The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 7 May 2014

Session 4

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ECONOMY, ENERGY AND TOURISM COMMITTEE
14th Meeting 2014, Session 4

CONVENER

*Murdo Fraser (Mid Scotland and Fife) (Con)

DEPUTY CONVENER

*Dennis Robertson (Aberdeenshire West) (SNP)

COMMITTEE MEMBERS

*Richard Baker (North East Scotland) (Lab)
*Marco Biagi (Edinburgh Central) (SNP)
*Chic Brodie (South Scotland) (SNP)
*Alison Johnstone (Lothian) (Green)
*Mike MacKenzie (Highlands and Islands) (SNP)
*Joan McAlpine (South Scotland) (SNP)
*Margaret McDougall (West Scotland) (Lab)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Danny Boyle (BEMIS)
John Downie (Scottish Council for Voluntary Organisations)
Professor Ailsa Henderson (University of Edinburgh)
Dr Mary Hilson (University College London)
Professor Michael Keating (University of Aberdeen)
John Nugée (Chatham House)
Kyle Thornton MSYP (Scottish Youth Parliament)

CLERK TO THE COMMITTEE

Douglas Wands

LOCATION

The James Clerk Maxwell Room (CR4)

Scottish Parliament

Economy, Energy and Tourism Committee

Wednesday 7 May 2014

[The Convener *opened the meeting at 09:30*]

Scotland's Economic Future Post-2014

The Convener (Murdo Fraser): Good morning, ladies and gentlemen, and welcome to the 14th meeting in 2014 of the Economy, Energy and Tourism Committee. I welcome members, witnesses and guests in the public gallery. I remind everyone to turn off or at least turn to silent all mobile phones and other electronic devices so that they do not interfere with the sound equipment.

Item 1 is a continuation of our inquiry into Scotland's economic future post-2014. We have two panels of witnesses this morning. I welcome our first panel: Professor Michael Keating, professor of politics at the University of Aberdeen and director of the Economic and Social Research Council Scottish centre on constitutional change; Dr Mary Hilson, senior lecturer in Scandinavian history at the department of Scandinavian studies at University College London; John Nugée, associate fellow of Chatham House; and Professor Ailsa Henderson, professor of political science at the University of Edinburgh. Welcome to you all and thank you for coming along this morning.

We will allow an hour and 15 minutes or so for the first panel. I ask members to keep their questions short and focused. If we can have responses that are short and focused, too, that will help us to get through the subject in the time that is available. I am aware that we have a broad range of experience on the panel. We will be looking at different international scenarios, so questions will not always be relevant to every panellist's area. I therefore ask members to direct questions initially to a particular panel member. If a panel member wants to comment on a question that was directed to somebody else, they should catch my eye and I will bring them in as time allows. That will allow us to get through the topics in the time that is available.

I will start by asking Professor Henderson a question. I read with great interest what your submission says about the experience in Quebec. What are the lessons for Scotland, Scottish politicians and those who are involved in the Scottish economy from the Quebec experience?

Professor Ailsa Henderson (University of Edinburgh): I think that there are a couple. One lesson is that markets react to uncertainty, but that reaction is not necessarily something to avoid. Markets react to uncertainty before elections and referendums, so trying to eradicate uncertainty and their reaction to it is a bit of a fool's errand. We should expect that reaction as something that is normal.

The other lesson is that some indicators react in the short term, some react in the long term and some do not react at all. That is something else to look out for. We know that certain things react to public opinion. Tiny changes in public opinion, such as a 1 per cent increase in support one way or the other, affect currency and stock market returns. However, they do not affect the bond market, which reacts in a slower, more sluggish way—bond ratings react in a more sluggish way.

It is hard for us to determine exactly which changes are due to referendum campaigns and which changes are due to wider macroeconomic issues. We can narrow that down a little bit. If we look just at the couple of months before 1995, we can see what was a result of the campaign and what was a reaction to large deficits or large debt on the part of the Quebec Government in the early 1990s.

Then there is the relationship between opinion and economic indicators. Some indicators react to opinion, and that also works in reverse: opinion sometimes reacts to economic indicators. However, one of the lessons from Quebec is that voters do not pay as much attention to the negative economic indicators in referendums as they do in elections. They are more attuned to economic changes in election campaigns than in referendum campaigns largely, we assume, because national identity cuts across or trumps all those things. For example, seeing themselves as British or Scottish is more important to them than what is happening with the currency.

Some things react very quickly after a referendum. For example, the day after the Quebec referendum, the currency recovered and the stock market returns of Quebec-headquartered companies improved. The bond markets were slower to react, but that is less relevant in the context of a Scottish referendum.

The Convener: I presume that there was a recovery because there was a no vote.

Professor Henderson: Yes.

The Convener: It would be interesting to speculate on what the outcome would have been had the result been different.

Professor Henderson: We do not know.

The Convener: Were particular sectors of the Quebec economy impacted more than others? I am thinking of financial services, for example.

Professor Henderson: Yes. There are two distinctions to make, one of which is between multinational companies and companies that are based on local markets. The latter kind of company reacted differently from those that were insulated from changes because they were more international in focus, so there is an issue of market location. The other distinction is between companies whose growth is dependent on infrastructure that could not readily be abandoned, such as factories, plant and machinery—their stocks fared worse—and companies whose growth is dependent on their employees' skills, which are deemed to be more mobile. It is also partly about whether companies perceive themselves to be at less risk of uncertainty and whether companies are, in fact, at less risk of uncertainty. To sum up, it is about market location and infrastructure versus skills.

The Convener: I want to get John Nugée's perception of this. Your submission concentrates on the issue of currency. I am sure that you have followed some of the debate that we have had in Scotland around currency issues. Based on your international experience, what is your sense of what the optimum currency arrangement for an independent Scotland would be?

John Nugée (Chatham House): The first thing to say is that currency is clearly very important. It is an emotive subject. It is no coincidence, for example, that the member states were determined that the coins in the euro area should still have some emblem of their statehood on them. Although the euro notes are all the same, the coins have a side that represents the country that issued them.

The question of currency as a whole is about the emotions of nationalism and whether, in the United Kingdom, people feel British, English or Scottish. For the Europeans, it is about whether they feel Dutch or European, for example. It is about where that emotion interacts with personal wellbeing and financial wellbeing. The latter is a relatively hard thought and quite a disciplined area of one's emotions, but national identity is a much more emotional area. Currency is one of the areas where they intersect, which is why it is such an interesting subject and why it has been discussed at great length in the referendum campaign.

You asked me outright, convener, the most difficult question of all: what is the ideal outcome? I will give you an honest answer. I think that Scotland is a rich country that can and should have its own currency. Having your own currency will give you independence of action, identity and the ability to build a financial sector. That is a positive statement. You asked for short answers and I have given you one. All the other options have downsides.

That is not to say that having your own currency would not also pose challenges. You would have to convince your people to hold it. The interesting thing about currency is that, unless you impose exchange controls—I do not think you will or should—citizens of an independent Scotland will always have the option to keep their assets in London. In other words, you must not just produce your own currency but persuade your population to use it, and that requires you to manage it well. I have no doubt that there is the ability in this country to do so; you have the challenge of persuading your people of that.

The Convener: Thank you, particularly for a very clear answer to my first question, which is exactly what we are looking for in this inquiry. I will ask a follow-up question before I bring in Dennis Robertson, who wants to put some questions to the other witnesses.

Mr Nugée, there is quite a lot in your submission about sterlingisation as an option, and the issue has been talked about in the debate. How viable would that option be for an independent Scotland?

John Nugée: In the short term, it is a very viable option. In the long term, it would not be optimal.

In the short term, it offers your people a guarantee that at least one thing will not change when a lot of other things will. It gives them confidence that they are not about to lose all their money as well as everything else. That is what it did for the Irish Free State, which was born in a very difficult decade—in fact, in two very difficult decades. The decision to have sterling and then sterlingisation gave the Irish people a solid currency when just about everything else in the Irish Free State was up for negotiation, if not worse.

In the short term, sterlingisation is not an impossible option. In the long term, I do not think that it would do the country any favours. It would stunt the growth of financial markets and would leave Scotland dependent on another economy's monetary policy. Also, let us not ignore the fact that the current linkages between the Scottish economy and the economies of the rest of the United Kingdom will begin to weaken. That is what independence means—you will go your own way. Even without that, if your economy is based on oil and RUK has a much less oil-based economy, the two will diverge in general. In particular, they will diverge in response to an oil price shock.

You may well find that your interest rates are not ideal and that there is not much that you can do about it. That will put enormous pressure on fiscal

policy and on the real flexibility of the economy. There are countries that take their monetary policy from outside. Hong Kong, where I worked for four years, is a classic example. Hong Kong has one of the most flexible labour markets in the world, and wages there go down as often as they go up. That is a challenge for a social democratic state.

The Convener: Both Professor Henderson and Mr Nugée raise interesting points, which I am sure we will explore in more detail.

Dennis Robertson (Aberdeenshire West) (SNP): I thank all the witnesses for their written submissions, which make interesting reading. I am sure that, as the convener said, my colleagues around the table will explore your initial points further.

My question is for Mary Hilson in the first instance. It has been stated that the UK is one of the most unequal societies in the modern developed world. By comparison, our Nordic neighbours tend to fare better in that area. What are the reasons for that?

Dr Mary Hilson (University College London): Equality is changing in the Nordic countries. There have been some very sharp changes in the past two decades or so, especially in Sweden, and inequality has actually increased.

I am a historian, so I look at the issue from rather a long-term perspective, and one can see it in two ways. One interpretation is that the Nordic social model—the Nordic welfare state—is a creation of social policy. Strong social democratic parties that originally gained parliamentary majorities in the 1930s were thereafter able to adopt redistributive social policies. However, another interpretation, which views the issue as having a much longer historical trajectory, has been a bit more prominent since the early 1990s. That interpretation considers that those societies were historically very equal. Land was sparsely populated, there was a lack of a strong landowning class and there were freeholding peasants. We can therefore view the model in two ways.

Dennis Robertson: Okay. If there is a yes vote in the referendum, will that afford Scotland an opportunity to reverse some of the decisions that the UK Government has taken? Can we aspire to have a much more equal society in Scotland? On the flip-side, if there is a no vote, will the current system of austerity and welfare reform mean that we will probably never achieve the equality that we are looking for?

09:45

Dr Hilson: It is not for me to say what Scotland could do, because I am in no way an expert on that.

The view of the Nordic societies as equal is, to some extent, an idealised one. When people talk about a Nordic model in contemporary political discourse, they are sometimes referring to something that might have existed in the past or to something that might never have existed. As I tried to say in my written submission, the idea of the Nordic model is often used rhetorically. It can be used to look at specific detail, but it is also used as an example of a utopia. Whether it is possible to achieve that, I do not know.

The Convener: Would you like to comment, Professor Keating?

Professor Michael Keating (University of Aberdeen): I echo Mary Hilson's caution about idealising the Nordic model. It is not a utopia—there are all kinds of problems in the Nordic countries.

Nevertheless, there are some things that we can learn from the Nordic model. There are a number of reasons why the Nordic countries have greater social equality, one of which is the fact that they have more collective bargaining. They have stronger trade unions and much broader membership of trade unions, and they bargain on the social wage as well as on the wages of individuals. When trade unions represent almost the whole population, they take in broader considerations than sectional interests.

Although the Nordic countries do not have particularly progressive taxation, they have generous universal services, which means that everyone buys into the same services. That system is beginning to fray a little, certainly in Sweden. In addition to the principle of universal services, there is the notion of social investment, whereby public expenditure is seen to contribute not only to economic growth, but to social equality. For example, there is a big focus on childcare and the early years, which encourages social mobility for all the people who have fallen out of the job market.

There are problems, particularly at the bottom of the wage scale, with people coming into the labour market. Youth unemployment is a growing problem because there are only rather well-paid jobs. However, although there are difficulties, it remains true that, compared with other countries, the Nordic countries have much greater social equality. They also have the notion of social partnership. That, too, has frayed in recent years, but there is still the notion that the social partners—unions, employers and Government—will share some common interest.

