THE CONVERSATION

Why Scotland is unlikely to become a welfare paradise

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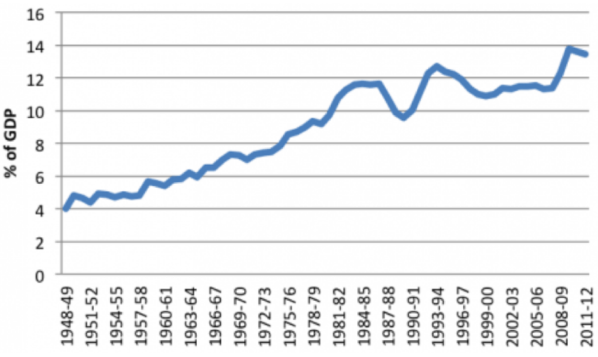
There's no wall of welfare cash heading north of the border. Kukhmar

The "vow" that the main UK party leaders made to boost the powers of the Scottish parliament in the days before the independence referendum started a sequence of events that will see welfare benefits vary across different parts of the UK. This is an outcome that would have horrified the fathers of the post-war welfare consensus, but is perhaps an inevitable consequence of its gradual erosion since the late 1970s.

The founders of the welfare state had a clear vision that the state would insure British citizens against a variety of adverse events such as poverty, unemployment, bereavement and disability. The legislative support for this policy was provided by the National Insurance Act of 1946, which was also responsible for the universal coverage of the state pension, which had first been introduced in 1908.

These benefits came at a cost, however: as the range of coverage extended, the cost of the welfare budget increased from 4% of UK GDP in 1948-49 to 13.6% of UK GDP in 2012-13. The growth in the cost of the welfare state has substantially exceeded the rate of growth of the economy. The additional pressure that this growth has put on the rest of public spending has inevitably led some people to question its affordability.

Benefit spending as a % of GDP



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Implicit in its original design was the notion that state benefits would be available to all citizens and therefore would not vary geographically. However, this original vision now seems to have given way to electoral pragmatism. Immediately after the Scottish referendum, the prime minister asked Lord Smith of Kelvin to bring forward a set of proposals, jointly agreed by the political parties, for new fiscal powers to be devolved to Scotland.

The Smith Commission reported in November 2014 and in January 2015 the UK government published draft proposals for legislation based on his report. The proposals included the transfer of control of £2.6bn-worth of welfare benefits to the Scottish parliament. The explanation of this measure was that:

> *Under the Smith Commission Agreement, for the first time, substantial elements of the United Kingdom's welfare system are to be devolved to Scotland. This will give the Scottish parliament the levers it needs to make and create changes to suit Scottish circumstances, while retaining the strength, stability and economies of scale found in the UK-wide system.*

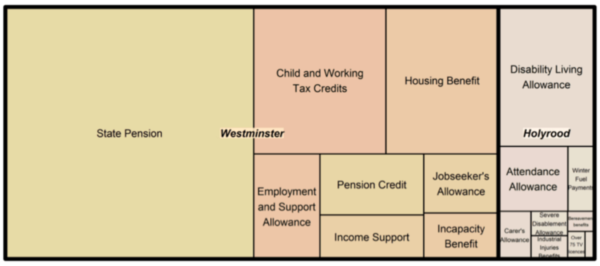
Yet in the rush to provide additional powers, the UK government has been silent on how exactly these new "levers" could be used to promote better outcomes for Scottish citizens.

Any explanation would not only cause resentment about interference from the Scottish government but would also open up the criticism that improved outcomes should be available to all UK citizens, not just Scots. But the absence of any explanation makes it difficult to understand why some benefits have been selected for devolution while others have not.

What's moving north

The benefits being transferred are shown on the infographic below. The size of each rectangle is proportional to the amount spent on the main Department of Work and Pensions (DWP) benefits and HMRC tax credits in Scotland in 2012-13.

Proposals for transfer of welfare expenditure to Scotland



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Of the benefits proposed for Holyrood, Attendance Allowance and Disability Living Allowance are the most significant, together accounting for around £2bn of its new spending responsibilities. All of Attendance Allowance (£489m) and more than one third of DLA (£515m) are claimed by pensioners.

Winter Fuel Payments and over-75s TV licences are also targeted exclusively on pensioners. This means that more than half of the spending on the proposed welfare powers for Holyrood will be directed towards pensioners.

The key benefit that will be retained at Westminster is Universal Credit, which is replacing many existing DWP benefits for struggling working-age families that are referred to on the infographic. Scotland will get the power to vary the frequency of Universal Credit payments, the split between members of a couple and whether housing costs will be paid direct to landlords. All other aspects will be common across Great Britain (the situation in Northern Ireland is different).

The case for not devolving Universal Credit might be based on the argument that supporting labour markets in areas that have been hit by adverse economic events underpins both political and macroeconomic stability and therefore must be controlled from the centre.

Other risks, such as ill-health and disability, which interact with local political responsibilities, may be insured against at a more local level. Hence, for example, the logic for devolving Attendance Allowance could be based on the close relationship between this benefit and Scotland's distinctive policies for social care. Neither of these arguments are contained in the draft legislation.

New welfare powers

In addition to those welfare benefits specifically allocated, Scotland will also have new powers to create benefits in areas of devolved responsibility. This possibility should be treated with some caution. There is perhaps a widespread misunderstanding in Scotland that transfer of welfare powers will necessarily lead to more welfare spending.

In the first year after the benefits are devolved, the Scottish government's budget will be increased by an amount equal to existing spending on these benefits. In subsequent years, the amount that its budget will increase will be closely linked to changes in spending on these benefits in the rest of Great Britain.

This would imply that Scotland could continue to service existing and new commitments to those benefits that have been transferred at existing rates: it does not mean that there will necessarily be a sufficient uplift in its budget to extend existing benefits to new client groups, to increase levels of support or to introduce new benefits.

The Scottish government would only be able to do so at some cost to its other spending priorities. If there are cuts in support at Great Britain level, these would likely be reflected in Scotland's budget uplift. If Scotland tries to maintain or expand support for those benefits for which it has responsibility, there will be losers as well as winner and consequently a political price to pay.

Welfare
Scotland
Holyrood
Scottish Government
Smith Commission