How has the Scottish Government's Response to Poverty and Inequality Changed Since 1999?

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Introduction

Poverty is a long recognised challenge facing the Scottish people, touched upon by Cairncross who edited the influential 'The Scottish Economy: A Statistical Account of Scottish Life' in 1954. While poverty does not feature in its own chapter, we gain an insight into the standards of living experienced by Scottish people through an evaluation of their housing and patterns of consumption. Baird reveals that in 1935, 1 in 4 Scottish households were overcrowded compared to 1 in 26 in England and Wales[1], while patterns of consumption illustrated by Robertson reveal that the Scottish working class were also poorer overall than their counterparts elsewhere in the UK at this time[2]. Moving forward, the 'Red Paper on Scotland' edited by Gordon Brown and published in 1975 collates a number of left wing perspectives on economic and social challenges facing Scotland, with a chapter devoted to understanding poverty in Scotland. Levitt tells us that although Scotland experienced a significant degree of economic growth in the post-war period which yielded increased real wages and alleviated the effects of poverty for many, there exists a new class of poor[3]. Levitt is pessimistic for the future of the Scottish economy, writing:

> "Even with continued economic growth the scale of poverty will remain constant as long as the mechanism for distributing wealth and income remains the same."[4]

Scottish levels of poverty are again pointed out to be higher than the UK average, and while the concept of inequality is touched upon in the Red Paper the word is largely used as a synonym for poverty, with the two words used interchangeably rather than understood in their own distinct way.

[1] Baird, R. (1954) 'Housing' p.196

[2] Robertson, D. J. (1954) 'Consumption' p.174

[3] Levitt, I. (1975) 'Poverty in Scotland' p317

[4] Ibid, p.317

Contemporary literature however has become increasingly concerned with the issue of inequality in Scotland and further afield. Tomlinson highlights the growing international concern with inequality, noting the G20's resolution in 2015 to address the inequalities which are curtailing economic growth[5]. Gibb et al provide an update to the work of Cairncross with their diagnosis of the contemporary Scottish economy and society in 'The Scottish Economy: A Living Book'. Bailey & McNulty review inequality and poverty in Scotland in their chapter, with a pronounced emphasis on the former issue. They write in a time where poverty and inequality are resurgent, giving a degree of prominence to inequality but also demonstrate the significant crossover that exists between the causes and consequence of both issues. Bailey & McNulty refer to government policy as poverty *and* inequality reduction strategies with no apparent distinct poverty or inequality based measures[6].

This change over time is telling of the Scottish Government's changing response to the issues of poverty and inequality, which has shifted significantly in terms of policy rhetoric, but perhaps reflects a conflation of the two issues rather than a new and distinct approach.

Methodology

This dissertation is an investigation into the Scottish Government's approach to the issues of poverty and inequality as illuminated by prominent government publications. Some publications of importance include the government's economic strategy documents, produced since 2000 to outline the government's understanding of economic and social issues facing Scottish society as well as their approach to tackle these barriers. Other government publications are incorporated in the

[5] Tomlinson, J. (2016) 'The Contradictions of Capital in the Twenty-First Century' p.180

[6] Bailey, N. & McNulty, D. (2017) 'Inequality and Poverty in Scotland' p.209

analysis of shifting government policy priority, but this dissertation is structured primarily around the government's economic strategies, as they provide a useful timeline with defined points of reference which can be lost when attempting to tie together the abundant network of interconnected government publications. These economic strategies also offer thematic principles outside of specific individual policies, giving a sense of the general direction of travel government policy is working in. In 2000, the Scottish Government writes that the frameworks and strategies:

> "will be the instrument that focuses our actions, whether in the design of our policies, programmes or specific initiatives."[7]

This dissertation is not a review of the efficacy of Scottish Government policy in reducing poverty and inequality, but a consideration of the changes in Scottish Government policy priority over the last 20 years. This dissertation shall attempt to determine the nature of Scottish Government policy priority, as well as uncover the ideas, influences and events which have shaped government policy related to the Scottish Government's approach to tackling poverty and inequality, with a particular interest given to national economic policy and strategy.