Could the Nordic model be applied to Scotland? I have a book coming out in two weeks on that very subject. [*Laughter*.] I will plug it, if I may—it is only £9.99. In it, I argue that the Nordic model could be applied to Scotland but that that would require a great deal of restructuring in Scotland. Just becoming independent will not do the trick.

Dennis Robertson: No, but I am asking whether it affords an opportunity for change. Would remaining in the UK harness us to a system that is probably broken but that we do not seem to be able to fix?

Professor Keating: The important thing is having the powers. Having a seat in the United Nations does not make any difference when it comes to creating a more equal society. Having more control over welfare and taxation may make a difference. It is not necessarily independence itself but having those powers that is important. I hark back to the case of Quebec. There is a lot of evidence that Quebec, which has many social and fiscal powers, has resisted the trend of growing inequality that exists in North America. Some kind of devolution settlement short of independence would provide the necessary policy instruments.

However, a change in the institutions and more sensitisation of the social partners would also be required. That relates to the notion that we must think of public policy in a broader sense. Independence might give us the shock that would wake us all up and make us realise that we had to do that, but independence itself would not solve that problem. The solution must come from internal change within Scotland.

Dr Hilson: The desired change is being talked about as a top-down change that might come from an independent Government. I am interested in the fact that the committee's next session is with representatives of civic Scotland. Another aspect of the Nordic countries that is often talked about as being remarkable is the strength of their civic institutions. They have strong trade unions, strong voluntary associations and, especially in the case of Denmark, strong agricultural co-operatives. Their growth dates from the late 19th century, predating what we view as the development of the Nordic social model, and it has been important in shaping the development of the social bargaining that Professor Keating mentioned. That is more about organic, bottom-up growth than a Government steering things from the top down, although the state's role in that is important. A climate of benign tolerance in the late 19th century allowed such institutions to flourish.

Dennis Robertson: Professor Keating, you state in your submission that inequality has a negative impact on economic growth. Will you expand on that a little?

Professor Keating: A lot of evidence to that effect is accumulating. There is a book by Wilkinson and Pickett as well as the work of the American economists Krugman and Stiglitz, and work is coming out of the Organisation for Economic Co-operation and Development, in particular. There is even International Monetary Fund work on the subject. That research shows, at a statistical level, that the countries with the highest levels of inequality do not do particularly well. We are not talking about the opposite being complete equality, but extreme levels of inequality seem to be inimical to economic growth. That seems to have been demonstrated statistically.

The reasons for that are less clear, but one reason is that huge inequalities are a disincentive to people who are not at the top of the scale. They reduce social mobility and create inherited wealth, which reduces incentives for people to get on. They also create all kinds of jealousies and rivalries, and they inhibit any sense of the public domain and collective action. We do not really know what the mechanism is, but those are some suggestions.

Dennis Robertson: Is the Nordic model probably less constrained in those areas? Do we require change to move forward, whether there is a no vote or a yes vote? If there is a no vote, a lot of radical change will probably be required. If there is a yes vote, perhaps the involvement of civic Scotland in a bottom-up approach such as Mary Hilson described will afford us that opportunity.

Professor Keating: Yes. One thing that strikes me about the referendum campaign is the huge mobilisation of civic Scotland on both sides. Whatever the outcome of that, we have already achieved something in the debate, as we are talking about those questions. That is one of the internal changes that I mentioned, which might make a difference to social cohesion—indeed, it might make a difference to economic growth. However, the model that we have had in the UK and the United States for the past 30 years, which is based on the idea that inequality is somehow necessary for economic growth, seems to be disproved by the international evidence.

Margaret McDougall (West Scotland) (Lab): Good morning, panel. I will continue on the subject of inequalities, welfare benefits and taxation in the Nordic countries. If Scotland was to adopt some of the Nordic countries' policies, what levels of taxation would there have to be to raise their levels of welfare benefits, for example?

Professor Keating: Taxes would have to be higher. There is no doubt about that. The model is costly, but people in the Nordic countries are generally willing to pay those taxes because they appreciate what they get back from them and because, if there are universal services,

everybody feels that they get something back from them. I do not see the Scottish Government's white paper facing up to that, but that is the implication of the model. It is very costly.

Margaret McDougall: Do you have a figure? Is it 60 per cent, or 70 per cent?

Professor Keating: It would depend on what you wanted to spend, but taxes would be appreciably higher.

The Nordic countries tend to have higher levels of value added tax and a very broad base for that, without all the exemptions that we have. Their income taxes tend to be a little bit higher than ours. The corporation taxes are not particularly high, but the general public pay higher taxes, and not just the rich people. Middle-income earners are also required to pay—and seem willing to pay—higher taxes than we pay in this country.

Dr Hilson: That has been politically controversial. It is not taken for granted. Since the 1970s in particular, we have seen the emergence of the anti-tax, anti-bureaucracy, anti-big-state parties—the populist right, which is now on the rise across Europe, especially in Norway. The Progress Party, or Fremskrittspartiet, has its roots in that type of politics, which became an issue in the 1970s and has not particularly gone away. The high-tax model is not universally accepted, by any stretch of the imagination.

John Nugée: Although Norway and the Nordic countries are not my forte, I have family in South Africa, and if you ever want to see an unequal country, South Africa before 1994 is probably the example of them all. The ability of the new, majority African National Congress Government in South Africa to do much about that depended very much on where it started. I agree with my fellow panellists that it is important that we do not idealise the Scandinavians, but we should also realise that they are where they are and that it is less difficult to stay with a social democratic model than to build one starting from where Scotland is starting.

Mr Robertson asked whether Scotland needs to be independent to change. Well, you do still have a Government in London and it is not written in the stars that it will always be a right-wing Government. I offer the thought that the UK has had social democratic Governments and they have tried to make changes. They have had some successes and they have found difficulties. Scotland is not sufficiently different from the whole of the UK in that regard. The challenge of maintaining a social democratic model, as the Nordic states do, is different from the challenge of building one, and South Africa has proved that that is a difficult job because you always have to undo vested interests before you build the new Jerusalem.

Chic Brodie (South Scotland) (SNP): Can I come in on that?

Dennis Robertson: Convener—

The Convener: Hold on a second. I will let Margaret McDougall ask her next question, then other members can come in with supplementaries.

Margaret McDougall: Raising tax and out-of-work benefits will have only a limited impact on inequality, particularly in a small country. I know that we have to change incomes, and we heard in previous evidence that a cleaner could earn around £16 an hour in the Nordic countries. How do we change incomes within our society as it is at the moment? A lot of negotiations go on between unions and Governments in the Nordic countries. How do we change the culture in this country so that we have more equal levels of income?

Professor Keating: You need to have more national-level bargaining, and more social compromises need to be struck at the national level. We have almost none of that now. We have almost no Scottish-level collective bargaining. The Nordic countries are changing in that respect—the old big bargains are gone—but nevertheless there is a lot of benchmarking. If wages are set in one sector, the other sectors tend to follow it, so not all the national bargaining has been dismantled. Also, the minimum wage, which is what we call the living wage—that is, an enhanced minimum wage—is quite important.

People have talked a lot about culture, which is a slippery concept. It is true that there is a different culture in the Nordic countries, but that did not come from nowhere. It is not primordial. It came about through practice and learning over time. Changes in attitudes come about because we do things that work and then we build on them over time. It sometimes takes quite a long time to build up those changes in attitudes and practices, but we have to start somewhere, and I think that we start with the institutions.

Whether Scotland becomes independent or has more devolution, we need to think more about the institutions of government in Scotland, which have been given surprisingly little thought since devolution. We have the Parliament, which makes a big difference, but the way in which government works and the way in which it relates to society have not been given enough attention.

Margaret McDougall: You think that more could be done with the powers that we have now.

Professor Keating: Yes.

10:00

The Convener: Two members want to ask supplementary questions—Chic Brodie and Dennis Robertson. I ask them to be quick.

Chic Brodie: As somebody who ran companies and dealt with companies in Nordic countries, I want to debunk the high-tax myth. Is it not true that both earnings and social incomes are very much higher there, and that the growth element, which we seem never to discuss, mitigates the effects of the so-called high-tax system?

Professor Keating: I do not have the figures with me—they might be in my papers; they are somewhere—but I can say that it is clearly the case that the overall burden of taxation and public expenditure is higher in the Nordic countries than it is in the United Kingdom. There are higher standards of living, generally, in the Nordic countries, so you might make the point that people can afford to pay. That was my point. They do not like paying taxes—no one does—but there is a willingness to pay taxes if people see that they are getting something back and that tax is a contribution to investment in the future. People in this country seem not to see that, so they do not tolerate higher taxes. There might be toleration of higher taxes in the Nordic countries, but there are higher taxes—that is inescapable.

Dennis Robertson: You said that we might not always have a right-wing UK Government. However, Labour has said that it would continue the austerity programme, and the current system probably would not change under Labour. If Scotland became independent, there would be not an immediate change but a transition, during which we would look at income generation, getting people into employment and taxation. As I said, I do not hold out hope of much change under Labour, because the position of the current Labour Opposition is nothing like what John Smith proposed.

The Convener: That was more of a political statement than a question.

Dennis Robertson: Perhaps. It was just that John Nugée mentioned the Government and transition.

Dr Hilson: We are talking about a social democratic Nordic model, but social democratic parties are not currently in government there. There is quite a right-wing Government in Sweden—it is explicitly right wing. There will be an election later this year and it looks as if there might be a change of Government. There was a change of Government in Norway last year from a Labour Party Administration to the Conservative Party, with the support of the populist right. This is the only time that the populist right has been in Government.

In Finland there is a broader coalition, and Denmark has a social democratic Prime Minister. However, the big political change in the past 20 years in the Nordic countries has been the significant decline in the electoral success of once quite powerful social democratic parties—although it is really only in Norway and Sweden that we can talk about social democratic hegemony. Sweden is well known for having a dominant social democratic party, but that has not really been the case for a decade or so.

Chic Brodie: At least they have a choice.

John Nugée: Mr Robertson, you expressed the depth of your desire to be separate from us and your despair about the Labour Party in England. I recognise the strength of feeling against the blue side of my country, but I have to hope—because I am an Englishman—that somewhere south of the border there is a politician who knows what he is going to do. Do you despair of us all? [*Laughter*.]

The Convener: I think that we will leave that as a rhetorical question.

Marco Biagi (Edinburgh Central) (SNP): My question is for Dr Hilson. On Scandinavian political systems, it is fair to say that, although the Swedish centre-left parties—the social democrats—had many decades of pretty much unbroken rule, there were changes in other countries, such as Denmark. Even though there were centre-left and centre-right Governments during that period, did the broad model continue? Also, would you characterise centre-right parties in those countries as historically being more or less right wing than centre-right parties in the UK?

Dr Hilson: This is an example of where talking about the Nordic countries as one is quite difficult, because the political configurations in those countries have been different. In Sweden, there is the historically dominant Social Democratic Party, which is famous—many people have heard of Olof Palme. There is a similar party in Norway, which was strengthened by the experience of the war. The situation is comparable to the 1945 Labour landslide in the UK.

In Denmark, partly because of the slightly lower threshold for parliamentary representation, there are a lot more parties and broader Governments, but there too, at least in the post-war decades, there has been a strong Social Democratic Party, although it has always governed in coalition.

Finland has been very different, partly because the Communist left has been much stronger and there tend to be much broader coalitions, but also because the economic circumstances have been different. Iceland is different again.

The development of the Finnish welfare state happened later. That is where the Nordic aspect

comes in. The Nordic model means most within the Nordic countries. Co-operation informs policy and there is cross-border collaboration. That is why the Finnish system shows quite a lot of similar elements to those of the other Nordic countries, but it was not necessarily formed in the same way by a strong social democratic party.

Professor Keating: There have been changes in the Nordic model. In the early 1990s, following a serious recession, there was quite a lot of retrenchment across Scandinavia. It was from a very high level, but there was a fall in the levels of public expenditure and taxation. In Sweden, there was a move towards new public management—a bit like with new Labour in England. There was a lot of contracting out, with universal services but also private provision and free schools. That has been important.

