



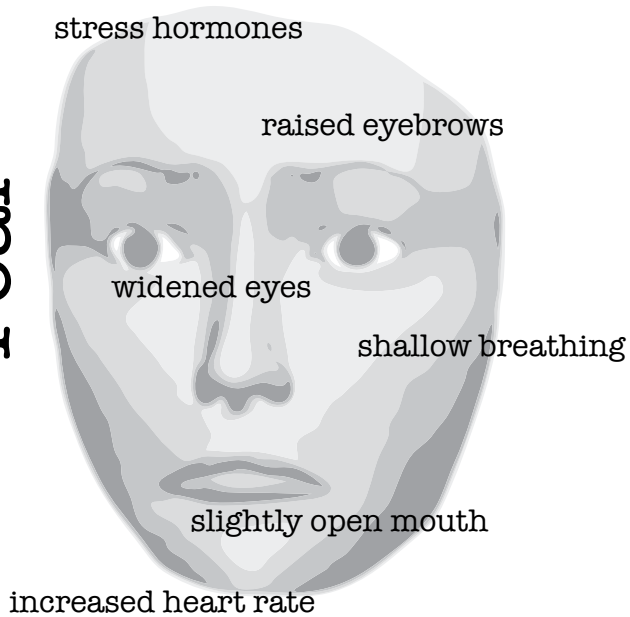
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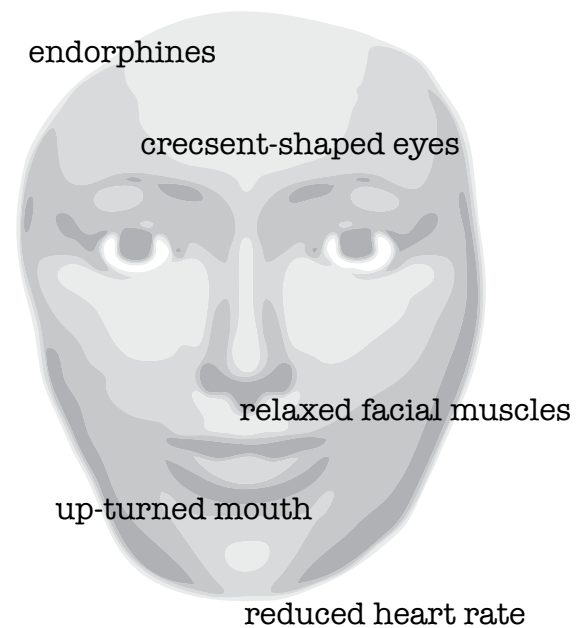
In Place of Anxiety

Social Security for the Common Weal

Fear



Happiness



Ailsa McKay, Willie Sullivan

March 2014

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This report is dedicated to **Professor Ailsa McKay** who died only a few days after signing off the final version. Professor of economics at Glasgow Caledonian University, Ailsa was a passionate advocate of a welfare system that created security in the place of anxiety and of a Citizens' Income to ensure all members of society have that security. We hope that part of her legacy will be a national approach to welfare which lives up to her ideals.

Willie Sullivan is a founding member and Convenor of Compass, Scotland. He served on the UK Labour Party Economic Policy Commission along with the Treasury Team.

Summary

There are two possible views of how a welfare system should operate. One sees welfare as a 'bare minimum' safety net which should always be calibrated to push people towards work by creating an environment of fear, anxiety and insecurity. This view is taken by the UK Government which actively promotes benefit withdrawal, aggressive means-testing and continual downward pressure on levels of benefit payment to 'incentivise' people to work. This view is wilfully disconnected to the facts: most people in poverty are already working; most people out of work or facing under-employment say they want to work or work more; there is plentiful evidence that a punitive approach to welfare does not increase economic participation. It also contains within its ideology an inherent inhumanity.

The second view of how a welfare system should operate is that it should be an integral part of a national strategy to pursue the interests of citizens by emphasising their social security. This view accepts research which shows that at the top of what people say they want from life are a decent job, somewhere nice to live and the security of knowing you can pay your bills and feed your family. This view accepts that people want to work and participate in their society and draws from the evidence which shows that people are better able to participate in the economy from a base of individual security than from collective anxiety. It notes that societies which have achieved high rates of economic participation and low rates of poverty are ones which integrate the concept of 'social security' into all government actions.

This report proposes that Scotland should move rapidly from the former type of system to the latter type. The most significant indicator of causes of stress and anxiety is economic inequality and in particular the problem of low pay. In the UK the problem of high housing costs is also a large contributory factor. Insecurity in employment from weak industrial democracy is another significant problem. The political narrative in the UK is also a cause for serious concern, seeking to divide different social groups from each other and creating animosity and disharmony between them as a means of generating consent for continuous downward pressure on benefits.

The pro-anxiety approach to welfare sees welfare payments as a one-stop-shop approach – cut or withdraw welfare to make unemployment as painful as possible short of destitution and thereby encourage employment. The 'social security' approach instead looks at each of the causes of insecurity and seeks to tackle these as part of a coordinated strategy – one which does not require the vilification of any group of citizens.

What this report does not propose is a cash-transfer model in which we accept high inequality and low pay as a fundamental part of our society and seeks to take some of the pain out of this model by transferring tax from those at the top of the income scale to the rest. This model risks reinforcing low pay by indirectly subsidising low-pay employers and therefore penalising good employers while at the same time laying the stigma of low pay at the feet of the low paid. Even more problematically, it will never address inequality by seeking to mitigate it without addressing its fundamental causes. And since one of the prime causes is low pay and since coercing people into low-pay jobs and then subsidising those jobs through welfare entrenches low pay and undermines high pay, welfare policy is likely to increase the need for more welfare. An effective welfare policy should of course do the opposite.

In the end the best response to welfare payments is to create an economy which does not rely on welfare payments to address these problems of low pay, inequality and insecurity. And welfare policy should itself encourage the development of such an economy. This paper therefore proposes that work/home/security become the guiding factors in the welfare system and that a series of targeted and integrated actions be pursued without promoting competitiveness based on low pay:

1. **End acute low pay immediately.** In-work poverty must be tackled. This should begin by ensuring that work pays a wage which is sufficient to sustain life – a living wage. Failure of employers to pay a living wage costs the welfare system at least £250 million in tax credits and other subsidies. A requirement to pay a living wage would free up a quarter of a billion pounds. Many low-pay employers (such as highly profitable supermarkets) are able to pay a living wage immediately. We recognise that many smaller businesses (and particularly those in low-margin sectors such as tourism) may not be able to pay a living wage immediately. Part of the quarter of a billion made available by a living wage should be used to offer tax breaks and other forms of subsidy to smaller businesses to enable them to pay a living wage.
2. **Reduce endemic low pay with a coordinated strategy.** A living wage will reduce the acute problem of severe low pay at the bottom end of the labour market. However, it does not tackle the chronic problem of endemic low pay across much of the labour market. A strategy of reducing inequality through an industrial policy with active labour market interventions and a process of increasing industrial democracy and collective bargaining should be integrated with welfare policy to compress wage ratios and reduce in-work poverty.
3. **Create greater security of employment.** One of the problems welfare has to resolve is insecurity of pay and employment. The former is typified by zero-hour contracts which mean even contracted workers have no guaranteed income week-by-week with benefit payments meeting the gap where income is not provided by an employer. Flexible working can indeed be a benefit to employees as well as employers, but this should be married to guaranteed minimum income on a monthly basis. Pay policy should never be based on a 'pocket money' assumption that certain incomes do not need to be secure or that families at the low pay end of the labour market should be able to absorb rapid changes in income. Security of employment must be ensured through greater industrial democracy and stronger employment rights.
4. **Creating affordable housing.** The size of the housing benefit bill in the UK is a response both to low pay and what are among the highest housing costs in Europe. Housing benefit has been used only as a subsidy which has been paid to the private and public rental sector. Not only has this failed to address the issue of affordable housing it has in fact helped to inflate rental costs. Housing benefit should instead be integrated with a housing policy that seeks to invest in large volumes of new social housing with the aim of decommodifying housing and over time reducing rental costs in the housing sector. The goal must not be to use public money in a way that inflates housing costs and then seeks to mitigate those high costs but to do the opposite and make housing affordable again.
5. **Put in place a Citizens' Income.** There are many problems with targeted benefits, not least the withdrawal effect where people are caught in a benefit trap which makes working extra hours unattractive because of the loss of benefits. Targeting has also led to the marginalisation and demonisation of some groups in society and continual downward pressure on benefits. The existing system has also failed to address many periods in life where there are other factors which influence social security such as study, care responsibilities, volunteering, small enterprise start-up and a period prior to retirement when shorter working hours might be appropriate. All of these can be addressed by creating a Citizens' Income scheme. This

is a model which replaces income support benefits (including the state pension but not housing benefit) with a single payment which is made to every citizen. This can be created in a cost-neutral way by converting all existing benefits and a proportion of the personal tax allowance into a Citizens' Income. It would be universal and would bring many benefits. Once a very basic Citizens' Income is in place there are a range of strategies that could be pursued to achieve different policy outcomes.

6. **Identify additional needs.** Finally, there will be some areas of benefit payments which are explicitly about addressing citizens' differential needs which are not a result of economic inequality. The most obvious of these is disability benefit where those who have additional needs that bring additional cost should have those extra costs addressed through top-ups to the basic Citizens' Income.