Firstly, this dissertation shall review the literature which provide us with definitions of, and illustrates the trends in, poverty and inequality in Scotland, as well as a consideration of the causes and consequences of these issues. Then, Scottish Government publications shall be reviewed to determine the nature of the changing approach taken by the Scottish Government to dealing with poverty and inequality before lastly concluding what can be determined as the key differences and similarities, as well as offering some theories which may explain this change.

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[7] Scottish Government (2000) 'The Way Forward: Framework for Economic Development in Scotland' p.v

Chapter 1: Poverty and Inequality in Scotland

Poverty and inequality in Scotland has changed dramatically over the last 50 years, with major changes stemming from structural changes to the national economy and government policies enacted in the 1970s and the 2000s. Before looking at historical trends of poverty and inequality in Scotland, we should first consider how they can be defined and measured. Finally, this chapter shall consider the causes and consequences of poverty and inequality, as well as a discussion of the potential remedies put forward.

Measuring Poverty and Inequality

The Scottish Government defines absolute poverty as individuals living in households whose equivalised income is below 60 per cent of inflation adjusted median income in 2010/11. This is an indicator of whether households are experiencing an income rise in real terms[1]. Those in relative poverty are defined as individuals living in households whose equivalised incomes are below 60 per cent of the median income in the same year. This is an indicator of whether individuals living in households are experiencing income rises in step with the growth of incomes in the economy as a whole[2].

As part of this definition the threshold for absolute or relative poverty is linked to the relative circumstances of households in the wider economy. There is widespread consensus from UK policy makers that poverty should be measured in relative rather than absolute terms, as relative poverty considers not only if people are able to secure the minimum goods for physical survival, but their

[1] Scottish Government (2018) 'Poverty and Inequality in Scotland: 2014-17' p.26

[2] Ibid, p.26

ability to participate in society[3]. Townsend famously described relative poverty as a condition of those unable to "play the roles, participate in the relationships and follow customary behaviour which is expected of them by virtue of their membership of society"[4].

Defining inequality is a more complex task as inequality can be interpreted in multiple dimensions. Inequality can be understood as the difference in outcomes such as income, wealth, health, attainment or opportunity between different groups of people within or between countries. Cowell tells us that inequality can be interpreted a number of different ways and is subject to many different definitions, with Rein & Miller developing a number of distinct ways of understanding the concept. They posit that equality could mean complete horizontal equity or simply more evenly distributed income shares across different income bands[5]. Cowell resolves this by settling on three critical ingredients to creating a Principle of Inequality Measurement. This involves the specification of a social unit, whether that be a single person, a household or extended family; quantification of a particular characteristic such as income or wealth; a means of representing the income of the social unit, whether that be a personal or household income or wealth[6].

Cowell argues that while incomes may fall short of illustrating the full picture of a social unit's assets at any given moment, using income data remains the most useful representation of a social unit's circumstances. While income data may only portray a specific moment in time and excludes the value of past earnings or accumulated wealth in its analysis, Cowell finds that income data which includes that derived from capital gains and "income in kind" offers the most complete and regularly available source reflective of a social unit's financial reality, with wealth or lifetime

[3] Bailey & McNulty 'Inequality and Poverty in Scotland' p.201

[4] Townsend, P. (1993) 'The International Analysis of Poverty' p.36

[5] Cowell, F. (2011) 'Measuring Inequality' p.2

[6] Ibid, p.2

incomes failing to be as widely recorded or interpretable[7]. Bell & Eiser tell us that measuring inequality chiefly through incomes is useful as it is indicative of other inequalities such as health, education and opportunity, with incomes being a useful depiction of an individual's material circumstances[8].