Dr Hilson: It was very influenced by new Labour.

Professor Keating: Yes. It is a very different way of delivering public services, but nevertheless it is publicly financed through taxation. It is very much like the new Labour model in England.

Elsewhere, centre-right parties have come in with radical ideas but been pulled back to the centre again because of the inertia of the social democratic model. That is what happened in Denmark. There have been big changes. The model is not what it was in its heyday in the 1970s. There is diversity, but nevertheless we can say in general that the Nordic countries have higher levels of public expenditure and more generous levels of public services, even into the 21st century, than we have in the United Kingdom.

Dr Hilson: In Denmark in particular, we can really see a political shift. In 2001, there was a centre-right Government but with the support of the Danish People's Party, which has perhaps most explicitly promoted an agenda of welfare chauvinism or welfare nationalism and is quite explicitly anti-immigration. That has shaped the debate profoundly, especially in Denmark, but there are signs of it elsewhere, too.

Professor Keating: Indeed. It is absolutely true that there are those right-wing populist parties, but they tend to be pro-welfare. They want to exclude immigrants, but—

Dr Hilson: They are pro-welfare, but not pro the universal welfare state.

Professor Keating: Yes. It is a common feature of the new right in Europe to be in favour of welfare spending, but only for particular groups of people.

Dr Hilson: Yes.

The Convener: This is great. I love it when witnesses discuss things among themselves—we can just go away.

Professor Keating: We are agreeing.

The Convener: The last supplementary on this topic will come from Joan McAlpine, after which we will move on.

Joan McAlpine (South Scotland) (SNP): You have talked about the development of a political consensus. John Nugée talked about South Africa before 1994 and the attempt to change to a different model. That is not applicable to Scotland, because we are already going down a social democratic road in the sense that universal services have been very much a part of the decisions that this Parliament has made. Independence would allow us to move further down that road and to entrench it, whereas the culture in the rest of the UK seems to be going in the opposite direction. We are not starting from scratch; we are continuing a process that is perhaps difficult to continue as part of the UK, which is going in a different cultural direction.

John Nugée: Clearly this country is nothing like South Africa—I would not suggest that it is. However, I wanted to bring in that example, because it shows the challenge of bringing together all the moving parts of an economy—political, economic and financial. The Government in South Africa started with the very best of intentions. It had to not only change the mindset of the people but maintain an economy while it was doing so. The lack of progress in South Africa can be laid at the feet of economic reality, if anything—you cannot throw everything up in the air at once. That is also an issue here in this country.

You are changing gradually. The challenge will be to maintain the patience of the people while you do so. There is a danger that, the day after independence, everybody might say, "It's all right now—we can do what we want." There is the challenge of changing the political economy while maintaining the ability to pay for it. Maintaining the patience of the people has proved to be the biggest challenge for the South African Government. Although an independent Scotland would not be in anything like the same position, it would still have to match expectations to reality.

I note that that is the difference between Scotland and the Nordic model, to follow up on what Dr Hilson and Professor Keating have been saying. With the Nordic model, the people are familiar with a social democratic model, and current Governments that are not particularly social democratic are finding that the inertia of the people is preventing them from changing very much. You might find the same but the other way round—that you have a vision of a social

democratic model for Scotland but you have to work with an inertia in the economy.

Joan McAlpine: I guess that what I am saying is that it is not a vision of a social democratic model; the Parliament is already trying to pursue a social democratic model, within the powers that it has. There is quite a lot of agreement that that is a consensus within Scottish society and Scottish culture. That is why we are committed to universal services and why we have not gone down the road of privatisation in the national health service. We are not moving from one system to another; we are trying to hold on to what we have and develop it. It is not actually a huge cultural leap.

John Nugée: It is not anything like as large, and clearly I am not suggesting that Scotland is like South Africa. However, the inertia of what you start with is important. You have a social democratic model, in many senses, that you do not want to dismantle, but you clearly want to build more.

Professor Henderson: On that point, the parallels between Scotland and Quebec extend beyond economic reactions to the referendum to include the arguments that were made at the time in Quebec, which were similar to the arguments that are being made in Scotland. The arguments that surfaced in Quebec were, "We have political values in this province that are completely different from what people in other provinces believe; we are far more social democratic; we have a Quebec model that is more like a Nordic model; we are introducing universal day care for 5 Canadian dollars a day; and we have lower tuition fees than anywhere else in the country."

However, there is a problem if the Government has a certain level of autonomy and is able to do something with that autonomy—for example, if it is able to make positive changes to language legislation so that the education system is structured along the lines of linguistic boards, which means that there are more people in the French education system than in the English education system. If the Government is able to make those kinds of positive changes while remaining within Canada, that undermines the argument that Quebec needs to be outside Canada in order to continue on the path that it has begun to go down. The arguments were made in exactly the same way in Quebec, but the voters thought, "You are right—you've been working in that way and you've been doing a good job, so why don't you just continue with what you're doing?"

Alison Johnstone (Lothian) (Green): I will address my first question to Professor Henderson. I know that it is a while ago now, but following the 1995 referendum on sovereignty partnership in Quebec, the result was 50.6 per cent no and 49.4 per cent yes. How did people work together after such a close result? What was it like in the days and weeks afterwards?

Professor Henderson: That is a great question. Different sides reacted in different ways. One thing that helped tremendously was that there was, with very few exceptions, unwavering faith in the ability of the Directeur général des élections du Québec—the equivalent of the Electoral Commission—to run a fair referendum process. That faith was absolutely integral to how people reacted.

We talk about loser's consent—how people who back the losing side regenerate positive attitudes to the democratic system. The fact that the referendum was deemed to have been conducted fairly was integral. The reaction of the losing yes side in 1980 was very different from in 1995. It lost by a larger margin in 1980 but was, strangely, more optimistic about it. It said that the result was a defeat but that it had the air of a victory and that the campaign would go on and it would fight the issue another day.

10:15

However, in 1995, the reaction was much more defeatist. In 1980, there was a sense that the yes side could try again but, in 1995, there was uncertainty about whether it would try again. There was quickly a reaction from the yes side saying that it was committed to sovereignty and trying again but it would not put everyone through another referendum unless it had certain winning conditions: a leader whom people trusted; solid economic conditions—lower deficits and lower debt; and a clear lead in the polls. That statement helped because people thought that another referendum was not around the corner. Regardless of whether people supported it or not, everyone found it emotionally exhausting. Other people started to look into the referendum and ask whether there were any irregularities and whether there was anything that had not happened properly. It is surprising that the reaction was not more negative. Unwavering faith in the ability of the equivalent of the Electoral Commission to do its job was absolutely essential.

We saw the same with devolution in Wales, although the scale of the issue was different. There was no groundswell of dissatisfaction with devolution. The result was close and there was a change on the back of that close result, but the losers consented to that.

Alison Johnstone: You obviously feel that if people think that things have been run properly, the result is more acceptable to them.

Professor Henderson: That is absolutely part of it. There is always a question about changing

the franchise. If there is a close result, either way, people might ask what the result would have been had the rules not been changed, regardless of the principle behind changing them.

Alison Johnstone: I have a question for Professor Keating. John Nugée suggested that it was more difficult to build a system of social partnership than it was to maintain one and Professor Keating spoke earlier about the fact that collective bargaining is the norm in some of the countries to which we constantly refer during the debate. He pointed out that trade unions represent almost the entire population in some Nordic countries.

Could that happen in Scotland? One of the reasons why we are having the debate is that a significant section of the population is dissatisfied with the status quo. There is a desire and demand for change—not among everyone, but among a significant number of people. Could we achieve a cultural change to a collective bargaining mentality in Scotland?

Professor Keating: That is a difficult subject. Trade unions are in decline throughout the world, including in the Nordic countries. There, however, they start from a higher level, so membership is still much higher than it is here. The degree to which collective bargaining has disappeared in the United Kingdom is striking. Even in countries in which trade union membership is quite low, people identify with trade unions and collective bargaining continues.

Recently, in another project, I examined devolved Governments throughout Europe. Most of them have put in place structures that enable some kind of social partnership at the devolved level. Those structures are for devolution, not independence, and they vary enormously. They involve trade unions, the business community, civil society groups of various sorts and farmers—whatever the interests are.

The UK, and Scotland within the UK, is the great exception. We have dismantled almost all of that equipment. We used to have it in the 1960s and 1970s. Then people called it corporatism and it was a bad thing. Neither the Labour Government nor the Scottish National Party has tried to revive that, which surprises me a little.

There is a gap in Scotland, whether we are devolved or not. What struck me about the Grangemouth crisis last year was that the people involved were not able to sit together around a table because there was no place to bring all the interests—the unions, the employers and the public interest—together. That is a big gap and it needs to be addressed.

It is extremely difficult to rebuild those institutions once they have been dismantled. The best way to do it is to start gradually, focus on particular tasks so that we can deliver something in, say, the education system or whatever—it should be something that we particularly need to get together and work on—and show that that works. That is how you build people's faith. From that point, you can gradually build social institutions that function. Since devolution, there has not been as much of that as I thought that there would be. There has been some, but not much. That is an important task for this country, whatever the outcome of the referendum.

Alison Johnstone: I have a question for Dr Hilson. Obviously, one of the reasons for the higher rate of women's participation in the workforce in Nordic countries is the existence of better childcare. What are the other reasons?

Dr Hilson: It is important to note that the labour market in those countries is still quite segregated on gender lines. There are jobs that men do and jobs that women do. That has been a big division, historically, and that division continues. There are many more women employed in the public sector and more men employed in the private sector. That is one of the reasons why there is a gender pay gap, in some cases.

Very generous parental leave is often cited as another reason. One of the big differences between the situations here and there is that, over the past few decades, the debate has been about parental leave rather than maternal leave, and about making paternity leave compulsory to ensure that fathers take it up so that you do not get differences between men's and women's employment in that way.

On the other hand, however, there is the role of the much older historical and cultural patterns in agrarian economies, in which men and women have always worked and have always shared tasks in the household and on the farm. Those patterns might be very deep rooted. The Nordic countries are also cited as being particularly strong with regard to women's representation in politics and in government.

One of the reasons why trade union membership was historically so high was because of something called the Ghent system, whereby unemployment insurance was administered through the trade unions, which meant that people had to be a member in order to get it.

In the case of Sweden and Norway, the collective bargaining systems go back to two very significant agreements that were made between the labour market institutions: the Swedish Saltsjöbadsavtalet in 1938 and a similar agreement in Norway in 1935. There was nothing inevitable about those agreements. They came after a period of huge division, rivalry and

bitterness. For one thing, in 1931, the Swedish army shot and killed five of the people taking part in a workers' demonstration in the north of Sweden. For another, the Norwegian Labour Party had been a member of Comintern. Those sort of changes are possible. The 1930s were a very interesting watershed period in the wake of the economic crisis in the Nordic countries. People talk about the much more historically rooted aspects of the Nordic model, but it is also worth pointing out that big watershed. The early 1990s were another big watershed, although perhaps in the other direction.

Joan McAlpine: Professor Keating, you talked about trade unions and collective bargaining. Given that employment is reserved to Westminster, do you agree that this Parliament is therefore extremely restricted with regard to what it can do, under the current constitutional settlement, in terms of employment law, collective bargaining, trade union legislation and so on?

Professor Keating: Yes. Legislation was passed by Governments in the 1980s that undermined trade unions in certain respects but, in other respects, strengthened them by democratising them. Trade unions are now able to deliver more easily on whatever bargains they make because they are obliged to take their members with them. Nevertheless, your point is right.

On the other hand, there are all sorts of things that go beyond labour law and industrial relations law, as narrowly conceived, that could be dealt with through social partnership. The most important one is training and active labour market policy, which we do not do terribly well here. No country in Europe does it very well, including the Nordic countries, and it is recognised as something on which work could be done. Often, it is delivered at a local or devolved level through partnership between the employers and the trade unions, which requires a change of attitude on the part of the employers. They must realise that, if they invest in training, they will benefit in the long run. It requires them to see that it is in their long-term interest to provide training. Similarly, the trade unions must recognise that investing in training is, in the long run, good for their members and for the children of their members.