Our society must be predicated on pursuing the wellbeing of citizens. The wellbeing of citizens cannot be based around widespread and corrosive fear, anxiety and insecurity – or on a blame culture that victimises low-pay workers, the disabled and the unemployed. It must be based on the concept of 'social security', the ability to work, earn and live a good life. That in turn cannot be based on a low-wage economy allied to a punitive welfare system. And it cannot be based on a housing policy that sees housing as a source of speculative financial gain.

Our Common Weal must be based on a high-wage economy with low levels of inequality, a social security system that helps people to live a happy, productive life and an approach to housing that prioritises the need for affordable, high-quality homes. All this is absolutely achievable.

Britain's welfare state is under continual attack and there is little sign of any let-up in the attack. That welfare state was predicated on the 1942 Beveridge Report which articulated public anger at the five "giant evils" of squalor, ignorance, want, idleness, and disease. We argue that today we must also see our welfare state as facing the 'giant evils' of anxiety and insecurity, evils which can take just as much of a physical and psychological toll on people as the original five. If that is where we begin it leads us in an entirely different direction than the one down which we are currently being driven. It suggests a complete change in our approach to welfare with the concept of social security put right back at the heart of policy. Work, home and security can become the foundations of a Common Weal Scotland.

Introduction: the case for social security for all

Welfare was once more commonly called 'Social Security'. Security should mean a feeling of safety and a freedom from fear. The erosion of social security is most readily evident in the increasing levels of fear in society. This is an isolated, anxious fear. If we think of our own motivations and behaviours, anxiety and fear bring out the worst in people, whereas security and hope allow for the best.

It would be to repeat significant mistakes of the past to think of social security as anything other than part of our whole social and economic system. The Oxfam Human Kind Index¹ highlighted the parts of life that determine how good we feel about it. These are good health, a home to live in, meaningful work or activity, a degree of status and respect from our peers and security or reduction of anxiety and fear in respect to having and keeping these things. These elements are deeply interconnected. A good society would be a social and economic system that made sure everyone has the best chance of achieving this rounded understanding of Social Security - a Common Weal society.

Therefore we can explain what a society with a strong sense of social security would look like across three of the foundations of Oxfam's Humankind Index:

- Work – meaningful occupation and good pay with adequate time and income for other types of non-commodified work and leisure.
- Home - a place to build a life from the security of somewhere to live
- Security - as a society we 'insure' our citizens against loss of work or the inability to find work appropriate to ability and reward unpaid work such as caring. These problems should not be something we fear will lead to hardship but times when we support each other as a society.

'Work', 'home' and 'security' should be the foundations of our social security, yet we live in a society where for many these foundations are not part of their experience of life.

In this paper, we propose an interconnected approach to solve this problem of failing social security. We propose that our tax, industry, wages, housing and, finally, welfare policy should be integrated into a coherent, integrated policy approach to social security, which has been at least partially recommended by various past studies and papers². The difficulties of running parallel systems which can provide contradictory incentives and disincentives and unintended consequences could be fixed by uniting and simplifying the system. The medium-term goal should be to unify most benefits and tax credits and tax allowances into a system of 'Citizens' Income' as the best way to have a simple whole-system approach. A focus on 'work', 'home' and 'security' can create a successful social security system that works for everyone.

1. Work as social security

Welfare and the centrality of work

All of us create our society and shape our environment. That building and shaping and thinking and creating can be defined in one word – work. The job of the state is to help create a system where that effort we put into work creates the society we want. That is why central to the Common Weal and central to our thinking on welfare is the idea of work. In the Nordic countries it is taken for granted that a high level of welfare is achieved through high standards of work. A political economy that delivered high levels of employment with good wages would be better able to afford a welfare system that achieves social security.

When and why work doesn't work

Scotland created £28,000³ of wealth for every man woman and child last year. That was wealth that could be added to an overall national wealth of approximately £400,000 per capita⁴. Scotland is the sixth wealthiest country in the world. Despite this vast wealth, we still have relatively high levels of poverty, including communities of multiple deprivation where life expectancy is no better than in many of the world's least wealthy countries. The way we have structured our economy and our tax and welfare system are compounding inequality and alienation rather than alleviating it.

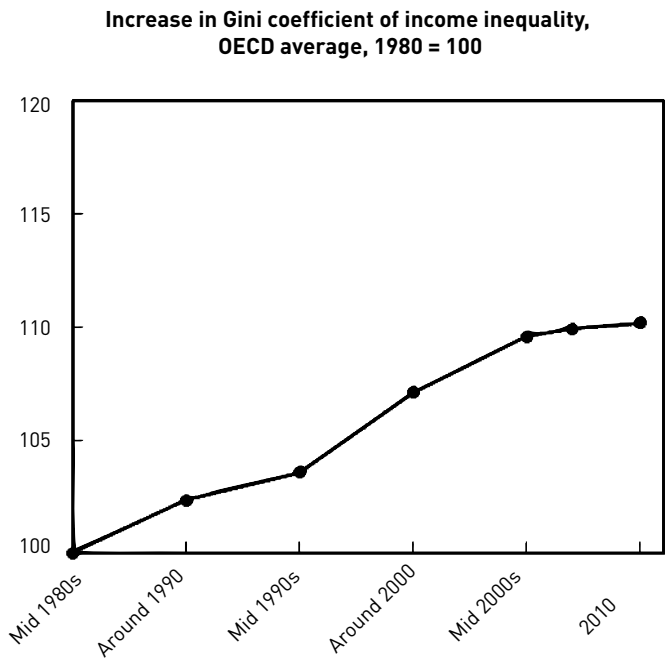
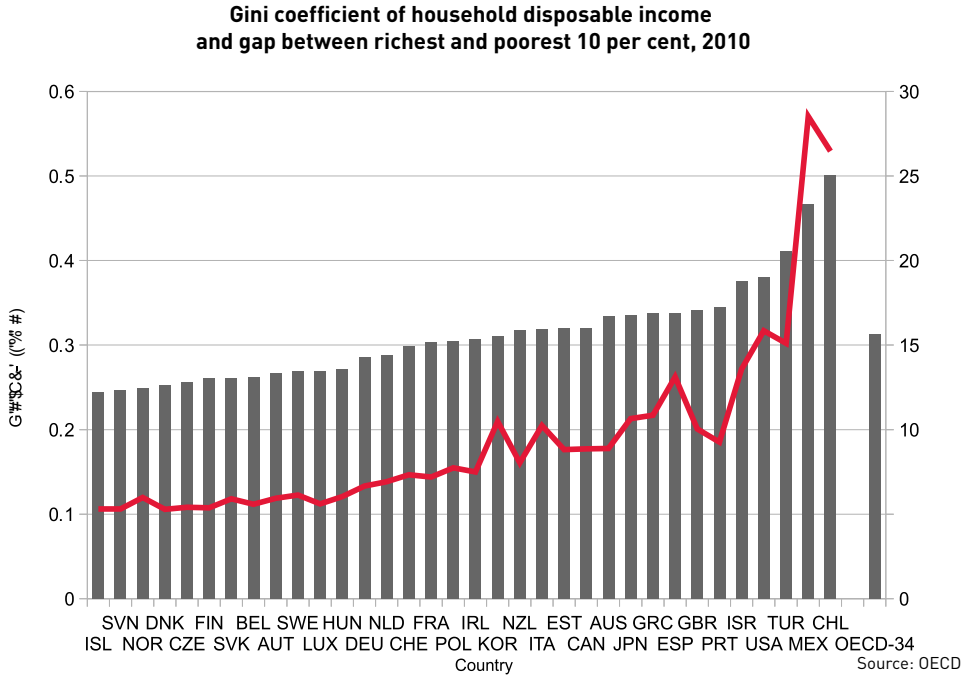
The financial crash of 2008 and the 'great recession' that followed has highlighted and exacerbated this inequality and poverty. Despite this, a philosophy and ideology of 'me first' rather than 'all of us first' remains dominant. The enduring strength of free-market capitalism as an idea creates a policy consensus that encourages a growing divergence between economic success and social security and wellbeing.

Historical circumstances can help us understand why many of us accept a formula that has so often acted against our work to create a better society. Three inter-connected processes have taken place to strengthen the 'me first' (or what is often called 'neoliberal') ideology: the disaster of state-controlled economies in the Soviet Union era; the unquestionable success of market economies in the West in raising living standards of many in the post-war era; and, finally, the politics of populism where different groups in society are set against each other as a scapegoat for the underlying problems of the economy. The attempt to blame immigrants and the unemployed for systemic economic failures are two of the most important examples of this.

This neoliberal consensus had been more or less accepted to be the key to improving the living standards of everybody. 'A rising tide raises all boats' was the commonly used term. An ideology entitled 'the third way'⁵ was embraced by centre-left politicians from Clinton in the US to Gerhard Schroeder and Tony Blair in Europe. The idea was that a lightly-regulated market would deliver jobs and wealth and that the growth would provide state revenue allowing a transfer of cash back down to low-paid workers. This has failed dramatically. The wealth of those at the top has risen exponentially and growing inequality with all its problems seems inevitable. Despite repeated criticism of this idea of 'trickle down economics' over the last decade no action has been taken and no real alternatives proposed. Tax credit helped a little in addressing inequality but hindered as well because it acted as a subsidy for low-pay employers who were making huge profits like Tesco and Primark. There is little link between a growing economy and a better society in Britain today; 61 per cent of children in poverty have at least one parent in full or part-time work, up from 45 per cent in the mid-1990s⁶.

