on. It also avoids the need to put in policies that say definitively that there will be less gender pay inequality because that is a clear area where we want to have inclusive growth, or that say that a key aim for equality is that the unemployment rate in the Western Isles should be no different from the rate in Edinburgh.

For example, I think that the French train system was built on the idea that there had to be a train that could get someone from wherever they lived to a major city, which might have been Paris, within an hour—it was not that, but something like it. That is a policy that has led to greater equality in terms of transport connections.

I think that there is a willingness and a desire for all these things to happen, but there is not a focus on any particular aspect of them, which means that we still fall back on GDP measurements.

Up until 2007 there was a big push towards green growth; David Cameron went to the Arctic and there was stuff like that. As soon as the financial crisis happened, that focus fell away and people said, "I don't care about that—just give me growth." We are still—

11:15

John Mason: Okay—I want to bring in the other witnesses, and we are pushed for time. Do the others agree with John McLaren?

Ryan McQuigg: Yes, to a certain degree. My colleague Dr Katherine Trebeck wonders where we are going to stop. We have had inclusive growth and equitable growth, and soon it will be non-fat growth or I-can't-believe-it's-not-growth growth.

We at Oxfam have talked about the humankind index, so we would probably talk about building a more human economy. We have talked before about the doughnut—how the planetary boundaries create an outer layer, the inner layer is social foundations and the safe space in between is where our economy should be. Oxfam has highlighted all the different mechanisms for looking at that.

I think that we should talk about a human economy and make sure that prosperity and success are measured by the people who live here. That is more of a succinct answer.

John Mason: We have the Oxfam view. Is it possible for everybody to agree on a view, or is inclusive growth such a vague term that we are all going to have different views on it?

Craig Dalzell: To boil it down to its absolute minimum definition, we are talking about how changing the size of the economy changes inequality.

However, as John McLaren says, what does inequality mean? What does growth mean? Are we chasing only growth? Are we accepting the possibility that a technical recession took place because of a massive amount of wealth redistribution? Have we decreased inequality at the cost of the size of the economy? Have we brought in a bunch of imports that have boosted the size of the economy, but hollowed out our manufacturing base because of the substitution effects?

To give a very broad term is difficult. When we get into the detail, it can be very difficult to measure, because we need to start defining—

John Mason: You are depressing me—that is quite pessimistic.

Michael Jacobs: Let me say something, although I do not know whether I am going to depress you less. I think that inclusive growth is a useful term. Inevitably we need a term that people can grasp, although it takes a while until a term becomes commonly used. Inclusive growth is the term that the OECD is now using, which means that is has international currency. Personally I rather like it.

It is really important that we understand why inclusive growth is different from the term that we might have used in the past. It seems that the critical difference in what is meant by inclusive growth is that distributional outcomes are embedded in the production system and are not the consequence of post hoc redistribution. That seems to be the really important distinction.

There are three ways of considering the distributional outcomes of an economy. There is trickle down, which assumes that the more growth there is and the more growth that accrues to the people at the top, the more will trickle down to people at the bottom. That is one conceptual framework.

Another is redistribution, in which we allow the economy to grow and recognise that, although it will be unequal, we will redistribute through the tax and welfare system to ensure that people at the bottom get some of the fruits.

Inclusive growth is the third model. It says that we want the productive system to distribute fairly and more equally—I repeat, more equally—to the people in the middle and bottom half of the income distribution, and to do so through the economy and not through post hoc redistribution or a hoped-for trickle down—which, as we know, there has not been. How would we do that? It seems that that question is why it is useful to have a distinctive term. It is different from the trickle-down and redistributive models.

The American political economist Jacob Hacker called it predistribution. I do not know whether that is the same as inclusive growth, although it has the same basic idea, which is that the distribution has to be embedded in earnings.

John Mason: Can I press you on that? Does that mean that wages have to be closer together because, if they are, we will not need to redistribute?

Michael Jacobs: Yes. You need to have a much lower differential between higher salaries such as executive earnings, middle salaries and salaries at the bottom. You need to do that through a combination of taxation policies, labour market policies and, as I said before, the bargaining power of people on lower incomes and the ways in which wages are structured. It seems to me that that is a different model.

That is the flow of income, but there is also the stock of wealth, and ownership in the economy needs to be more fairly distributed. As a result of the declining labour share and increasing capital share of wealth, we have widening wealth inequality. That is much worse than income inequality—it is 10 times the level of income inequality—and, as most assets are now owned by a relatively small proportion of the population, we need to distribute those assets better.

There is a wealth component to an inclusive growth model, which is partly about the ownership of housing and land and partly about the ownership of shares and companies. We would like there to be a much wider distribution of share, land and housing ownership in order to get the stocks of the economy shared more fairly, as well as the flows of income.

John Mason: Thank you very much—I would love to ask more.