Joan McAlpine: It has been said that because Scotland is a smaller country the lines of management are shorter, so it is easier for the Government to participate in social partnerships within the restrictions that are placed on us by employment law and that kind of thing. You mentioned Grangemouth. During the recent Grangemouth crisis, the finance secretary and the First Minister decamped to Grangemouth to get in about the problem, and there is a general acceptance that, within the limited powers that they have, they reached a solution. With the additional powers of independence, and because of the shorter lines of management, could future Scottish Governments create more easily than the rest of the UK the social partnerships that many people would like to see?

Professor Keating: We always tell ourselves that we are a small country in which everybody knows everybody else and there are good networks. However, when we look at it we see that it does not really work like that at all because we do not take sufficient advantage of those things. There are lots of policy communities in Scotland—within education, the law and social services—but they do not all join up terribly well, so we do not have the broad social partnership that would be desirable to make trade-offs and think about the connections among public policies. The fact that we are a small country makes that easier, but it does not mean that it always happens. It requires to be worked on.

The Convener: We need to move on.

Chic Brodie: I was interested in your comments on the choice of Governments in the Nordic countries. Unfortunately, we have not been able to choose our Government for 35 out of the past 71 years. There is a democratic case to be made for our being able to choose our own Government.

I want to ask Mr Nugée about currency. We know how the Scottish Government believes that we should interact in terms of a currency union with the rest of the UK. However, you have said that there are problems in that

"domestic capital markets are very limited".

If I remember my accountancy equation correctly, if the Government of the rest of the UK continues to say that there will be no participation in sterling and, therefore, we do not accept any of the liabilities that the UK accepts as its own, our assets will equal our capital. Why, with the huge assets that we have in Scotland, would there be a limitation on our tapping into the capital markets?

John Nugée: The question is what the economic agents would prefer if you had a full monetary union with the rest of the United Kingdom—in other words, the same currency under joint management. The capital markets used to be more widely distributed and there were stock exchanges in Glasgow, Birmingham, Bristol and elsewhere. However, increasingly, there has been benefit in centralisation because of the economies of scale and all of that. In the current sterling area we have one capital market, and if you stay within a monetary union I see no real potential for setting one up in Scotland.

Chic Brodie: The UK Government is saying that we will not stay in a currency union.

10:30

John Nugée: Okay. That is a sterling monetary union. If, however, the rest of the UK Government says no, there is absolutely nothing to prevent an independent Scotland from using sterling, which would be sterlingisation. However, economic agents who want to raise money will say that there is a perfectly good stock exchange in London, with a bigger pool of capital. Anybody who tried to set up capital markets in Scotland would struggle to find people to participate.

Under any system of dollarisation, sterlingisation or euroisation, the smaller country does not by any means lose its financial system altogether. You have a strong financial system in Edinburgh that focuses on areas that do not need to be centralised, such as asset management, insurance, life assurance and fund accounting. There is a very powerful financial industry here in Edinburgh, and sterlingisation would not destroy that. You would keep all that, and the industry might even grow and have renewed vigour. I am saying that it would be unusual for a country that adopted another country's currency to be able to set up vibrant capital markets because—

Chic Brodie: I am asking about tapping in. Given that we would have no liabilities and given our assets, we could tap in to the capital markets, which could be in London, New York or anywhere.

John Nugée: But those assets are already somewhere else, and they would stay somewhere else, if they are financial assets. Of course, if they are not financial assets, they will stay here. However, the financial assets of your people and companies are currently invested in markets outside Scotland.

Chic Brodie: It is the physical assets that I was—

John Nugée: The physical assets will stay here, but I was talking about financial assets and financial markets.

Chic Brodie: Okay—I understand.

In your written submission, you highlighted that, with European countries that have won independence,

"In almost every case, the new states established new currencies."

However, you go on to say:

"But in general the currency they left behind was unattractive or failing".

Given Scotland's superior trade position, in that it has a surplus rather than a huge deficit; its fiscal performance in relation to the rest of the UK; and that the rest of the UK would be left with in excess of £1.3 trillion of debt, what would happen to sterling if Scotland was not involved in it?

John Nugée: I think that most of the rest of the world does not have your intimate insights and would assume that 8 per cent of the United Kingdom was leaving, which would have an effect on sterling, but not an earthquake effect. It would remain an internationally accepted currency that was run by an internationally respected central bank, with internationally utilised markets. I do not think that sterling would be unaffected, but I do not think that it would be destroyed.

Chic Brodie: Thank you.

Professor Keating, we have talked about things such as trade unions, corporatism and what have you. One interesting feature in recent years has been the growth in social enterprise and the participation of employees—that could be described as the marriage between capital and labour in some organisations. Would that trend continue and what advantages would it bring to an independent Scotland?

Professor Keating: In recent years, the trend has been towards having only one kind of business, and the UK and US have probably gone further in that than other countries. For example, we have only one kind of bank, whereas we used to have a diversity of types. Certainly, countries with a diversity of types of enterprise are more resilient in the face of shocks. I am referring to things such as social enterprises and co-operative enterprises, which have a bad name at the moment because of the travails of the Co-operative Group but which in principle are a different way of organising. Joint-stock banks that failed were considered to be a failure not because of the co-operative principle but because of bad management. Particularly in a small country, it is important to have a variety of types of enterprise, because if a country is reliant on one sector or type of business and it gets into trouble, the whole economy is in trouble.

Were Scotland to become independent, it would be important to have diversity and a large network of small and medium-sized firms rather than just rely on large firms. Diversification would be absolutely critical, but it would also be important if Scotland did not become independent. It is really important for the country, whatever the constitutional position.

Chic Brodie: I have one last question.

The Convener: Briefly.

Chic Brodie: Professor Henderson, at the end of your submission, after looking at bond yields,

inflation, investment and so on, under the heading "Does any of this matter to voters?", you state:

"There is also significant evidence that these economic consequences are less influential in determining referendum vote choice than national identity".

What is that significant evidence?

Professor Henderson: Do you mean what data do we have?

Chic Brodie: Yes.

Professor Henderson: We can gather together the data from all the referendum studies that have been done. There are different kinds of constitutional referendums—some relating to self-determination and some dealing with significant constitutional change. For example, some people consider electoral reform to be significant constitutional change. Other such issues include membership of the European Union, changing to a different currency, the constitutional treaty of the European Union and the referendum to change the head of state in Australia.

If we look at all those examples, we find that people pay more attention to economic indicators in elections than they do in referendums. Specifically on referendums about euro membership and about self-determination—some people would see euro referendums as self-determination referendums of a different kind—national identity trumps people's perception of the economic consequences of the change.

Marco Biagi: The Scottish social attitudes survey suggested that, if people thought that they would be economically better off, they would vote yes, and that the national identity is already there, as more people feel Scottish rather than British. That is why the debate on independence is possible, but the crucial question for people in Scotland is whether they would be economically able to afford it. Does that have any parallel in Quebec, or is that something that you would disagree with?

Professor Henderson: There are a couple of answers to that. The parallel is not the 1995 referendum in Quebec but the 1980 referendum there. There was a lot of research saying, "These are the terrible economic consequences that will befall you if you become independent." The finance minister at the time, Jacques Parizeau, who then became the Premier of Quebec and who was Premier when the 1995 referendum was held, said, "Okay, sure, it's gonna cost you, but it's gonna cost you the equivalent of a case of beer in a month. Is having your own country not worth a case of beer in a month?"

There is an argument about how to frame economic gains and losses. The thing about the £500 question is that it is a number plucked out of the air. We are working on a survey, which will go into the field soon, in which we will take some of the results of the economic modelling that our economics colleagues are doing to see what the actual costs are likely to be and ask people whether, under those circumstances, they would be more or less likely to vote yes or no. Some people are still likely to vote a certain way, but they may be less satisfied with their choice or less certain about it, and they may move but not necessarily tip over into a different vote choice.

Chic Brodie: Can I re-emphasise—

The Convener: You cannot re-emphasise anything. You can ask a question if you like.

Chic Brodie: I shall repeat the question: based on that evidence, is it the case that national identity is more important than economic consequences?

Professor Henderson: The lesson from Quebec is that people pay less attention to economic indicators. Their national identity is more important, as is their evaluation of the leaders of the campaigns. Trusting the person who is arguing for a no or yes vote is more important, and that lesson extends beyond Quebec to other constitutional referendums. People have to trust what they are being told. There is a difference between the messages about risk, the message itself and the messenger.

Richard Baker (North East Scotland) (Lab): There are certainly interesting resonances in the debate that took place in Quebec.

My first question is for Professor Keating. We have heard a lot of debate on the desirability of moving to a social democratic model in Scotland. I could debate the social democratic credentials of the current Scottish Government but, looking to the future and at what is being promised or proposed, the white paper talks about a more generous welfare system and makes lots of promises in that area, but it also talks about a cut in corporation tax. However, it is not clear how a more generous welfare system could be afforded within the proposals in the white paper. To what extent do you believe that the white paper offers a move towards a social investment state in a separate Scotland?

Professor Keating: The economic strategy is critical to the viability of an independent state, so the issue is not just about the constitution; it is about whether there is an economic prospectus and a social model. There are two ideal types, which do not exist in real countries. Countries can go for the low-tax model, compete on the basis of low taxation and attract inward investment that way, which is what the Baltic states and some of the transition states of Europe do, or they can go for the social investment model, which may or may

not be social democratic and egalitarian but which involves a lot of investment, a high cost and brings in different types of investment. However, the two cannot be combined, so a choice has to be made. My criticism of the white paper is that it is a hybrid of those two models and they do not fit together very comfortably.

Richard Baker: So, in that sense, there is a lack of coherence in the plans in the white paper when it comes to providing a model that works.

Professor Keating: Yes, and the electors have to decide whether to vote for independence and then afterwards adopt either model. Alternatively, are they voting for a particular model as part of the independence prospectus? That is not clear.

That is one reason why the electors are a bit hesitant. They do not understand what independence would mean, because there are different models of independence. Within the independence campaign, there are different strands about whether we should keep the pound, what we should do with taxation and so on. Those are perfectly valid differences in a democracy, but it means that the debate about independence gets tangled up with a debate about what kind of policies we pursue in an independent state. We could say the same about the no side, but the onus is on the yes side to explain that, because it is proposing the change.

Richard Baker: From what Professor Henderson said about Quebec, people want to have clarity—particularly from those making the change—about what independence will mean. You are saying that that is not there from those arguing for a yes vote and that there is certainly not a coherent vision in the white paper.

Professor Keating: Indeed, and the citizen will have to decide whether the outcome will be a balance of forces that will give us one model or a balance of forces that will give us the other model. That is a very difficult decision for the elector to make when they do not have packages of policies that are clearly presented and attached to constitutional options, because the constitutional options cross-cut the left-right division in all sorts of ways.

Dr Hilson: That is why it is important to be cautious about how the foreign models—which are usually ideal types—are used, and how they are used rhetorically. Someone can use the idea of a Nordic model to say, "We see that as a social democratic idea and we want to go there." Alternatively, someone can say, "We are there, because we are somehow social democratic—that is what we are like, so we should be there." However, such a model can also be used by other sides. The UK coalition has been very interested in many aspects of Nordic policy since 2010. David Cameron had a Nordic-Baltic summit in 2011 and there has, for example, been a lot of talk about free schools in Sweden. Those devices are used rhetorically in different ways, and sometimes with a lack of clarity about what they mean. There is a long history of that happening.

Richard Baker: That suggests to me that, in politics, we should be very cautious about learning lessons from Nordic examples.

I have a final brief question for Professor Henderson. Where is the national debate in Quebec now? It has obviously had the two referendums. What is the view of people in Quebec now? Do they want another referendum? Are they still interested in the constitutional change debate? Is there still a desire for a separate state in Quebec?