A more genuine third way would have been to recognise that the 'gap' between rich and poor mattered and that it mattered a lot for the health of both society and the economy⁷. The state could then actively seek to shape institutions and the labour market to produce more equal outcomes. The threat of 'killing the goose that laid the golden egg' led to non-intervention and deregulation which has created enormous increases in inequality and destabilised economies. We can see from the chart below that some states, particularly in the Nordic countries, have managed to resist growing inequality by long-term policies of active labour market intervention⁸ and reasonable tax and social transfers.

The Gini coefficient, a standard measure of income inequality that ranges from 0 (when everybody has identical incomes) to 1 (when all income goes to only one person), shows the UK to be one of the most unequal societies in the world, and inequality as a whole to be growing significantly over the past thirty years.

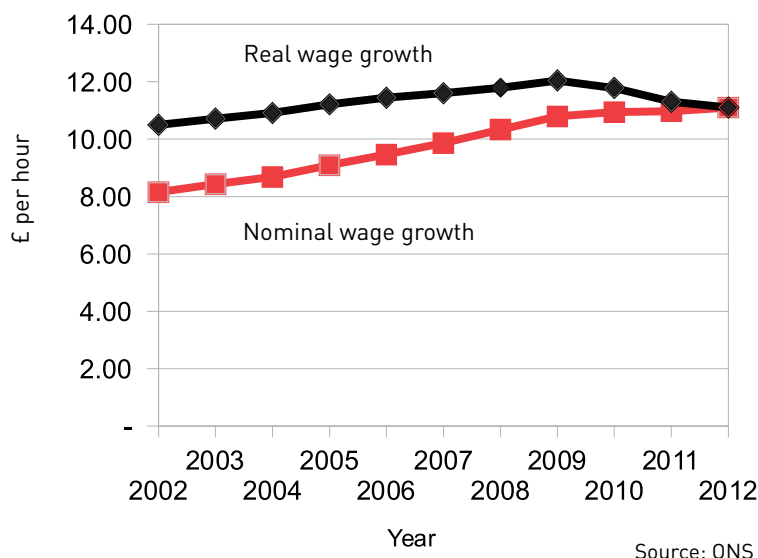


Whilst this provides a general overview of how policy decisions have created circumstances where and why work doesn't work, we need to look in more detail at how this effects social security in the Scottish context.

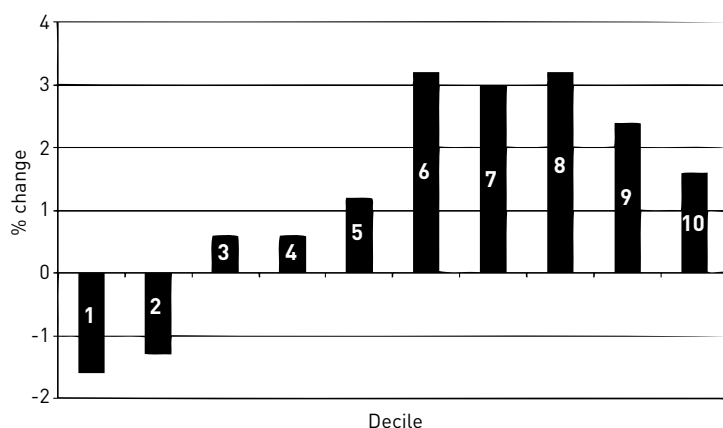
Low Pay

Low pay is a major cost to the state in terms of in-work benefits and additional social and other public services because we know that poverty is linked to a range of problems that the state has to address. Between 2008 and 2013 real average income fell for Scots by 9.9 per cent⁹. As the chart above shows, across developed countries more and more wealth becomes concentrated at the top and less and less trickles down. Only 12 pence of every pound of UK GDP now goes to wages in the bottom half, down 25 per cent in the last three decades. Meanwhile, low pay is pervasive. One in five workers in Britain is paid below two-thirds of the median wage (below £7.49 an hour or £13,600 a year for full-time work) compared with fewer than one in 10 in some other European countries¹⁰.

**Median hourly earnings excluding overtime
of all employees, Scotland**



**Nominal UK wage growth by income decile
2009-2012**



Why Pay fell and Where the Money Went

The overall share of GDP going to labour has been in slight decline since 2003¹¹. The reasons for the break in the link between overall growth and wages at the lower end of the scale are complex and interconnected and seem to have had an effect across most of the developed economies. These include globalised labour market, labour-saving technological innovation coupled with declines in collective bargaining, trade-union density and even currency fluctuations. These are global trends but they have had particularly severe impact in the UK.

Cash Transfers from Government

Gordon Brown and New Labour were particularly focussed on globalised labour markets and the inability of British firms to maintain industry here when wage costs were so much cheaper elsewhere. They attempted to balance the growth at the upper end of the economy with direct cash transfers to those being left behind. The incomes of low to middle income households grew by just 0.3 per cent a year from 2003 to 2008 even while the UK economy grew at 1.4 per cent a year. This income stagnation was caused by flat-lining wages for both men and women leaving tax credits as the only source of income growth among this group¹².

The public is subsidising large numbers of low paid workers in highly successful and long-term profitable companies such as supermarkets through the tax credit system and Britain still has a regressive tax system with the bottom 10 per cent paying more of their disposable income in taxes than the richest 10 per cent¹³.

Household incomes increased faster at the top

The table below shows trends in household income by income group, mid-1980s to late 2000s.

Average Annual percentage change in real household income			
Country	Total Population	Top Decile	Bottom Decile
UK	2.1	2.9	0.5
Source : AN OVERVIEW OF GROWING INCOME INEQUALITIES IN OECD COUNTRIES: http://www.oecd.org/els/soc/49499779.pdf			

For example in the UK, while full-time earnings at the 90th percentile increased from £662 a week in 1984 to £1007 a week in 2011, wages at the 10th percentile grew from just £218 to £279 over the same period¹⁴. The problem with low pay is that the labour share of GDP has become much more concentrated at the middle to top of the labour market.

Low Skills, Low Pay

The UK business model seems to rely on low skill, low pay jobs as a model of success. The split between high skill jobs and low skill service type jobs is a probable driver of inequality and low pay and higher welfare bills. The rise of low paid service roles is key to living standards in the bottom half of the UK labour market because although these occupations are generally of poor quality in all countries, they are much more strongly associated with low pay in the UK¹⁵. International comparisons show that jobs in these sectors in the UK are designed to be lower paid than they are in other countries. For example, shop assistants in Germany are more likely to take responsibility for a section of the store through a combination of buying, layout and customer assistance, while in the UK these functions are more often broken down into specialised tasks, with checkout assistants performing a narrow function and being poorly paid as a result¹⁶.

The fact that the UK welfare system seems predicated on coercing the unemployed into low-pay work and then subsidising that low pay would appear to promote a low-wage economy and the imbalance in the subsidy means that high-pay employers are being undercut by the welfare system. It seems that the UK's approach to welfare not only accepts the low-wage model for the UK economy, it is actively conspiring to create that low-wage model.

2. A different way of Organising A Socially Secure Income

High levels of employment with good employment rights and good pay for everyone is the foundation of strong social security and therefore of an effective welfare system. A political project is required to build support for such a system and to avoid the populism of dividing able bodied worker from the disabled and the employed from the unemployed. The wealth of this country is common and we can create a culture where we all want to contribute to the best of our ability and to share according to our needs.

The Living wage

Recent work by Howard Reed of Landman Economics for the TUC shows that £246.4m of savings could be made by the public purse in Scotland if the 416,000 workers currently earning below the living wage received the living wage. The Government would receive an extra £161.7m from the increased tax and national insurance contributions (NIC) and would pay out £84.7m less in means-tested benefits and tax credits¹⁷. These figures factor in the effects of income tax, NI, tax credits and other means tested benefits.

As things stand currently not all employers could easily pay the living wage of £7.45 – particularly in the small and medium-sized enterprise sector and in low-margin sectors such as tourism. But the truth is many enterprises can – particularly profitable big business – and the money the government accrues from savings and increased revenue could be used to assist small employers or industries where labour costs will take time to adjust. It might be that certain sectors or firm sizes get incentives in terms of reduced or waived Employee NI contributions, training grants, and services such as enhanced free childcare.

Cash Directed through Wages not Benefits

An economy that is structured so that instead of paying tax credits to underpaid people there are policies that ensure that firms pay adequate wages where they can afford to and are supported by training incentives and tax breaks in sectors where that is difficult has a number of major benefits.

First, it has a positive psychological effect on workers who are actually earning enough to live off and do not have the stigma of receiving state benefits. The problems of low confidence and self-value are tackled even further by the introduction of a Citizens' Income (detailed below) as it is universal and as everyone receives it there is no potential for stigma or for the populist politics that scapegoats benefits claimants.