The Convener: We are running out of time, so we have to go to a question from Colin Beattie.

Colin Beattie: We have heard evidence previously that the Scottish labour market has changed markedly over the past 10 years. Have those changes been broadly positive?

Michael Jacobs: Probably not. I will let someone else answer.

John McLaren: As in the UK labour market, there has been an increase in self-employment and part-time employment. Interestingly, going back to a point that Tom Arthur made, the Resolution Foundation put out a paper last week about the hollowing out of jobs. It said that there has not really been a hollowing out of mid-level jobs, but that there has been a reduction in male hours from full-time work to reduced hours or part time. That is usually involuntary, so it is probably not a good thing. Having said that, given the condition of the world economy, although the situation is worse than it was, it is better than you would have expected in 2009, when such a severe recession was going on. The degree to which the labour market has been elastic and moved around has improved the number of jobs versus what would have happened in the past. Whether that is where you want to stay—with less job security and, perhaps, lower income—is difficult to say.

Colin Beattie: You talked about the reduction in male hours. Has that been balanced by an increase in female working hours?

John McLaren: I have not looked at that for a while, but my recollection is that it has. The overall number of hours worked in Scotland has increased. GDP per capita has not done that well, but household income has done better, because more people are working. As the employment rate has gone up and more elderly people and women are working, there has been a shift in the pattern that has led to the average household income going up. Some of that has been voluntary and some has been involuntary. Where you want to go with that and where the economy will allow you to go with that is difficult to guess.

Ryan McQuigg: The changes have not been positive in respect of, as the old adage says, being able to work your way out of poverty. There are high levels of in-work poverty and there has been an increase in inequality between shareholder value and what workers are paid. In the 70s, workers' pay and the pay of those at the top were level but, in the late 70s, top pay exploded and it continues to rise. That goes back to the social value that we place on the jobs that are low-paid at the moment.

There are issues about participatory budgeting and help with that is needed.

We talked about the human economy and predistribution, and that was what the Christie commission was about—40 per cent of local government spend went to rectify the problems with economic growth. We can do a lot more.

We recognise the national performance framework and are all signed up to the SDGs, which include inclusive growth and creating decent jobs. We as a society and a global community recognise that we have to go on a different path because what has happened previously has not benefited the whole community. It has not been positive overall but, where we can, we are making a positive change.

The Convener: We will go to Jamie Halcro Johnston and a slightly different area.

Jamie Halcro Johnston (Highlands and Islands) (Con): We have touched briefly on some of the differences between the different parts of Scotland and how their economies perform. What regions of Scotland have been performing better or less well? Looking to the future, how can we tackle those regional differences in business activity, labour market participation and growth?

John McLaren: The Aberdeen area has traditionally performed well. It is obviously going through a downturn, but that area and central Edinburgh have always been the wealthiest areas and they do reasonably well in terms of other factors.

The employment figures and GDP figures show that there has been quite a variation across different parts of Scotland. I have not got those figures immediately to hand but some of the more rural areas have suffered a bit through changes to employment during the past 10 years. Because some of those areas have relatively low populations, you would have to drill down a bit to understand better why that has happened, and whether it is a generic or local issue, such as an industry that has declined.

In general, there has not been an obvious shift in the geographic position in Scotland. Nowhere has done particularly badly or stands out as having done particularly well.

Craig Dalzell: Like John McLaren, I only have partial data and a few anecdotes of, for example, areas in the Highlands where there has been a community buy-out, which has led to a boost in the economy in that particular area. It is difficult to generalise that further.

We hit a point where the economic data for regions of the UK can be spotty in places, and the economic data for regions within those regions, such as within Scotland, can be even harder to drill into and difficult to measure.

Jamie Halcro Johnston: Could the overall Scottish economy benefit from more of a focus on regional growth, perhaps?

Ryan McQuigg: For Oxfam, it is not necessarily about regional growth; it is about community growth and letting people decide for themselves what is best for them. There is anecdotal evidence from things like Beith community development trust, for example. The council decided to close its football pitches and, with the help of Oxfam, the trust did an analysis that showed that it was spending £40,000 on pitches outside their local area. They decided that that was crazy and asked to work with the council to open their pitches again. The trust took the initiative over and it had knock-on benefits for the community. They then had things like washing machines to clean the kit instead of it going to individuals' houses, which created another economy and went towards combating climate change.

If you give communities the chance, they have the answers. There is a lot more that we can do with communities in those regions. We just need to ask them. One of the bittersweet moments for the humankind index came about when we were consulting people and one person came up and thanked us for asking for their views. We are often asked how we reach those people who are hard to reach. For Oxfam, no one is hard to reach, but they are easy to ignore; Governments and politicians seem to have a disconnect from people. That may be why we have had the rise of Trump, a close-run thing in the French election and the situation in German politics. We need a more human economy and to be connected with people to see what will make the economy better for them.