Professor Henderson: It has just had an election. Support for independence or sovereignty partnership is down, particularly among younger people. The reverse used to be the case in Quebec. The pattern of public opinion was very similar to the pattern here, so 18 to 24-year-olds were more supportive of independence and support decreased with age. However, that is no longer the case in Quebec. We are finding that younger people are more likely to feel Canadian and Québécois and are less supportive of independence. The electoral success of the Bloc Québécois has tailed off significantly.

The Parti Québécois was elected as a minority Government a year ago and polls suggested to it that it should have an election because it would win a majority, but it was absolutely devastated at the polls in the election last month. That is partly to do with people's views on independence and partly because there is a third party on the scene that is pulling away some of the support. The fortunes of the Parti Québécois are therefore partly to do with how people feel about independence and partly to do with where they are on the left-right spectrum and moves that are happening on that, as well as the appeal of the new Coalition Avenir Québec. So there is no sign of the winning conditions.

10:45

In the recent election campaign, there was confusion about whether a majority Government win for the Parti Québécois would mean that there would be another referendum. One candidate announced that there would be, which seemed to take everyone by surprise, and the Premier said, "Maybe; maybe not." There is certainly no sign of a referendum any time soon, because the party is not in government, but the support is not there. As one of the conditions is, "We won't put you through

this unless we know we can win it," a referendum seems a bit of a way off.

Richard Baker: With that happy news, convener, my questions are finished.

Mike MacKenzie (Highlands and Islands) (SNP): I have another question for Professor Henderson. We know that migration from other parts of the UK to Scotland has been increasing in recent years, and that the level of inward investment in Scotland is the highest in the UK outside London. That seems to suggest that people view independence as an opportunity rather than a risk. Do you agree?

Professor Henderson: I certainly will not comment on what is going on in the minds of people moving, but I can say that there was no significant out-migration among the Anglophone population in Quebec surrounding the 1995 referendum.

We have had various periods of uncertainty in Quebec. It happened in 1976, when the Parti Québécois was first elected, which was the first election of a separatist party, and around the 1980 referendum that resulted from that. It also happened during the constitutional debates in the early 1990s and the referendum in 1995. At that time, there was no significant out-migration, and people were not abandoning Quebec. However, significant out-migration occurred in the much earlier period when the Parti Québécois was first elected and we had the first referendum, as people did not know what was happening.

Mike MacKenzie: I am not asking you to be a mind reader, but surely, on the face of it, the increase in migration to Scotland and in inward investment in recent years tend—at a simplistic level—to suggest that people see independence as an opportunity rather than a risk.

Professor Henderson: Or it could mean that they are not thinking about it at all. As a migrant to Scotland, I can speak only for my own mind. They could well think, "Well, it might happen or it might not, but I'm going anyway."

Mike MacKenzie: Okay. Going back slightly, I understand that you previously told the BBC that, when someone talks about one or two risks, people pay attention, but when they talk about three, four or five risks, they begin to lose credibility.

Professor Henderson: Yes—absolutely.

Mike MacKenzie: That seems to be a fairly close description of what the no campaign is doing. Do you feel that there is a danger that the no campaign will lose credibility by overegging the pudding?

Professor Henderson: The clear evidence from Quebec is that the more people hammer different types of risk, the less effective they are. If someone goes in with one risk or two, people pay attention, but the effect then tails off.

We will test that with our survey in the field. We will mention up to seven risks, as we want to know where the shut-off point is. Do people stop paying attention at three risks or four? Does it make a difference if there are different types of risk—economic risks versus political risks? Rather than push people away, does that start to annoy them so much that it brings them back to what someone was trying to push them away from to begin with? We are looking at accumulator and shut-off effects in our research, and we can come back to the committee on that later.

Mike MacKenzie: I am sure that there is a book in that, and I look forward to reading it. My final question is—

The Convener: Sorry, Mike, but before you ask that I just ask Professor Henderson when that research will be published.

Professor Henderson: We will be out in the field with the survey this month, and we have a dissemination event tentatively planned for later this month, although I think that it might be postponed until June—I am looking at Michael Keating, because he is in charge of it. It will be published soon.

The Convener: Okay—thank you.

Mike MacKenzie: My final question is for Professor Keating, who talked about the various models. There is not one Nordic model, but I think that, generally, there is greater female participation in the labour market in all the Nordic countries. Is any economic benefit associated with that?

Professor Keating: Yes—absolutely. If we look internationally, we see that there is a huge economic benefit from increasing participation in the labour market. That particularly affects women, who are underrepresented in the labour market. Similarly, excluding young people from the labour market is very costly. That is a problem that Sweden currently faces. With social investment, money may need to be paid up front in order to get women or young people into the labour market, but there will be a pay-off in the long run, as that enhances economic output.

The Convener: The last questions are from Marco Biagi.

Marco Biagi: I want to ask Professor Keating a quick question before I go on to the questions that I wanted to ask. How is the research that was referred to being gathered? Is there an internet

panel survey? Professor Henderson said that you are in charge.

Professor Keating: I am in charge of the whole programme, but I will refer the question to Professor Henderson.

Professor Henderson: The survey is an internet poll of 2,000 Scots. It is a risk and constitutional attitudes survey.

Marco Biagi: What company is doing it?

Professor Henderson: We have not commissioned it yet. We are in negotiation with the two finalists on quotes this week.

Marco Biagi: I want to ask Dr Hilson a question. In 1990, Sweden had a major banking crisis that required a 64 billion kronor bail-out. At the time, did anybody argue that Sweden could not afford that or that it was too small to rescue its banking system?

Dr Hilson: No—not as far as I know. The early 1990s were an enormous watershed in Swedish politics. The recession was also severe in Finland, where it was exacerbated by the collapse of the Soviet Union and Finland's market there. In Sweden and Finland, the financial crisis was partly caused by a credit bubble, deregulation and expansion of credit in the late 1980s.

I am not an expert in the slightest in those areas of finance policy. However, looking back on things in 2008, the then Swedish finance minister was quite widely interviewed as an example of how to respond. In particular, there was the banks' response in splitting up their bad aspects and the more stable ones. I am afraid that I do not know the details of that so much, but the centre-right Government that was elected in 1991 had a lot of neo-liberal rhetoric and there was some welfare state retrenchment, but there was perhaps less than was achieved in the long term.

Marco Biagi: Did the crisis feed into that election result? Did Sweden decide to change its Government rather than its constitution?

Dr Hilson: Yes, and many other changes happened around that time. In 1990, there was the decision to seek membership of the European Union. The constraint on that before had been neutrality. Many things changed around then, with the end of the cold war and the collapse of the eastern bloc and the polarised system. It was also a period in which many aspects of Swedish recent history were questioned. That was related to the change of Government, as well. However, that was very short lived. The 2006 election was quite significant, because there was the re-election of a non-social democratic Government.

Marco Biagi: Finally, what would your assessment be of the politics of someone in Sweden, Norway or Denmark who suggested, "We are better together"; that size confers many advantages; that the countries share a mutually intelligible language; and that the Kalmar union should be refounded to create a united Scandinavia?

Dr Hilson: That has been proposed. In 2010, Gunnar Wetterberg wrote a debate article in the Swedish daily *Dagens Nyheter*, which was published in the Nordic Council's yearbook, in which he proposed a united Nordic federation. His argument was that they would then have a seat in the G20 and that the Nordic region would be better off. There were a few minor hitches, such as where the capital would be, and a few things to overcome.

Marco Biagi: Would you say that the popular reaction to that proposal has been overwhelmingly positive?

Dr Hilson: It has not been overwhelmingly negative. We have seen much greater interest in Nordic co-operation. That is not so much in respect of the Nordic Council, but there have been three influential reports on Nordic co-operation in the past few years, and there have been initiatives on co-operation, particularly in foreign and security policy. That was never possible previously, because there were the NATO members and the neutrals. It was unthinkable in the cold war. There is now much more talk about shared interests in the Arctic and the high north, for example. Wetterberg also proposed a currency union.

I do not think that anybody is seriously suggesting that we would see a united Nordic federation, but the proposal has not provoked outrage—perhaps more indifference. As I said, it sparked a debate about the deepening of Nordic co-operation, which was off the agenda. In the early 1990s, Nordic co-operation was all about Europe and the Baltic. Things change quickly.

The Convener: We are slightly over time, so we will call it a day.

The session has been absolutely fascinating, and we could go on for a lot longer if time allowed, but I am afraid that it does not. On behalf of the committee, I thank all the panellists, especially those who had a journey to be with us. It has been very useful to the committee to have you here.

We will now have a short suspension.

10:56

Meeting suspended.

11:03

On resuming—

The Convener: I welcome our second panel. John Downie is director of public affairs at the Scottish Council for Voluntary Organisations; Kyle Thornton is a member and chair of the Scottish Youth Parliament; and Danny Boyle is parliamentary and policy officer for Black and Ethnic Minority Infrastructure in Scotland.

We have about an hour and 15 minutes for this part of the meeting. Despite our having some time in hand, I ask members to keep their questions short and to the point. Short and to-the-point responses will also help us to get through the subject areas that we want to cover. I ask members to direct questions to particular panel members; if another witness wants to respond, you should just catch my eye and I will bring you in, as time allows.

Your written submissions all talk about the need for a better and more balanced economy. We have been through a serious economic recession, and as economic growth starts to return people are seeing an opportunity to make changes. Do we need constitutional change for that to happen? If so, how much? I put that question to you all; perhaps John Downie can start.

John Downie (Scottish Council for Voluntary Organisations): That is an interesting question, convener. We do not need constitutional change if nothing is going to be done differently. The key point is that if we want to create a fairer and more prosperous Scotland, in which everyone gets the benefit of our collective prosperity, we need to do the economy differently. Whether or not there is constitutional change, unless we make a radical shift we will still consign 870,000 people in Scotland to living in poverty. The key issue is not constitutional change—although that is the context of this discussion—but Government and Parliament really thinking about how to restructure our economy radically.

I took part in an event with the Cabinet Secretary for Finance, Employment and Sustainable Growth a few weeks ago, and his first message was that we need to put social justice at the heart of our economic strategy, just as he says that we must put people at the heart of our public services. That is key. Our economy needs to change. That can happen whether there is a no vote or a yes vote on 18 September, but significant and radical structural change is needed.

There is a pull-out in today's *Financial Times* about lack of trust in big corporate businesses. It is another indicator that the current economic model, which failed us in 2008, needs to change.

The Convener: Let us not ask people about trust in politicians.

With our previous panel we talked about international experience and heard a lot about the Nordic model. There was much talk of the need for greater engagement of civic Scotland in developing the economy. I presume that you agree that there is such a need.

John Downie: We certainly agree with that. Whether we are talking about the creation of more social enterprises and employee-owned co-operatives or other approaches, if we are to address economic issues and tackle poverty we need people to have much more say in and control over their lives. That might involve participation in budget decisions, as happened in Edinburgh recently in relation to the third sector, which was a great innovation.

We can talk about how the Nordic model works in a number of contexts. People talk a lot about the Nordic model of welfare, for example, in which there is strong conditionality. They also talk about how the private sector runs half of the fire service in Sweden. I do not think that we can say that there is a single Nordic model that will work for Scotland; it is not that simple.

We need to look at our problems, and in the context of the economy we must think about how we could create much more resilient communities and local economies. We think of the economy as being one great big entity, when in reality that is not so—we have a national economy but we also have regional economies, such as the Aberdeen economy.

We also need to use Scottish Government spend to drive economic growth, whether we do that through procurement or other strategies. For example, the announcement on childcare was welcome. It is great that more money is being offered and that more women will get back into work. However, where is the strategy alongside that, to help women in the poorest communities to create small businesses and social enterprises to deliver nursery services, for example? An announcement is made, but how do we use it to drive the creation of social enterprises and co-ops in communities, and to ensure that people can create jobs for themselves? There is no easy answer; it is about a culture shift and dynamic change in the economy.

Kyle Thornton MSYP (Scottish Youth Parliament): I agree with John Downie. Young people are telling us that, regardless of the constitutional settlement, they want a fairer and more equal economy. That is about better wages and, for young people, it is about equality of pay. At the moment, young people are discriminated against on the basis of age when it comes to the

minimum wage requirements that the Government sets. A focus on education and investment also comes through—for example, investing in higher and further education, in apprenticeships and in employer-led training.