Second, it could create a more sustainable and vibrant business model by incentivising high pay, high-skill industry. Well-paid jobs can be more multi-tasked, complex and skilled. They require

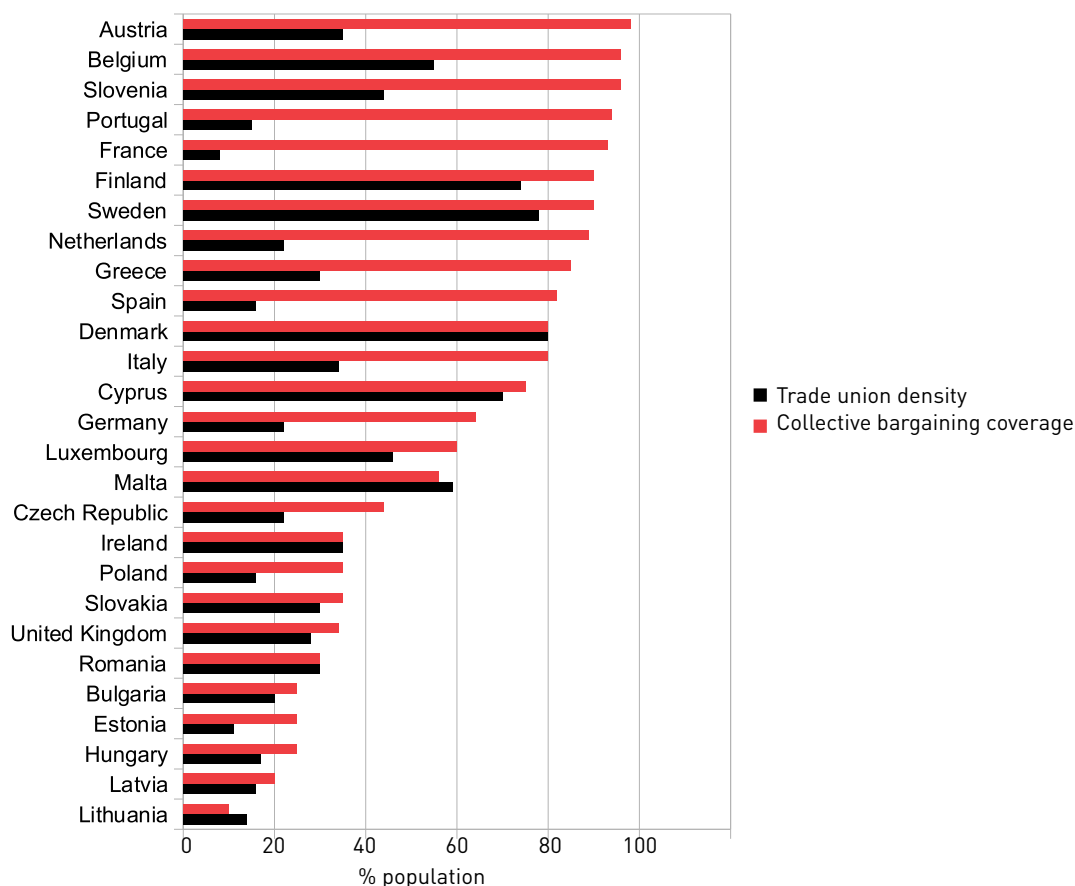
higher levels of training and if we compare the UK business model to many European states where high-skill industries are more prevalent, productivity could be higher too. Unlike now, this model would utilise much more effectively the skills of our graduates, apprentices and workforce generally. The low skill, low wage model of UK business success can be gradually evolved to benefit all of society instead of only companies in retail, call centres and supermarkets which are high volume industries and therefore have high profit but often have high staff turnover, high levels of alienation and low staff morale.

Policy that Effects Socially Secure Work

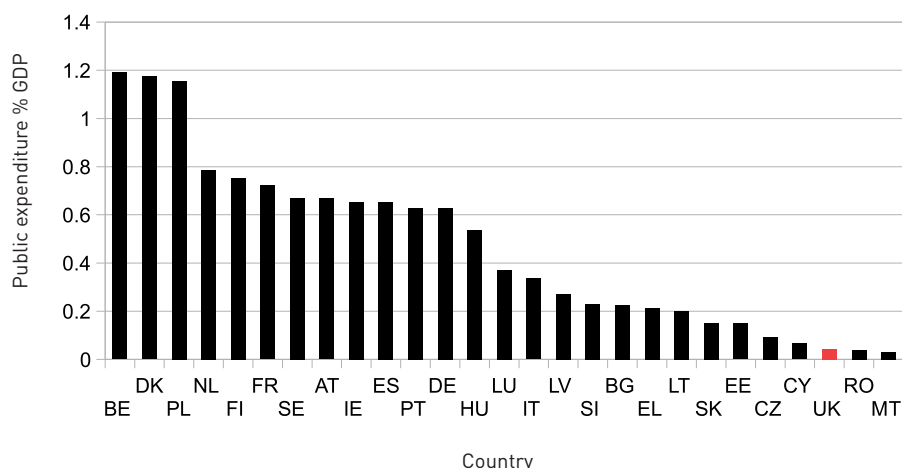
As mentioned earlier, this paper is not an industrial strategy (this will soon be published as part of the Common Weal project) but we aim to highlight the need for a whole-system approach and that social security is not separate from industrial, housing or fiscal policy. There is significant evidence that if a high employment, high pay economy is to be created then there are some essential ingredients required:

- Facilitation of Industrial Democracy including workplace committees and board level workers representation¹⁸
- Comprehensive and ongoing upskilling of jobs as well as workers
- Labour representation. Support for trade unions and collective bargaining
- Interventions to deliver living wage including industry-by-industry support
- A National Investment Bank to support key industries, especially renewables

Collective Bargaining Coverage and Trade-Union Density of EU countries



Active Labour Market Policy as public expenditure % of GDP (2009)



Security of income

One of the highest profile issues to affect the security of income in work is the rise of zero-hour contracts. Recent data from the ONS suggests that the number of people on zero-hour contracts in the UK is now almost 600,000 - although trade union Unite believes the number may be over one million¹⁹. Zero-hour contracts mean that even people in contracted employment have no guarantee of any income at all at the end of the month. This is defended almost exclusively on the basis that 'flexibility' of working patterns is desired both by employers and employees.

We recognise that there are indeed many occasions on which flexibility of working time can be of benefit to both employer and employee. However, there is a very big difference between flexibility on when hours are worked (and some flexibility on how many hours are worked) and an employer's right to keep someone on contract but subject them to periods with no source of income with no advance notice and with little or no predicability. This appears to take a 'pocket money' approach to certain types of employment with a built-in assumption that this employment is not going to provide any consistent or reliable element of a family's income. It also assumes that the price for this 'flexibility' must always be paid by the employee (who faces constant insecurity and periods with no income) and by wider society (which faces the ongoing cost of providing both continuous and emergency funding to prevent destitution on the part of employees who are subject to zero-hour contracts).

It is perfectly possible for contracted employment to be both flexible and secure. This could be ensured by requiring all contracted employees to have a guaranteed minimum monthly income. Employers could be free to offer additional hours over the course of the month, but not fewer. It would then be for employer and employee to agree the pattern of working hours.

In general, security of employment and security of income from employment will require a different approach to industrial democracy. A strong and constructive relationship between trade unions and employers with the assumption of widespread collective bargaining and strong employment rights is an essential foundation for ensuring that work pays and that the welfare state is not required to pick up the cost of employment practices that lead to poverty²⁰.

3. A home as social security

Thirty years ago for every £100 we spent on housing, £80 was invested in bricks and mortar and £20 was spent on housing benefit. Today, for every £100 we spend on housing, just £5 is invested in bricks and mortar and £95 goes on housing benefit²¹.

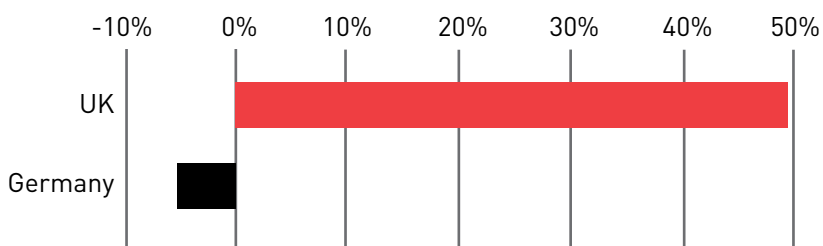
Housing Benefit costs in Scotland in 2011/12 were £1,727.7 million²² from a total benefits budget of £13,613.9 million, making it 12.6 per cent of the overall budget. If state pension payments of £6,324.1 million are removed leaving £7,289.80 million, it is almost 24 per cent of the remaining overall benefit budget. A major part of the strain on the welfare state is our failure to create an efficient system of housing for our population.

Germany has managed to keep house prices and rents stable over a 10 year period. If we could do this there would be substantial benefits both in term of reduced welfare costs from housing benefit but also in term of wider inflation and of increased aggregate demand in the economy. If people are paying less in housing costs then they have more to spend in the real economy. This is no mean achievement; no other country in the world has been able to do this to the same extent as Germany, although perhaps none have seriously tried. The German phobia of inflation has served it very well in managing housing as a fundamental of social security rather than as an asset to invest in. Their reliable housing provision is one of the most important pillars upon which economic success and stability rests. Homes are the bases from which people build a life and a community.

The Local Authority median local reference rent (the reference used to calculate a fair rent for Housing Benefit) was £64 per week in 2000. By 2011 it was £94, an increase of 68 per cent²³. The increase in the overall housing benefit bill went from £1073.5m in 2000-01 to £1,727.7m in 2011- 12, a 62 per cent rise. To put this into perspective, the rise in housing benefit costs over the last ten years (£700 million) has added a sum equal to the current net budget for Fife Council to the annual welfare bill. The cost of the state pension over the same period only rose 56 per cent despite the ageing population. Local authority rents over this period, which we can assume had little connection with market rents, rose from weekly average rent of £38.05 to £56.74, a 67 per cent rise. The rise in general inflation over that period was approximately 35 per cent. It is important to attempt to understand why we seem to be paying too much for our housing and to understand the destabilising effect this has both on the welfare state and on the wider economy.