11:30

John McLaren: It is difficult to answer the question whether more regional growth is preferable. First, I ask: preferable to what? If regional growth is versus greater emphasis on agglomeration, some economists would say that there is more prospect of faster growth in an economy with larger agglomerations, but that is probably more of a societal preference.

Secondly, the big question is how to do regional growth. There are not many ways. The Government can improve such things as transport and the other things that it does. The track record of clusters and regional industrial policy for building up businesses is not good. It is haphazard; there have been successes, but they have been fairly random. It is difficult to say that if you take a particular approach, you will get success.

Andy Wightman: I will go back to a point that was made by Michael Jacobs, who said that GDP growth has been decoupled from earnings growth. What has happened to the economic dividend that did not go to earnings? If some of that GDP growth was due almost entirely to the growth of household consumption built on personal debt—much of which, over the past decade, was due to rising housing costs—should Government policy seek to reduce housing costs for the population?

Michael Jacobs: I will have a go at an answer. On the point about where the economic dividend has gone, the decoupling was between GDP and average earnings. Some of the dividend has gone to higher earnings, which we know have had quite an increase; some has gone to profits—it has not gone to labour, as part of the shift away from labour to capital; and part of it has gone overseas—GDP growth has gone to GDP owners who were not British. The portion of growth that did not go to average earnings has had a variety of destinations.

Housing costs are now a huge issue. Average housing costs are a multiple of average income that makes housing unaffordable for many people, particularly in urban areas. In London and the south-east, housing costs have become so crazily acute that people who are in their 30s cannot afford a deposit and mortgage; 10 years ago, they would have expected to earn enough, but now they have no prospect of doing so and are waiting until maybe their 50s or 60s to own a home when their parents die. That has become a new norm for people whose incomes and class positions mean that they would have expected to be in a completely different situation. It was a lot of people on very low incomes who never expected to own a home.

Housing costs have become a critical issue that is very difficult to deal with. It is too glib to say that we need to build more homes; we should, of course, do that, but however many homes we build, the impact on average house prices would be relatively small. House prices are determined by supply and demand for the whole housing stock, not just for new housing stock. However, the issue needs to be dealt with and is an area of policy that needs much more thinking; we will try to do some of that. The problem of the disparity between income and housing costs is absolutely acute, although it is not universal—it is different in different places, as you know.

Craig Dalzell: The problem is not just up-front costs, such as rents. Running costs are acute, and fuel poverty—for heating and electricity—is particularly acute. New houses need to meet the highest possible energy standards to make them affordable to buy and affordable to live in. Common Weal will do more work on that in the coming months, which we can talk to the committee about at a later date.

Ryan McQuigg: I keep banging on about the humankind index. In joint first place, people’s top two priorities were that they wanted an affordable, decent and safe home and good physical and mental health. The national health service has always been at the top, but housing is now equally important for the people we spoke to. That demonstrates the value that people attach to decent quality housing, and they look to their Government to help with that.

John McLaren: Improving the housing stock will not solve things quickly. If we have a consistently higher rate of house building, that will eventually get us to a good position, but we might have to take temporary measures in the meantime.

However, we need to be careful about what we do. Although it might appear to be a good thing to do, reducing the public rental costs could have knock-on effects on availability. More accommodation could be put on the private market, and standards might be lower, because a lower level of profit might mean that properties are not updated and repaired as consistently as they were in the past.

We want the market to work as well as it can. It is not working particularly well at the moment, and the question is how we tackle that. A disturbing trend that is not often addressed is the ownership of second and third houses by people who would normally have one house. Increasingly, as the wealth of different groups in society diverges, people are using their extra wealth to buy a second house, perhaps in the first instance for their children to use when they go to university. That brings more people into the market and squeezes more people out. Therefore, we could have higher taxation on second and third houses, but we would have to be careful to do that in such a way that it did not have too many disadvantageous side effects. That is an area that could be looked at.

Andy Wightman: With regard to your earlier point about the definition of inclusive growth, a couple of months ago the Resolution Foundation produced a report that showed that, for every successive generation since the 1930s, the proportion of income spent on housing has risen, and it is now highly significant for the so-called millennials. Should we hardwire into our policy on inclusive growth a metric—and a target—on housing costs, as Michael Jacobs suggested?

John McLaren: There are certain basic needs. Education and the health service are free. Food prices are market driven, but electricity prices are managed, to an extent. Housing is another basic need, but there is much more freedom for the market to decide what to do about it, so it would seem to be an area that Government should get more involved in. Housing is a much bigger problem in London and the south-east than it is in the north-east of England; Scotland is somewhere in between. Because it is such a basic need, it would appear that there is a need for the various Governments to play a more active role than they do currently.

The Convener: That brings the evidence session to a close. I thank our witnesses very much for coming in.

11:38

Meeting continued in private until 12:19.

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