As regards the constitutional debate, young people are asking economic questions of all those who are participating, and they want to hear the answers. Does the constitution matter? I will take the get-out clause on that question and say that it is for young people themselves to decide whether it matters. Regardless of the constitution, we hear calls for a fairer and more equal economy, in which young people are recognised as being equal economic partners and where investment is made to allow young people to reach their full potential.

Danny Boyle (BEMIS): I convey the thanks and acknowledgement of BEMIS. We are delighted to have been invited to participate in this committee meeting.

I will begin with a technical point. The name of the organisation comes from "Black and Ethnic Minority Infrastructure in Scotland", but BEMIS actually stands for empowering ethnic and cultural communities in Scotland. Prior to the release of the 2011 census figures, we embarked on a consultation of our membership to clarify whether they were comfortable with the organisation's name including the phrase "black and ethnic minority". Our members from an African heritage wish to be represented according to their African heritage and culture, rather than according to the colour of their skin, so BEMIS no longer stands for Black and Ethnic Minority Infrastructure in Scotland.

The Convener: I apologise.

Danny Boyle: No problem—I am happy to clarify that.

We take a neutral stance on the debate that is going on in Scotland on the referendum. In line with the SCVO and other organisations that are represented here today, we have not provided a policy memorandum, as such, about the future of Scotland's economy. Our motivation has been to ensure that Scotland's diverse communities participate in the referendum debate. We have held a series of white paper consultations, which began in January, and a report has been finalised. We will be happy to share that report with committee members over the next couple of days. We will continue with that work in the future.

It is important to remember that ethnic minority communities do not exist in isolation from the broader Scottish society and populace. The issues that are being discussed here are those that affect our membership across Scotland.

It seems from hosting the white paper consultations that there has been some ambiguity about what the issues are. The two major political parties—the SNP and Labour—seem to be stuck in a battle of semantics, albeit that the constitutional debate is the backbone of the discussion. The rhetoric from both those camps—without being disrespectful to the other political parties that are represented around this table, or that also form part of the yes Scotland or better together campaigns—shows that they are both striving for a society that is based on the foundation and idea of social justice.

Our role in the debate is to continue the consultations of our membership and to engage politicians in both the yes and better together campaigns, and get Scottish Government ministers or party officials to come out to speak to communities to outline why the constitutional change that each side is advocating is the best premise for developing that idea of social justice in Scotland.

The Convener: Thank you for that introduction. I am sure that we will pursue a number of those issues in the course of our questioning.

11:15

Dennis Robertson: John Downie mentioned civil justice. I will direct my question to Kyle Thornton. The Scottish Youth Parliament is keen to see how we engage with civic Scotland. "Scotland's Future: Your Guide to an Independent Scotland" sets out a vision and talks about engaging all communities—local government, business, young people and people from minority groups—in establishing a written constitution. The referendum provides the opportunity to do so and to take forward an agenda for social justice in Scotland. I take the point that there is maybe not much between Labour and the SNP in relation to social justice, but from a constitutional point of view there is obviously a difference, because we in the SNP believe that we require the levers of an independent Scotland in order to achieve social justice. Do you agree with what the white paper set out—that we should engage with our communities to establish a written constitution? If so, what would you like the first elements of that constitution to be?

Kyle Thornton: We do not have a position in terms of responding to the white paper. We are a neutral organisation and we try to represent all young people's views. If the country were to pursue a written constitution, the Scottish Youth Parliament would obviously want young people to be involved in that. We believe really strongly in co-design. That would certainly give us an opportunity to get young people more involved and to bring about civic action.

A constitution is such a wide and varied document that I would not do it justice by outlining what could be in it. However, for young people it is about ensuring fairness and equality in terms of rights. We would be particularly keen to include the right to vote at 16 in any written constitution. That would be a big plus.

If we were engaged in that—or in any other general constitutional, political or public policy task—we would be really keen for co-design to be a key part; we are really keen that young people be given the opportunity to play their part. Governments have given them that opportunity on occasion; for example, the Scottish Government's Wood commission held a young people's consultation day. Angela Constance, the minister with responsibility for youth employment, held a special conference for unemployed young people to feed into Government policy.

Co-design, especially where young people are at the heart of the policy, tends to produce better policy, because young people are given the opportunity to contribute to it. It also means that organisations such as ours can go back to our constituencies and communities to interact with young people at the grass roots. A constitution or a consultation document might not mean that much, but we can turn it into something that young people can engage with and which is more youth friendly and works for young people. We can then feed it back into the general public policy process. Without going into the constitutional side of things, I would certainly be in favour of co-design, if we were to establish a written constitution.

Dennis Robertson: Do you see the referendum as affording an opportunity for change, regardless of the outcome?

Kyle Thornton: The referendum is giving us the ability to have a national discussion about what will Scotland look like. Regardless of whether the result is a yes or a no, what I have found to be a real positive when we have been engaging with young people through our "aye, naw, mibbe" project, through democracy days in schools, colleges, universities and through work with young people in work places, is that as well as having the debate about whether Scotland should be independent, we are having a much broader debate about what kind of Scotland we all want. What everybody on all sides can take from the debate is what the public, and young people in particular, want to be the hallmarks of Scotland, regardless of whether it is independent or within the union.

Dennis Robertson: Would anyone else like to comment?

John Downie: I agree with Kyle Thornton. The referendum has ignited the debate about the Scotland that we want and the changes that we want. Both sides in the debate have published policy documents and papers. It is good to see that there is engagement with people and that people are being given more say over their own lives.

We have a democratic deficit. In the most recent Scottish Parliament election, just over 50 per cent of people voted, but in the past three local government elections, turnout was less than 20 per cent in our most deprived communities. In thinking about a constitution, we must think about how we engage people so that they feel that they have a voice, and about how we can give them a say. The referendum debate has enabled us to do that, but although it looks as though there will be a reasonably high turnout for the referendum, we are still concerned that people from our most deprived communities are not as engaged in the debate as they should be. They feel disengaged from politics and government at both national and local levels.

We have an opportunity to engage people, and we will respond on the written constitution. For me, it should be about the high-level principles of the Scotland that we want; we should not end up ticking a box for every vested interest having its part of Scottish society or the economy in the constitution, because it does not work like that. That will be a welcome debate.

Danny Boyle: My thoughts generally chime with what both Kyle Thornton and John Downie have outlined. From BEMIS's perspective, the constitutional debate around the referendum has been a huge success in terms of re-engaging people in political discourse; for example, 80 per cent of 16 and 17-year-olds have already registered to vote. Voter turnouts at previous elections plateaued at about 50 per cent, but I estimate that the turnout for the referendum will be upwards of 75 or 80 per cent. That must be championed and celebrated. If we re-engage people with the electoral process, it will be our responsibility to maintain that engagement and not to allow them to become disenfranchised from the political narrative or debate. A constitution would be the first signifier—it would say to people, "This is what you voted for. Now you're going to participate in shaping, discussing and evolving the future of the nation that you're all participating in."

Dennis Robertson: Is the status quo a barrier to that?

Danny Boyle: I would be nervous about answering that question, given BEMIS's neutral position. If we look at the most simple measure—the percentage of the electorate who turn out at national and local elections—it is evident that barriers exist. We have not defined those barriers, but people not turning out to participate in the

democratic process at its most basic level is a clear signifier that there are barriers. If the referendum acts as a catalyst to re-engage people, that will be a major positive.

In the hypothetical situation of there being a written constitution, I imagine that it would be highly unusual for people to have the opportunity to vote for independence and then not to be involved in the development of the constitution. Co-development of a constitution would be the key to continuing success.

Dennis Robertson: Do you have further comment to make? Surely, what is happening with welfare reform and the impact on social justice is a disincentive to maintaining the status quo.

John Downie: Yes—but only if a future Scottish Government comes up with a welfare system that is much more progressive, slightly more compassionate and not as punitive as what we have at the moment. You could see the status quo as a barrier, but only if we would do things differently, whether in welfare or in the economy.

We want an open and dynamic economy in which everybody has a sense of shared purpose about what we are trying to do with the economy, with more people participating and less inequality. It would be great if we could get that, but it would take a radical shift. Whether the result of the referendum is yes or no, we can make some moves towards that after 18 September.

It will not be easy—we are not going to do it in the short term. However, the status quo is only a barrier if we are really prepared to do something radical—whether it is in relation to welfare or the economy—in Scotland.

Margaret McDougall: Do you really think that we need to change the constitution to address in-work poverty? What could we be doing just now on that matter? For example, John Downie welcomed the announcement on childcare in the white paper, but there is much that could be done about childcare just now. Likewise, there is much that can be done about in-work poverty in relation to the living wage and the Procurement Reform (Scotland) Bill. Mr Downie, can you expand on what you said in your submission on that issue?

John Downie: I referred earlier to an event that I took part in with the cabinet secretary and where I think we had our disagreement on the procurement bill. Frankly, I think that we should have introduced a living wage in that bill.

Chic Brodie: We cannot do that.

John Downie: That is debatable. I do not think that we should be prepared to accept the answer that Europe will not let us do it. We should be testing the ground. For us, the bill presented an opportunity not just with regard to the living wage but in other areas. I often talk about when I took a group of our members to see Alex Neil, when he was the cabinet secretary with responsibility for the bill. His vision for the bill, which was to create more resilient communities, more social enterprise and more local businesses, was absolutely bang on the money.

We went through a bill process; we all know what that is like and that it is difficult to bring out all the points. I think that there was a bit of a missed opportunity to redirect spend to certain areas. However, if we have that spend, the question is how we marry it up. If we spend public money on procurement, how do we create stronger local economies?

On the debate about the living wage, the Government got an answer from Europe, but we had a slightly different perspective the other week from a European spokesman, who I think had issues about which part of the European Commission the Government asked.

We know that the Scottish Government is committed to supporting and introducing the living wage, but we need to think about how we can do that more quickly under the present circumstances. I am fond of saying that if Boris Johnson can do it in London without any challenge, we can do it in Scotland as well.

As for in-work poverty, at the moment more children are living in poverty with parents who are in employment than with parents who are unemployed. That is a UK statistic. It is an absolute disgrace, and we need to try to address it in Scotland. I accept that the living wage is a contentious and tricky issue but, from talking to the Poverty Alliance and other organisations that have given evidence to the committee, we feel that the living wage should have been introduced in the bill.

The Convener: John, the committee has heard from you before and you are obviously very enthusiastic, but if you could try to make your answers a little bit shorter, that would be helpful.

Margaret McDougall: Kyle Thornton, what are your views on what we could be doing just now without changing the constitution?

Kyle Thornton: When the Scottish Youth Parliament pushed for the living wage in our national campaign last year, young people were quite supportive. A range of measures could be used to introduce it; using the procurement bill was one option, but other options include the Scottish living wage recognition scheme, which Glasgow has a local version of. Indeed, London, too, has a version of it.

As for what we can do at the moment, the real priorities are to persuade businesses and

employers to pay the living wage and to get them to understand its benefits. As for whether we need constitutional change for that, that is a question that politicians and others at that level need to answer in relation to how practical it is for us.

What young people tell me really clearly is that they want the living wage to be introduced. Regardless of which Government is in power, young people really want the living wage to be promoted and want it to happen. A key point is that it is about giving the poorest people in society a bit more money in their pockets to ensure that they are not struggling and that work always pays.

There are parties on all sides that are for the living wage, and there are parties that are not so much in favour of it. Whether changing the constitution is a guarantee of a living wage being brought in, I simply do not know. We could elect a Government in an independent Scotland that was not particularly for a living wage—although we hope that it would be in favour. Equally, we could elect a Government in the union here in Scotland that was not particularly for the living wage either. It is more of a question of, once the referendum is out of the way and the constitutional settlement is sorted, continuing to push the Government—whichever Government it is—on ensuring that work always pays. For us—for young people—that is the real priority.