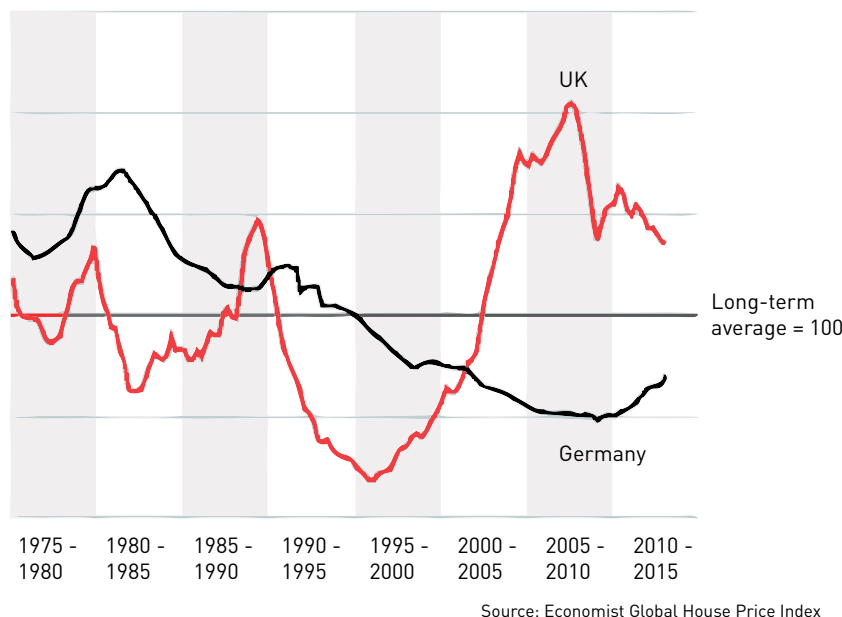
If we had Germany's levels of house price stability and therefore rent stability this would be a huge advantage in savings and planning for a welfare budget. (Bundesbank financial stability review 2012 shows steady yields on residential property over the last 10 year period in line with purchase prices indicating no rent inflation; additionally yields seems to have fallen in the large cities²⁴.)

Change in house prices Germany and UK 2000 -2013

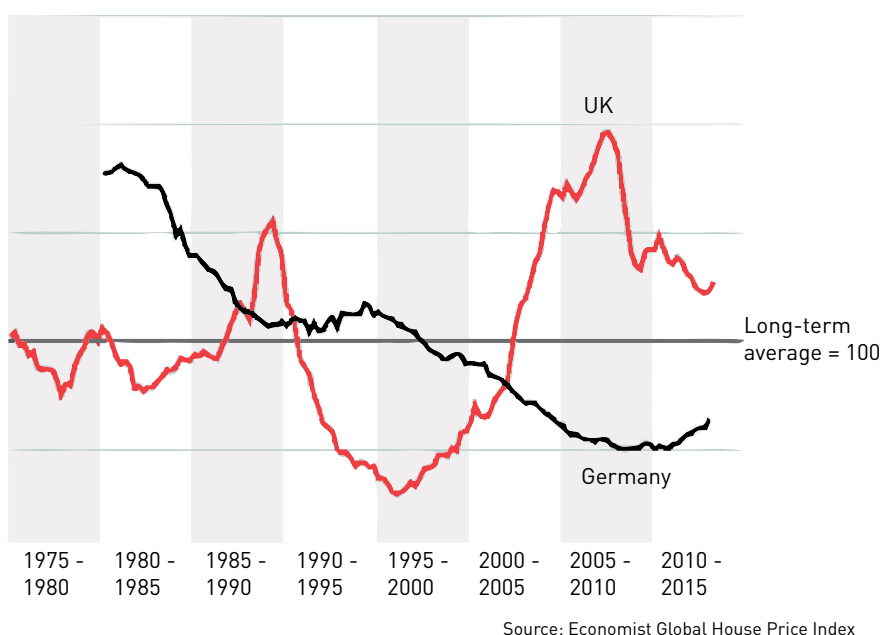


Source: Economist Global House Price Index

House prices against average incomes, Germany and UK 1975 -2013



House prices against rents, Germany and UK 1975 -2013

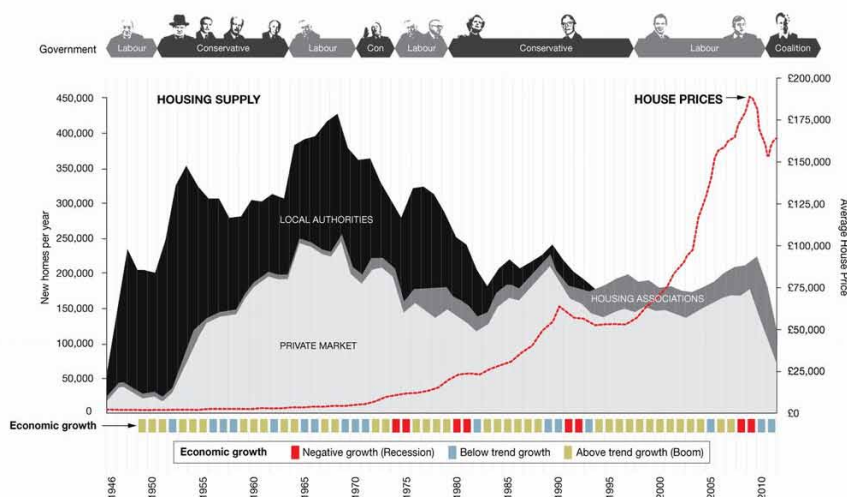


The Cologne Institute for Economic Research calculated that in 2010 there were 50 hectares of new housing development land per 100,000 population in Germany but only 15 hectares in the UK²⁵. That means the Germans are building three times as many new homes as the UK pro-rata even though our population growth is greater. This means that German housing supply is elastic and can respond quickly to rising demand. This is combined with a well-regulated and large private rented sector and a mortgage finance industry and property tax system directed and regulated for clear social objectives of providing affordable homes for everyone and benefit to individuals and society at large. This would also mean regulating against land banking and intervening to discourage low-volume, high-margin house building that has dominated housing supply in the UK.

Our land is our common wealth; planning regulations and control are in our common control. An extensive house building programme within the proper planning, finances and tax system should

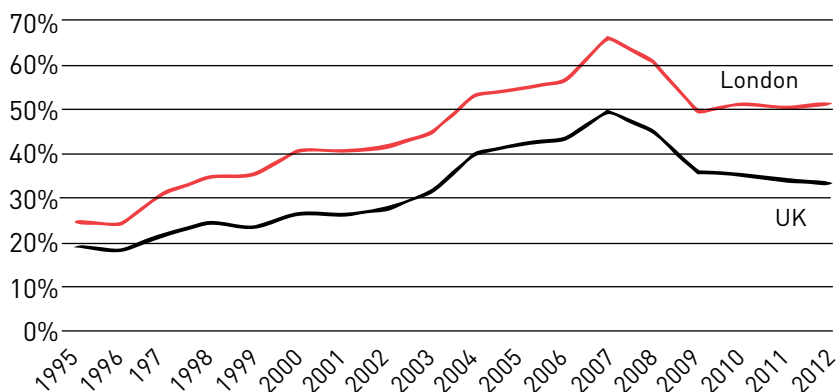
be the foundation of a new Scottish welfare system. We could save several hundreds of millions in housing benefit payments every year if we could sort out housing - a happy consequence of ensuring all Scots have an affordable home to build a life from.

We support the continuation of a separate benefit to pay for housing where required but the planning and budgeting should be fitted together with a comprehensive housing strategy to examine where significant medium-term investment can effect the housing benefit spend and also have positive impacts on the wider economy.



Data: DCLG, Nationwide, HMT. Image: A Right to Build, Architecture 00/, 2012 <http://issuu.com/architecture00/docs/arighttobuild>

Mortgage payments are % of average take home pay for first time buyers



Borrowing for Investment in Housing

The present austerity programme of the Coalition government was based on some highly contested economic assumptions, most importantly that the multiplier effect of public investment was less than one. In the immediate aftermath of the 2008 crash growth collapsed, but the immediate stimulus that government investment created rapidly reversed this. By 2010 growth was restored. Then investment was reduced based on the belief that the 'multiplier' effect of government spending was limited and that the impact of cutting spending was also limited. The result was that growth collapsed and recession returned. The policy decision to cut was based on what

the IMF now admits was a false premise²⁶. In fact government investment boosts the economy by much more than the spending that occurs²⁷: as the IMF has admitted that boost could be as much as 1.7 times the spend. This reality is obvious from the growth trend data that the coalition got so wrong in 2011/12²⁸ with budget forecast having to be revised downwards by the Office for Budget Responsibility as we hit a double dip recession. The assumption that investment could be cut with little impact was wrong and investment in a house building programme would have been good for the economy, not bad for it. A future Common Weal paper will explore housing issues in more detail.

4. Current reform – Universal Benefit

Universal Credit, it is claimed, is the government's response to some widely-recognised problems. They are all described elsewhere in this report, but the dominant ones are the taper between earned income and benefits making it difficult to move from benefits to work and the overall complexity of the system. The language that is used to describe these problems by the UK government emphasises a particular view of human nature and therefore the creation of a particular type of society. These assumptions seem to be that people have to be scared of poverty in order to find work. This creates the idea that work is a necessary evil rather than a social good. This may motivate some, but ultimately it leads us back to a society built on anxiety, fear and alienation. If our starting point was that jobs were well paid and civilised then we accentuate people's desire to be involved in meaningful undertakings.