11:30

Alison Johnstone: I will direct my first question to John Downie.

It is fair to say that, if we had a blank canvas, we would not design the complex and inefficient system that is UK taxation at the moment. In your paper, you talk about

"the need to rebalance the economy".

Regardless of the outcome of the referendum, do you think that it is time that we had a serious review of the taxation system and considered ideas such as the citizens income?

John Downie: The short answer to that is yes, absolutely. I hate to use the word "progressive", but we need a progressive and redistributive tax system that has built-in incentives for organisations, businesses and individuals. Whatever happens after the referendum, we have an opportunity to think about the kind of tax system that we want in Scotland and an opportunity to do more in that debate.

Alison Johnstone: Do you think that we are likely to have that discussion and that debate, regardless of the outcome, or do you think that there is one outcome in the referendum that makes that more likely?

John Downie: Obviously, a yes vote would make that debate more likely because a no vote will tie us into the current UK system, albeit that slightly more tax powers will come to the Scottish Parliament. In that case, the Scottish Government should push strongly for more tax powers. Obviously, the other parties are promising additional powers for the Scottish Parliament. We would still have the opportunity to have a debate, but the timing would be slightly different.

Alison Johnstone: My next question is for Kyle Thornton. You mentioned earlier that you would like young people to participate more in this debate—and in all debates—and to be more engaged and involved. You are obviously good at liaising with your membership and other young people and getting their views. Do you think that we tend to have these debates in silos, and that although we are good at having debates with people we know, we are not so good at getting out into the community to find out how everybody feels? Do you think that, when people get elected, they just think that they can forge ahead without the public participation in the budgeting processes that John Downie mentioned? How do you think we can get better at ensuring that we engage with everybody?

Kyle Thornton: I agree that young people are often very well consulted on young people's issues but are not so well consulted on issues that might not seem directly relevant to them; the consultation is either carried out at a late stage or not carried out at all. For example, I could probably count on my fingers the number of young people who have been consulted on tax issues.

I agree with you. We are keen to ensure that young people are part of the process, but that work needs to be systemic. I think that Government is starting to recognise that young people and other stakeholders should be consulted and that consultations should not just involve putting a document up on a website for however many months. As I have said, in the Scottish Youth Parliament, we take those documents and turn them into something that young people can engage with in a general sense, and we also do specific engagement work. A good example of that is the situation with the proposed new carers legislation; we have a national campaign called care.fair.share, which is all about more fairness for young carers, and we asked whether we could run a young people's carers consultation day on the proposed legislation to give young carers the chance to feed directly into a bill that will really affect their lives.

That is part of the more general point that Government should not be afraid to use the third sector and the people who have the grass-roots connections. We have 150 MSYPs, all of whom

had to get themselves elected. They all know how to talk to other young people and how to get messages across. The Government should use those assets—people like us, SCVO, BEMIS and others who are on the ground, talking to people in communities—to get messages across. We should not worry about any overlap between consultations. I would rather that people were asked three times what they think about something than they were not asked at all.

Alison Johnstone: Thank you.

Chic Brodie: First, I apologise for my interjection when Mr Downie was speaking earlier. However, he will be as aware as I am that councils such as Glasgow City Council and Renfrewshire Council have indicated through freedom of information requests that introducing the living wage just cannot be done. The good news, though, is that, at next week's stage 3 on the Procurement Reform (Scotland) Bill, a persuasive element will—I am sure—be introduced with regard to the living wage, which we all support.

We are talking about constitutional change. At the moment, five families in London and the south-east have more income than the total income of the 5 million lowest-paid people in the United Kingdom. What persuades you that things will change if there is a no vote?

The Convener: Who is the question to?

Chic Brodie: Everyone.

Danny Boyle: I think that that is for the parties to articulate to our membership, the SCVO and the people of Scotland.

Chic Brodie: Can you venture an opinion?

Danny Boyle: We touched earlier on the general disengagement from politics, which is based on a number of variables, including the image of parliamentarians and, as you have just pointed out, the inequality that exists or is perceived to exist. There is consensus and a general recognition by everyone that the status quo is not going to continue after 18 September, so it is incumbent on the yes campaign, the better together campaign and individual parties to articulate what they think the outcome could be from 19 September on.

The Convener: I appreciate that members on all sides of the debate are keen to get witnesses to respond to their leading questions in support of their particular constitutional positions, but I am aware that all the witnesses have made it very clear that the organisations that they represent do not take a view on the yes or no question. Members should just bear that in mind when asking their questions.

Chic Brodie: I am not asking them to take a view. I am trying to determine whether there is a connection between the UK being the 28th worst country—out of 34—for having a huge inequality gap. I am not asking witnesses to say whether they are pro or against in the referendum debate—I am asking them what makes them think that things will change.

The Convener: Okay.

Kyle Thornton: What the debate has brought out is that people are discussing how things could change. I am a bit of an optimist, because I think that people will still want to have that discussion irrespective of the yes or no vote and that people will be more prone to ask questions. Among the really good things in the referendum campaign have been the town hall debates and a resurgence in people going to such meetings. I have never seen so many young people going along to public meetings. I am normally the only young person at such meetings, but that has changed.

Chic Brodie: I accept that point, Kyle, and I greatly respect you and the SYP. However, with statistics, one tends to look at projections that are based on what has happened. If what has happened is not good, what makes us think that the projection will be any different?

Kyle Thornton: I think that it will be good when young people find their voice. Young people have become more disengaged from the political process, but if they re-engage with it, they will perceive where things are going wrong. We are encouraging and trying to build a foundation for young people to have a voice so that they can push for the changes that they want such as tackling in-work poverty and protecting education spends.

I like to be an optimist, so I really think that we can have that debate. To be honest, if there is a no vote, each of the parties will feel the pressure to come up with answers to people who will be starting to ask questions of them.

Chic Brodie: Okay. John Downie?

John Downie: The issue here is what any Government does with its powers. If we have a yes vote on 18 September and then another Scottish Parliament election in 2016, what happens will depend on who is elected, what their policies are and whether they will address the issue of the powers that they have.

Those parties should commit to actually doing something—that is the key. It might or might not happen, because they might commit to doing something and be unable to do it. The point is about how we have a much fairer society in Scotland. There are a range of issues in that, including Alison Johnstone's question about tax

and how we change that system. Part of the problem is that, in a society that is dominated by wealth, we do not want money buying power so that instead of having one person, one vote, we have one pound, one vote. There are lots of opportunities for change, but it depends on which Government is elected and what it wants to do. Change might happen whether or not there is constitutional change.

Chic Brodie: Based on that—and without pushing a yes vote or confounding a no vote—I would like to know whether you think constitutional change would allow us to harmonise the tax and welfare systems in such a way that we can establish a fairer society.

John Downie: Potentially, we have the opportunity to do that. Part of the issue that we have in a range of areas is the lack of interconnectedness between policy areas and the potential for changing that in future. There are any number of issues there. Actually, welfare and housing interconnect, although Labour's devolution commission, for example, has said that we should have additional powers on that, which might give us an opportunity to merge and connect those powers more effectively. Obviously, if we had all the powers, we would have more of an opportunity to do that. However, the key is having those powers and doing something with them. Housing, benefits and welfare are a difficult area but, potentially, we have the power to do anything.

Chic Brodie: My final question is for Danny Boyle. In a Runnymede Trust publication, Kay Hampton has said that, although the Government's commitment to addressing inequalities is evident in its race equality statement, there is still a problem with measuring how effective it is, and that there are still too many comments regarding Chinese, Muslims or Asians. How can we deal with that more effectively?

Danny Boyle: I appreciate the question. The motivation of the Scottish Government and previous Administrations to champion race equality and to work with organisations such as BEMIS, our member organisations and colleagues in the sector has been entirely positive. BEMIS would never say that we live in a racial utopia. However, the motivation is there in the Scottish Government to work with BEMIS and others to change the situation.

On race equality, we work with the idea of the diversity of diversity. There is no homogeneous group of ethnic minorities just sat in one corner, continuing with their lives. Within ethnic minorities, there are very diverse groups. You touched on Chinese and Muslims, although I am not entirely sure why you picked out those specific communities—

Chic Brodie: It is in the paper that I referred to.

Danny Boyle: A multitude of ethnic, religious and cultural minorities are resident in Scotland. Although the race equality statement is a solid foundation for driving forward positive change, it is by no means the be-all and end-all, and consultations on the statement are continuing. The willingness is there in the Parliament to progress that positively and with cross-party support.

Mike MacKenzie: The OECD produced research a couple of years ago that suggested that inequality has been growing across the UK since 1975, under Labour and Tory UK Governments, and that it has been growing at a faster rate than in any other OECD country. Particularly given that, down south, the UK Independence Party is driving the political centre of gravity to the right, are you optimistic that the position on inequality will change across the UK in the near future?

11:45

The Convener: Does anyone want to take that on?

John Downie: I am happy to take it on. Am I optimistic that the situation will change? Probably not, given the issues that we have had with the UK Government's welfare cuts. The UK economy is getting better and, in the past six months to a year, inequality has come to the fore in the economic debate. In the *Financial Times* a couple of weeks ago, Martin Wolf talked about an International Monetary Fund paper that says, in simple terms, that the less inequality there is in an economy, the stronger the economy will be, while more inequality reduces growth.

We are at the point where inequality has come to the top of the agenda. We criticise the welfare cuts, but we think that the main UK parties recognise that something needs to be done on inequality, although the issue is whether they do something. Am I optimistic that things will change in the short term? Probably not, because a range of factors needs to be introduced.

All the research from the Low Pay Commission shows that the minimum wage does not reduce growth or affect job creation. Any UK Government could do things such as implementing the living wage and addressing a range of incentives—for example, we have a complex tax credits system. We need to look at all that.

What do Governments want to do? If getting people into work, getting people out of poverty and reducing inequality are a priority for them, there are measures that they can take.

Kyle Thornton: I will try to answer the question. I am optimistic, with conditions. One condition for

us is that young people are included in the process. If more people recognised that the political system is a way of enacting change, more people would turn out to vote.

Governments tend to play to the people who turn out to vote. Pensions are a perfect example of that. Youth unemployment has been raging, but Governments have gone for cuts and so on that disproportionately affect young people, in an effort to protect older voters. There is nothing wrong with that, but there is a tacit recognition that there is a link to participation, and we are saying to young people, "Look—if you're not happy about what happens, turn out to vote, engage and ask questions."

We could have a UK Government that changes the situation, but it would have to be a Government that we participated in a lot more. All Governments try to increase participation. Anyone who is a democrat and who supports an electoral democracy believes that more people should play their part. We need a system that includes young people a bit more and is a bit more youth friendly. That involves engagement and measures such as votes at 16. Governments must recognise the need to support all the groups in society.

Another condition relates to the fact that our constitution gives no guarantee that an independent Scottish Government or a UK Government will recognise young people. The white paper is positive about bringing in young people and Governments down south have been positive about bringing us in, but that is all about the delivery on the ground. Whatever way we go, we—young people—will ask about delivery on the ground, but engagement is important, because the only way in which we can be optimistic is if we have a more inclusive process.

Danny Boyle: I would not disagree at all with Mike MacKenzie's statement about the OECD research and the suggestion that inequality has been growing since 1975. Mr Brodie touched on a specific percentage of people in the south-east of England and on the families who own 80 per cent of the wealth. In the context of the independence referendum debate, there has been an absolute barrage of statistics and analysis and of different ways to articulate people's perceptions of the inequalities that exist in Scotland. I also read in *The Herald* this morning that the Deputy First Minister has pointed out that the wealthiest 30 per cent of households own 80 per cent of all the wealth in Scotland.

Issues around the unequal distribution of the private or natural assets of the country are issues that are faced by Scotland as a nation and also by Britain and the UK as an entity. It comes down to the crux of the debate and why we are here. Our membership and our people and the people of Scotland have to be told by the yes and better together campaigns exactly what they are advocating within the constitutional framework that would better serve to break down those inequalities and make Scotland a fairer and more just society.