It is important to note that claiming Universal Credit will mean completing a very detailed online means tests. So while this is a simplification of the benefit system the application and level of means testing implies greater complexity and risks. It also introduces features like in-work conditionality where people on low wages are both asked to work and look for another job simultaneously which may make applying for and staying on Universal Credit difficult. An improvement in benefit uptake is likely; full uptake of benefit is not.

The Institute for Fiscal Studies has produced a report into the effects of Universal Credit as well as the effects of all the Tax and Benefit changes introduced since 2010²⁹. Universal Credit has a marginal but real beneficial effect in terms of poverty, this effect is vastly outweighed by the other changes introduced. The Key findings of this report stated:

- The period between 2009-10 and 2012-13 is likely to have been dominated by a large decline in real incomes across the income distribution. Absolute poverty is forecast to have risen by about 600,000 children and 800,000 working-age adults. Median income is expected to have fallen by around seven per cent in real terms, which would be the largest three-year fall for 35 years.
- In the longer term, the planned introduction of Universal Credit will act to reduce both absolute and relative poverty. The long term effect of Universal Credit is to reduce relative poverty by about 450,000 children and 600,000 working-age adults in 2020-21.
- However, the net direct effect of the coalition government's tax and benefit changes is to increase both absolute and relative poverty. This is because other changes, such as the switch from RPI- to CPI-indexation of means-tested benefits, more than offset the impact on poverty of Universal Credit.

- Absolute and relative child poverty are forecast to be 23 per cent and 24 per cent in 2020-21 respectively. These compare to the targets of five per cent and 10 per cent, set out in the Child Poverty Act (2010) and passed with cross-party support. This would be the highest rate of absolute child poverty since 2001-02 and the highest rate of relative child poverty since 1999-2000. Modelling of scenarios in which employment rises by more than expected or take-up of benefits increases (perhaps as a consequence of Universal Credit strengthening work incentives or being easier to understand for benefit claimants) suggests that such factors cannot be relied upon to make a large difference to poverty rates.

Impact of tax and benefit reforms 2010 - 2015 as if Universal Credit fully in place



5. Citizens' Income as Social Security

As has been stated, the benefit system as configured is incredibly complicated. It is getting to a level of complexity where people cannot be reasonably expected to predict effects and outcomes, especially in terms of its interaction with the tax system. This complexity is itself a source of inefficiency. Simplification not only makes integration possible but also makes the whole system more efficient. A significant problem with the current benefit system is its interaction within its various elements and with the tax system so as to produce anomalies and unintended consequences such as penalties for taking small infrequent pieces of work, part time work or starting a business. Rapid withdrawals of benefits and high levels of tax on initial earnings are well documented. The new Universal Credit seeks to tackle some of these issues. There are of course a number of additional problems with the Universal Credit detailed above which make a Citizens' Income a much better solution to these problems, whilst also removing benefits stigma and providing wider social and economic benefits.

The idea of a Citizens' Income or Basic Income has been around for a long time now and has been well researched and documented including a number of successful pilot programmes in different parts of the world³⁰.

The Citizens' Income would be a tax-free cash transfer made to every citizen of Scotland probably on a monthly basis. This would be a basic amount on which every citizen can survive excluding housing and any extra costs for disability living. One model is for the rate to be variable by age so families with children get a payment for each child and older people get a basic state pension.

It is necessary to have a separate housing benefit linked with an overall housing strategy and an equality/care benefit linked with social care policy as detailed above.

This is a way of providing a safety net for all and provide a platform from which people will be incentivised to work in order to have extra income on top of the basic and to save money without penalty³¹.

Experiments with Citizens' Income/Basic Income or similar schemes

In the 1970s there was a large scale experiment with Basic Income in Canada called 'Minicome'. In March 1973 the governor of the province of Manitoba had decided to reserve \$17 million for the project. The experiment took place in Dauphin, a small city with 13,000 inhabitants north of Winnipeg.

The basic income regulations had to ensure no one would drop below the poverty line. In practice this meant that about a 1,000 families in Dauphin, covering 30 per cent of the total population, received a monthly pay check. For a family of five, the amount would come down to \$18,000 a year today (figure corrected for inflation). No questions asked. The project was extensively recorded and monitored but because of a change in government the research was not analysed until recently³².

Dr. Evelyn Forget, a professor of Community Health Sciences at the University of Manitoba, found the records and was able to make comparative studies with surrounding communities that did not have 'Minicome'. Politicians had feared that people would stop working, and that they would have lots of children to increase their income. Yet the opposite happened: the average marital age went up while the birth rate went down. The Mincome cohort had better school completion records. Breadwinners hardly cut down on their hours, women used the basic income for a couple of months of maternity leave and young people used it to do some extra studying. Hospital visits went down by 8.5 per cent. This amounted to huge savings for the health service. After a couple of years, domestic violence rates and mental health also saw improvement. Mincome made the entire town healthier. The basic income continued to influence following generations, both in terms of income and health³³.

There is actually lots of evidence from the global south and from development work that suggests that some of the problems that opponents claimed would arise from unconditional direct money transfers do not happen. It seems it is rarely misspent and does not disincentivise work. Some research from the OECD sums up these programs' advantages: (1) households make good use of the money, (2) poverty decreases, (3) long-term benefits in income, health, and tax income are remarkable, (4) there is no negative effect on labour supply – recipients do not work less, and (5) the programs save money. It seems unconditional income stimulates the entire economy: consumption goes up, resulting in more jobs and higher incomes³⁴.

Another real experience added to the evidence that the money would not be misspent. An American charity 'Give Directly' introduced a programme of direct cash payments in Kenya.

The outcomes confounded critics propositions that money would be wasted or that it would reduce labour supply. The programme was such a success that the Kenyan government is now investigating how it might be expanded, as reported in the New York Times³⁵.

The symbolic impact of the Citizens' Income

Symbols are important in national cultures. Ideally we would want to communicate to all Scots that they have an inherent value as citizens. While their value as citizens should not and cannot be expressed solely in monetary terms, a society that gives all citizens a basic income has an important starting point. It actually signals that 'we value people as more than just economic entities'. Our people are not just inputs to market but are valued parts of our common weal. A Citizens' Income offers everyone a base from which they can grow in whichever direction best suits them. A society with such a shared symbolic and psychological equality is bound to be more respectful and caring than one that sees huge disparities of value in its people with status and stigma prevalent parts of our consciousness. We accept that the market can reward people differently within reason but as a society we aim to equalise the starting point and therefore influence the outcomes.

Citizenship and Community Activity

A Citizens' Income can also be used to encourage people to think about their role as citizens. Compared to many Northern European states the levels of active involvement in public life by Scots is low³⁶. That means the formal state is expected to do much more and citizens are only passive consumers of services. If this remains the case the resource required to provide such services will continue to be pressured. The Citizens' Income makes it easier to create a culture of public involvement and of communities using each others time and skills for their own good. If the state was able to co-produce services with citizens and communities who felt their role and time as an active citizen was partially compensated through the Citizens' Income then there would be significant gains in terms of efficient services and community togetherness.

Implementation of a Citizens' Income

Dr Malcolm Torry in his new book *Money for Everyone - Why we need a Citizens' Income*³⁷ argues for two possible routes to implementing a Citizens' Income. His study of the history of the UK's benefits system, and of attempts to reform it lead him to the conclusions that (a) those reforms that have succeeded have generally been for defined demographic groups, and (b) they have not reduced the number of civil servants. Those proposed reforms that have failed seem to have been for the population as a whole and would have reduced the number of civil servants. The politics of the benefits and tax system would appear to be as much about the internal politics of Whitehall as about the ideas and strategies of political parties. Of course this is not such an issue in the event of an independent or devolved Scotland, as Whitehall would have little part to play in the design of a new welfare system – although entrenched and narrow thinking about what a benefit system is and is for must be overcome before progress can be made. Making the case for such a significant change is a political project, one that requires the skills of politicians to make the case and gather support for the transition. There are also costs of transition which need to be fully considered. It is possible to present these as investments for the future. There are many solid and probably popular political arguments for the Citizens' Income including the removal of disincentives to work, savings and enterprise. It's more efficient and cheaper to administer than previous systems. It is fair and redistributive as well as economically beneficial and is a coherent integration of tax and benefit.

Two implementation methods remain practical possibilities:

- The first would be a Citizen's Income for one demographic group at a time: starting with an enhanced Child Benefit, then turning the proposed Single Tier State Pension into a Citizen's Income; next establishing a young adult's unconditional income (to incentivise education and training); then an older worker's unconditional income (to ease the transition into part-time employment and retirement); and finally a working adult's unconditional income.
- A second method would be to start with a small Citizen's Income for everyone and then let it grow. The latter method would not greatly reduce distribution costs at the beginning of its implementation and would require changes in tax coding to cover the payment if it was to remain cost neutral. Being a reform related to the whole of the population may make it politically challenging, although there are clearly ways to make it more appealing.

On one hand, the former method, introduction for one demographic group at a time, would reduce the distribution costs gradually; and because each demographic group would receive a Citizen's Income of a reasonable size, its benefits might be more apparent and reduce resistance to further roll out. However, on the other the second method would be a move to a universal system immediately which could tie-in wider democratic consent and prevent the initiative 'sticking' before there is full implementation.