Mike MacKenzie: My second question is for John Downie. You said, in response to the Labour Party's devolution commission interim report, that it looks as if Scottish Labour is prepared to make only a few tweaks around the edges. What is your view of Labour's final offering?

John Downie: I would have to give you quite a long, complex answer to that question.

Mike MacKenzie: A short one would do.

John Downie: In some areas, there was lots of positive stuff. Funnily enough, I had a fringe meeting at the Labour conference with Jackie Baillie and Sarah Boyack on community empowerment and engaging people and on the transfer of powers. When our members talk to those on both sides of the debate, a lot of our discussions are not actually about what powers the Scottish Parliament and Scottish Government should have but about what we are going to do with those powers. That is where the positive discussions will be.

No political manifesto or white paper, or Labour's devolution commission, will be perfect from our point of view. The question is: what can we do and what can we take from such publications as the discussion goes forward? Any political party will have lots of different interests before the final document comes out. There were areas that we thought were positive and areas that we were disappointed with, but we will take that up with Labour in further policy discussions.

Mike MacKenzie: Could you explain further what areas you were disappointed with?

John Downie: Engaging people in democracy was the positive side, but the report did not go far enough on some of the devolved powers, particularly around welfare, housing and benefits and how they can be better connected.

It was a missed opportunity, but I am sure that we will continue to engage with Labour as we go forward, because none of those things is a done deal. It was not a manifesto; it was a discussion paper on which we can engage.

We will continue to make our case that the party needs to be slightly more radical about the powers that it proposes giving to the Scottish Parliament. We are holding an event with the Labour leader at the end of the month, and I am sure that some of those questions will be put to her there. It provides an opportunity for debate.

Richard Baker: I am glad that Mr Downie found positive things in our devolution commission report. I am sure that that productive conversation will continue.

We have talked a lot today about international comparisons on inequality, although I note that inequality has been growing much faster in Sweden and Finland than in the United Kingdom, which is an interesting statistic. Among all those debates and the debate about whether power should reside in Holyrood or in Westminster, is there a danger that we have all the debate at those levels and not enough debate on further devolution of power to community level—not just to local authority level, important as that is, but to community groups and organisations, whether they be young people's organisations, co-operatives or third sector organisations? Is there not a need for a more sophisticated debate about where power lies in Scotland at a more local level?

John Downie: I totally agree with that. That is the debate that we have been having.

A community empowerment bill is coming up. When it was first proposed it was quite radical, but the current draft bill is not as radical on that as it could be and we have said that clearly to the minister.

The issue is where power lies. I will not get into a debate about numbers of local authorities and what their role is, but we need to push power down because one of the issues about addressing poverty and inequality in Scotland concerns giving people more of a say over their own lives and their communities. That sometimes presents difficulties because all politicians—particularly ministers and Government—dislike the postcode lottery, but people might vote for something that they want in their community that others do not get elsewhere. That will happen naturally.

The interest in the debate lies in what powers people should have themselves. We often find that our members are consulted by a local authority that says, "Right, this is the budget. We have 15 things. Which ones do you want us to cut?", whereas it should take a different approach. As some local authorities have done, it should turn the debate round and give people a genuine say by stating what it can afford and what the options are and asking which ones people want.

Where power lies is at the heart of the issue.

Richard Baker: My final questions are for Danny Boyle. How effective have politicians and campaigns on both sides of the referendum debate been in engaging people from ethnic minorities? How willing are they to take part in it? Will they vote in sizeable numbers?

Danny Boyle: Yes—absolutely. We touched on the fact that ethnic minority communities do not live in isolation from the broader populace—particularly not on issues that concern the major event of the referendum. The debate is replicated through consultations in every other setting that I am sure that everybody around the table has been at in one shape or form.

On engagement with ethnic minority communities, I do not want my words to be perceived wrongly, but the yes campaign has been the most proactive, organised, positive and available for engaging with our membership. That is not to say that better together, members of that campaign or parties in it have not been keen to participate but, as a body, the yes campaign has performed significantly better.

The Convener: Marco Biagi has a question.

Marco Biagi: What I wanted to ask about has been covered.

Joan McAlpine: Kyle Thornton has talked extensively and eloquently about partnership and being able to shape legislation. He mentioned the proposed carers legislation, which relates to an issue that is devolved to the Parliament.

When I speak to young people in my constituency, they tell me that they are very concerned about benefit sanctions. We know from research by Citizens Advice Scotland that young people are much more likely to suffer from those sanctions and, in effect, be left destitute. What engagement has the Scottish Youth Parliament had to stop that?

12:00

Kyle Thornton: We are a devolved body, but welfare is one of the issues on which there are eggs in the Scottish Government's basket and the UK Government's basket.

On sanctions, there needs to be good work on ensuring that young people do not lose out. I would focus on the young people who do not have support from parents or guardians to allow them to navigate the system. The young people who lose the most are often those who do not have a parent or guardian who can advise them, help fight their corner or signpost them.

The number of young people who are not in employment, education or training is coming down, which is encouraging. However, any welfare system—we would say this to the UK Government—needs to recognise that circumstances change. Young people talk about their frustration with the system. If someone who is unemployed is doing a lot of volunteering and being proactive—being the good citizen that the system wants them to be—but does not turn up for

an obscure course that will not help them very much, they are sanctioned, despite the good work that they are doing. Work needs to be done on that but, as we do not have a policy on the area, I can say only that the system needs to be flexible and accommodating.

Joan McAlpine: You talked about welfare being managed between two Governments. The Scottish Government can mitigate the effects of welfare cuts, but welfare is in the UK Government's hands. If welfare was in this Parliament's hands, would your members have been able to work in partnership with us to prevent measures from being adopted that would leave young people destitute and hurt the most vulnerable, as the welfare cuts have done? Would it be easier for you if all the powers lay with the Scottish Parliament?

Kyle Thornton: As an organisation that is based in Scotland, we have certainly found it much easier to engage with the Scottish Parliament. The Department for Work and Pensions has a notorious reputation on engagement—I can see some people here laughing about that. However, my organisation will engage proactively with whoever has the power. Whether they will listen and act on what we say is a different story.

The UK Government engaged with us on voter registration and the voting age. It does not agree with us on the voting age, but it proactively assisted us and listened to us on registration. When powers are held more locally, it is easier to engage, but it is not impossible to engage when the powers are further away—it just takes a bit more work on both sides to get things to come together. That can happen if both sides are willing.

Joan McAlpine: The current situation has not helped you to prevent welfare cuts and sanctions that have hurt young people. With the best will in the world, you have not been able to stop those things happening.

Kyle Thornton: No—we have not.

Joan McAlpine: My next question is for John Downie. This morning, the British Chambers of Commerce published the results of a survey of its members in the rest of the UK on the constitution. The majority of the people who were asked said that, in the event of a no vote, Scotland's budget should be revised. In other words, they said that Scotland's money should be cut. Does that concern you?

John Downie: That takes us back to the question that Alison Johnstone asked about the discussions that we will have about a range of issues, including taxation, whether there is a yes vote or a no vote. It is clear that the Barnett formula will come up in that debate, because parties are talking—in different ways—about securing more powers for the Scottish Parliament, and UK parties that are going into a general election next year will have manifestos that play to certain constituencies.

The important point is what the Scottish Government does with the money that it gets. The amount is significant, but the Scottish Government would have to argue its case on changes to Barnett if it was negotiating with the UK Government after a no vote, and Scottish organisations, whether we are talking about business organisations or civic society, would also have to make their case.

The survey results are probably a natural consequence of people seeing that there will need to be a debate about Barnett whether Scotland goes it alone or gets more power to raise taxes. Parties in the National Assembly for Wales have commented on that, too. The issue would be up for debate, but the outcome will depend very much on the representations that we make.

Joan McAlpine: You mentioned Wales. The Holtham commission in Wales came up with a formula, which people across all the unionist parties have supported, that would result in a £4 billion cut to Scotland's budget. I presume that you would not support that.

John Downie: If the status quo continues, we would not support that proposal. Organisations and parties are talking and negotiating a lot. If Scotland remains in the UK, there must be negotiation. If the other countries want to be part of the UK, we need to have a just and equitable system that suits every part of the UK. There are big differences among the countries, such as the corporation tax levels in Northern Ireland and a range of other issues. The debate is opening up and, post-referendum, the scenario will be quite interesting.

Danny Boyle: It is worth returning to one of the first points that we made, which was about the development of the democratic franchise around the independence referendum. Voter turnout at elections has plateaued at about 50 per cent; going into the referendum, we are talking about turnout of upwards of 75 or 80 per cent. If, in the event of a no vote, there is not a significant devolution of powers—with an increase, not a decrease, in the budget alongside that—the danger is that people who turned out to vote will immediately feel that they have been hoodwinked by the process and they will remove and ostracise themselves from a political system that they will perceive to have let them down. That is a crucial point.

In talking about a yes vote and the potential constitution, we are involving as many participants as possible in defining and developing that

constitution. However, in the event of a no vote, we cannot lose that momentum in the 2015 general election campaign; the voices that have been heard in the evolution or process that we are going through must continue to be listened to.

Joan McAlpine: The only option on the table for extra powers has been from Labour's devolution commission, which would leave about 80 per cent of the taxes with Westminster and would not devolve welfare at all, so we would not be given the opportunity to counter the cuts that have hurt vulnerable people so much. Is that a disappointment to you as well?

Danny Boyle: I reiterate that that is why it is incumbent on the yes and better together campaigns, the parliamentarians and the political parties to come out and explain their positions, if I read between the lines of the question correctly.

Joan McAlpine: That is what I mean—the referendum gives the other parties the opportunity to do that. I am not sure that we will get anything particularly radical from the Conservatives. The Labour option is the offer that is on the table in the event of a no vote, along with the possibility of a £4 billion cut to Scotland's budget. That must concern you.

Danny Boyle: From the perspective of an individual citizen as well as a worker in a voluntary sector organisation, I want to engage in conversations on that with the Labour Party and other political parties to ensure that, if there is a no vote, a realistic rather than a tokenistic devolution of powers is delivered.

Joan McAlpine: Would you say that the commission represents a tokenistic devolution of powers?

Danny Boyle: I would not say that. Without words being put in my mouth, I can say that a lot is still to be debated, said and outlined prior to and post-18 September.

The Convener: I have one more question for John Downie on a topic that we have touched on. In response to Richard Baker, you mentioned further devolution to local government and communities. Last week, the commission on strengthening local democracy in Scotland published its interim report. Did you find its set of proposals interesting?

John Downie: I probably did, if I put my cynicism aside. When the commission started, the answer seemed to be that local government equals local democracy. However, the report is much more positive and it is very good on where it can take us in the debate.

The issue for our members—whether it is in relation to all the parties, the Labour devolution commission, the Government or others—is where powers lie and what we do with them. Alongside the community empowerment bill, the report presents an opportunity and a forum to talk about local government's role and how we improve local democracy and give people more of a say. I am fairly optimistic about that debate.

The Convener: We are out of time so, on the committee's behalf, I thank all three of you for coming along and assisting us. The session has been useful to the committee's inquiry.

12:10

Meeting suspended.

12:13

On resuming—

Subordinate Legislation

Electronic Documents (Scotland) Regulations 2014 (SSI 2014/83)

The Convener: Agenda item 2 is consideration of the Electronic Documents (Scotland) Regulations 2014. The clerks have circulated the papers on the regulations, which relate to requirements for electronic documents and electronic signatures as referred to in section 1(2) of the Requirements of Writing (Scotland) Act 1995, as amended by the Land Registration etc (Scotland) Act 2012.

The regulations are subject to the negative procedure. As members have no comments, are we content for the regulations to come into force?

Members *indicated agreement.*

Decision on Taking Business in Private

12:14

The Convener: At our next meeting, which is next week, we are due to discuss a paper on our work programme. Are members content to discuss that in private?

Members *indicated agreement.*

The Convener: Thank you.

12:15

Meeting continued in private until 12:21.

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e-format first available
ISBN 978-1-78457-313-3

Revised e-format available
ISBN 978-1-78457-326-3

Printed in Scotland by APS Group Scotland