Either way, it is possible to move to a Citizens' Income policy fairly quickly and (as we shall see below) on a cost-neutral basis. Once in place there area wide range of possible policy approaches that could be taken to Citizens' Income and how these could contribute to a Common Weal strategy. These will be discussed in a future paper from the Reid Foundation.

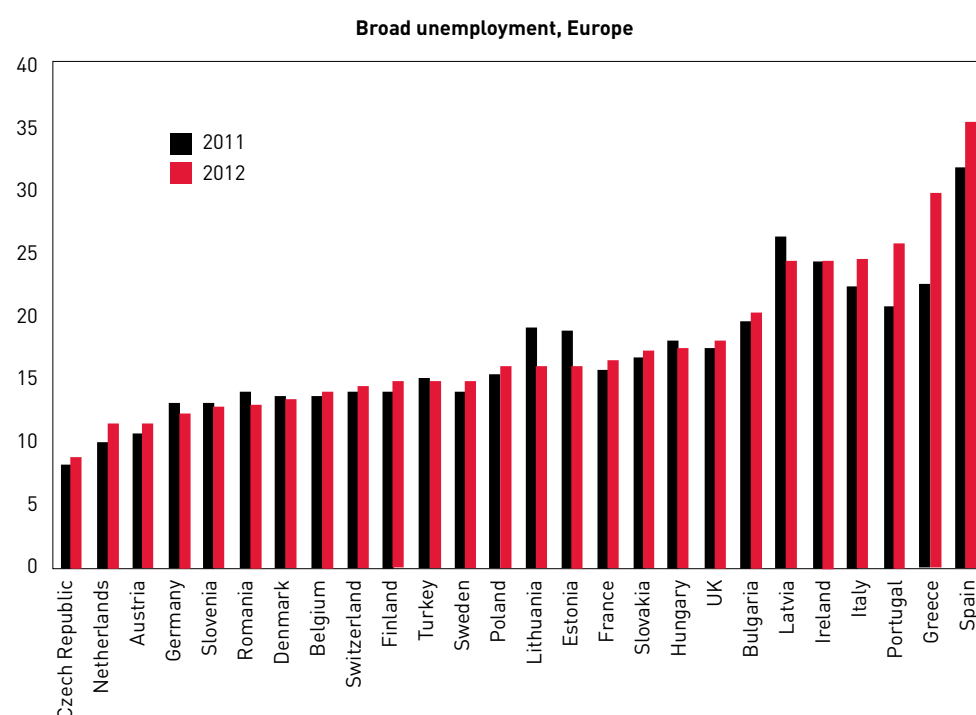
Unemployment

In times of recession, the capacity of workers who lose their jobs to retain their ability to spend in the economy is important as a counter balance against recession. A high replacement rate (ratio of unemployment benefits a worker receives relative to the worker's last gross earning) ensures that the negative effects of rising unemployment on aggregate demand are mitigated; an automatic stabiliser for the economy. It also prevents workers from falling into poverty when they lose their jobs and all the attendant health and social problems that go with that. The table below shows the gross replacement rate in the first year of unemployment for as many countries as is available.

World ranking in Unemployment Benefit replacement rates						
Country	Gross Replacement Rate, year 1	Ranking		Country	Gross Replacement Rate, year 1	Ranking
Netherlands	0.7	1		Egypt	0.329	26
Switzerland	0.687	2		Venezuela	0.325	27
Sweden	0.685	3		Belarus	0.313	28
Portugal	0.65	4		Israel	0.307	29
Spain	0.635	5		Japan	0.289	30
Norway	0.624	6		United States	0.275	31
Algeria	0.612	7		Kyrgyzstan	0.255	32
Taiwan	0.6	8		New Zealand	0.254	33
Ukraine	0.56	9		Latvia	0.253	34

Italy	0.527	10		India	0.25	38
Denmark	0.521	11		Korea, South	0.25	37
Russia	0.505	12		Uruguay	0.25	36
Tunisia	0.5	13		Uzbekistan	0.25	35
Finland	0.494	14		Ireland	0.238	39
France	0.479	15		Hungary	0.235	40
Bulgaria	0.473	16		Poland	0.226	41
Canada	0.459	17		Czech Republic	0.225	42
Romania	0.45	18		Australia	0.21	43
Hong Kong	0.41	19		Turkey	0.206	44
Austria	0.398	20		Albania	0.202	45
Belgium	0.373	21		United Kingdom	0.189	46
Argentina	0.354	22		Brazil	0.152	47
Germany	0.353	23		Estonia	0.132	48
Greece	0.346	24		Lithuania	0.117	49
Azerbaijan	0.338	25		Chile	0.115	50
				Georgia	0.09	51
Source IMF, http://www.frb.org/language/ita/topic/archivio-dati/dataset/international-data/scheda/IMF-labour-institutions-database						

It should be noted that the UK and Anglo-Saxon countries in general pay less. This may be because of the cultural dominance of the idea that fear of poverty is an effective way to motivate a work force. This idea that there is a relation between the level of impoverishment and the ability to find work is certainly not borne out by recent studies. During the depths of the recession the countries that had better income replacement rates did not suffer from higher unemployment (see graph below). The impact on levels of unemployment and on willingness to work have been shown to be negligible by recent Europe-wide studies by Edinburgh University. High benefits do not result in people becoming lazy or satisfied with their unemployed status³⁸. In fact, some of the countries with the highest benefits were places where unhappiness was highest because of the cultural value placed on work and contribution.



The benefits system is horribly complicated. Basic benefits are topped up and amended by a latticework of top-ups and allowances. Support for people out of work and looking for jobs is provided by the Job Seekers Allowance (JSA) and having paid contribution through National Insurance.

There were 108,284 people claiming JSA in Scotland in December 2013[41]. The figures for the breakdown in the tables was only available for May 2013. This includes those who have paid enough NI to receive contributory JSA (non-means tested) and those who might not have paid enough who receive income-based JSA (means tested). These people have to sign on as available for work. Others who are unable to work through disability, illness, or caring responsibilities may be able to claim income support which again is topped up with a range of means tested allowances.

A Citizens' Income would make this all much simpler and allow it to be fully integrated with tax and industrial policy. We can see from the following tables on levels of payments under the current system that a Citizens' Income to meet current benefit levels for most claimants would need to fall within the £40 to £60 per week bracket with relevant top ups for disability and housing costs. If a high wage, high employment economy was coupled with a reformed tax system then levels of unemployment benefit should be higher in order to address poverty and to be an important countercyclical guard against the depth of future recessions.

Job Seekers Allowance Case-load Scotland May 2013	
Total weekly amount of benefit	Case-load (1000s)
Under £20.00	0.86
£20.00 to under £40.00	1.69
£40.00 to under £60.00	30.6
£60.00 to under £80.00	76.07
£80.00 to under £100.00	1.95
£100.00 to under £150.00	10.1
£150.00 and over	1.17
Unknown payment	2.75
Total	130.36
Source DWP .UK. GOV	

Income Support Case-load Scotland May 2013					
	Total	Incapacity benefits	Lone Parent	Carer	Others on income-related benefit
Total	93.32	34.51	39.80	15.31	3.69
Total weekly amount of benefit	0.08	0.01	0.05	-	0.02
Under £20.00	2.16	1.57	0.18	0.33	0.08
£20.00 to under £40.00	9.43	7.60	0.30	1.40	0.13
£40.00 to under £60.00	20.78	2.96	7.29	8.66	1.87
£60.00 to under £80.00	35.62	5.29	29.05	0.88	0.39
£80.00 to under £100.00	5.26	3.40	0.19	1.51	0.15

£100.00 to under £150.00	12.60	9.16	1.14	1.47	0.83
£150.00 and over	7.39	4.52	1.60	1.05	0.23
Source : DWP GOV.UK					

Disability, Equality and Welfare

The information, institutions and conventions that allow a good society to flourish can be described as our civilisation. It is often stated that a society might be judged by how it treats the most disadvantaged and vulnerable. We should aspire to have a civilisation that includes everyone, that has systems, institutions, conventions and information exchanges that allow everyone to take part at their level of ability. This is now more possible than ever before due to technology. We can try to shape our society so that it is enabling. This would mean that some people require more resource than others in order to take part in an equal way.

This might be special adaptations to ICT, housing and work places or additional resources for mobility. We have to dedicate funding for caring or for other support. Some of this resource can best be directed by a benefit system and a social and health care system that are integrated and coordinated - to fully address issues of integration will require more work. However, in addition to the Citizens' Income a top-up of additional tiered payments would be made on the basis of need. The different tiers would reflect different levels of need and include funding for mobility and caring. The Disability Living Allowance (DLA) was relatively effective in taking many eligible people out of poverty and allowing them to take part in society (before the changes that have been made to it by the current UK government). An amended DLA would be the sort of payments that could supplement the Citizens' Income to support the needs of people with additional needs. This top-up allowance would be extended across all age ranges and be paid along with the Citizens' Income. The carers allowance and attendance would eventually be phased out by an adequate level of Citizens' Income - although the need for enhanced carers' incomes must also be addressed

An Illustrative Citizens' Income Scheme

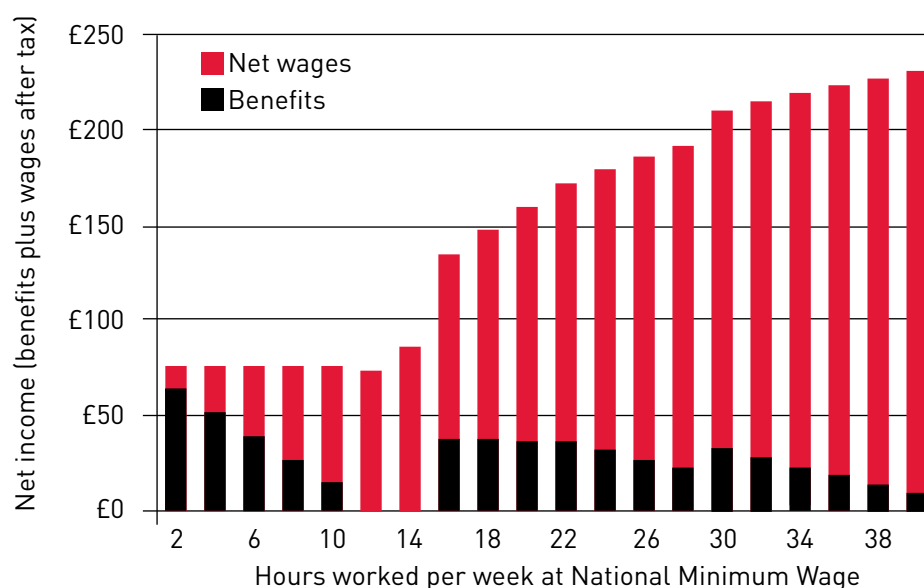
Below we have reproduced an illustrative Citizens' Income scheme to show that using close to existing levels of benefit payment a scheme could be almost cost neutral. There are various ways of funding a Citizens' Income. This particular scheme is funded by removing tax allowances and relief and phasing out means-tested and contributory benefits. In addition, Income Tax and Employees' National Insurance Contributions could be merged into a new Income Tax. The scheme could be derived from a high pay, high employment economy and a reformed tax system as detailed in our previous Reid Foundation/Compass Paper paper 'Paying for The Good Society' [42] and savings made through increased revenue and reduced in work benefits estimated above at £246.4 million.

An illustrative Citizen's Income scheme as described by the Citizens' Income Trust[46]

The current system

Putting housing-related benefits to one side, in 2012 the net income of a single earner aged 25 or over after Income Tax, National Insurance Contributions, Income Support/Jobseeker's Allowance and Working Tax Credits was as follows:

Net income of single earner, minimum wage plus current benefits

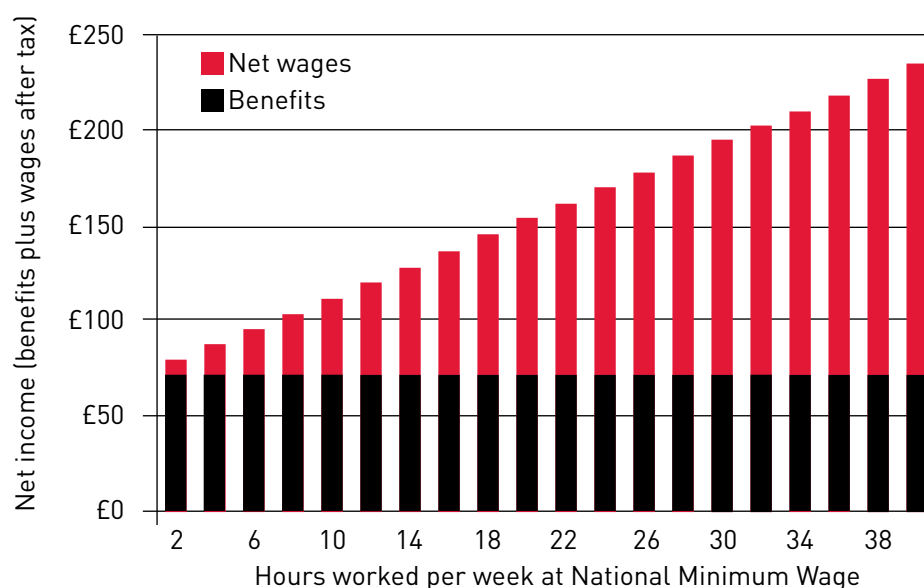


The chart clearly reveals the benefit traps. As earned income rises, earnings are taxed and benefits are withdrawn. Someone working between 11 and 16 hours per week retains their additional earnings in full, but if they work more than 16 hours per week and become entitled to tax credits, their *net* income rises much more slowly. If someone earning the national minimum wage (£6.19 per hour in 2012) increases his or her weekly working hours from 20 to 40, his or her *gross* income increases by £124 per week but their *net* income increases by only £71 per week – having lost £25 in Income Tax and National Insurance Contributions and lost £28 in working tax credits. The increase in net income is only 57 per cent of gross income, so there is a 'marginal deduction rate' or 'withdrawal rate' of 57 per cent. Many family types suffer withdrawal rates of 85 per cent on additional earned income up to total earnings of nearly £400 per week; and for some family types and some earnings ranges the withdrawal rate is 95 per cent.

Citizen's Income amounts for the illustrative scheme		
Age	Weekly rates for 2012-13:	
0 to 15	£56.25	Current Income Support rates for 16 to 24 year olds
16 to 24	£56.25	
25 to 64	£71.00	Current IS rate aged 25 plus
65 plus	£142.70	Pensions Credit rate

If we then compare the impact on net income of increasing working hours under a very modest Citizens' Income scheme (graph below) it immediately becomes clear that the withdrawal rate disappears. Under a Citizens' Income approach every extra hour worked increases net income. Net income increases more quickly as earned income rises, so paid employment for a few hours per week becomes much more worthwhile. The 'benefit trap' no longer exists and there is no financial motivation to *not* take work when it is available. Since this issue of 'benefit trap' has been so prevalent in the UK debate over welfare, the ease and simplicity with which it can be overcome through a Citizens' Income approach is impressive.

Net income of single earner, minimum wage plus Citizen's Income



Paying for a Citizen's Income scheme

The Citizen's Income scheme outlined here is close to being revenue- and cost-neutral. For simplicity, we shall assume that the basic rate of tax on earned income remains the same as now, at 32 per cent (20 per cent Income Tax plus 12 per cent Employee's National Insurance Contributions), with higher and additional rates as at present on higher earnings. Rates of 20 per cent are assumed for pensioners and for unearned income. In practice, it may be necessary to have a slightly higher rate of income tax to finance a reasonable scheme in the future.

The costs of the illustrative Citizen's Income scheme			
Age	2011 Census	Citizen's Income per week	Cost
0 to 15	11.9 million	£56.25	£35bn
16 to 24	7.5 million	£56.25	£22bn
25 to 64	33.4 million	£71.00	£124bn
65 and over	10.4 million	£142.70	£77bn
State pension entitlements in excess of £142.70			£15bn
Cost of Citizen's Incomes and pension entitlements			£273bn
Running costs (1 per cent)			£3bn
Total annual cost			£276bn

The total cost of the proposed scheme is approximately the same as the total cost of benefits and tax relief and allowances that would be replaced, i.e. £275 billion per year in 2012-13. We assume that tax relief for pension contributions will be restricted to 20 per cent, which is the rate of Income Tax deducted from pensions in payment. Running costs are estimated at one per cent, which is the cost of administering non-means-tested benefits such as Child Benefit and the state pension. In effect this scheme converts existing benefits and existing tax allowances into a small Citizens' Income in a virtually cost-neutral way.

Conclusion

There are potentially two views of a successful society. The first is a society that strives on the back of fear. It is built upon the idea that the population should be so afraid of the stigma of failure and the material reality of poverty that comes from not being able to work or find work that they are motivated to produce and grow that economy or else sink. Its politics are fear-based, setting one section of the population against another. These are all elements that thrive in an atmosphere of anxiety.

The second is one that is built upon humanity's innate desire to create, communicate and be social. Where our Common Weal is used to give everyone a guaranteed a basic starting platform from which to build a good life and a good society. Creativity, ambition for something better and hope drive productivity and the creation of community. Cooperation and mutual support build the economy. Its politics seek unity and the power of a collective force. These are all things that thrive in an atmosphere of security.

Scotland has to choose which one of these two views it wants. This is about choosing how secure we want our society to feel. So it is fundamentally about what sort of system of social security we want to create.

A piecemeal tinkering of existing structures is not enough. Stopping a creaking system from falling over means ongoing social and economic costs for that patch-up. A whole new integrated system of social security starting with well-paid work, a house to build a life from and Citizens' Income as the most efficient and secure means of giving a base income should be created.

This is not only the way that treats our population with respects and no longer seeks to manipulate and alienate them through outdated systems but it also makes solid economic sense. More equal societies do better; less crime, less antisocial behaviour, better health outcomes all meaning public money can be spent on positive things not addressing negatives. A house building programme would stimulate economic growth create jobs and mean our children would either have good social housing or not be saddled with mortgages that eat up huge proportions of their income. We would also make large medium-term savings on housing benefits now; almost a quarter of the benefit budget once pensions are removed. A Citizens' income is cheaper to administer and allows us to fully integrate the tax and benefit system as it means both benefit and tax are based in individuals whereas as up to now benefits have been based on households. Men and women are treated equally with no embedded dependence.

All of this is possible. It requires creativity and ambition for something better and some political courage and leadership. The alternative is not the status quo but a steady decline of a struggling welfare state and an increasingly unequal and dysfunctional society.

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