Prominent indicators of inequality include the Gini coefficient which uses income data to demonstrate equality on a scale of 0 to 1, where 0 represents total equality and 1 represents total inequality[9]. Another way of evaluating income inequality is to use percentiles to represent the distribution of incomes. Using this we can compare the share of income held by different people in Scottish society such as the wealthiest 1 per cent and the rest, or the poorest 30 per cent and the top 30 per cent[10]. This measure can help illustrate who is being affected by changes in income distribution. The Scottish Government uses both the Gini coefficient and income percentiles to illustrate inequality levels in Scotland throughout their official publications.

Poverty and Inequality in Scotland

Scotland experienced a dramatic rise in income inequality in the 1980s, and this is a gap which has shown little change since the late 1990s[11]. Income inequality in Scotland has largely tracked UK levels, experiencing a slight rise in the decade preceding the 2008/9 financial crisis due to the

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[7] Ibid, p.5

[8] Bell, D. & Eiser, D. (2013) 'Inequality in Scotland: Trends, Drivers and Implications for the Independence Debate' p.3

[9] Bailey & McNulty 'Inequality and Poverty in Scotland' p.197

[10] Ibid, p.197

[11] Bell & Eiser 'Inequality in Scotland: Trends, Drivers and Implications for the Independence Debate' p.3

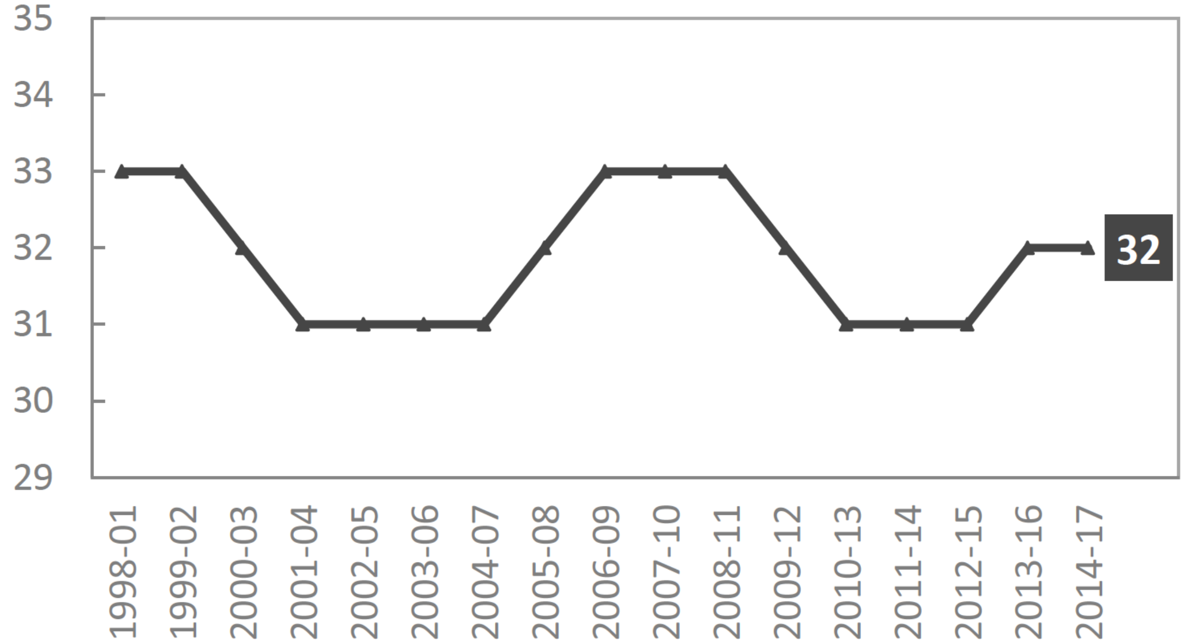

FIGURE 1: Inequality in Scotland as Represented by the Gini Co-efficient since 1998
Source: Scottish Government (2018) 'Poverty and Inequality in Scotland 2014-17' p.8

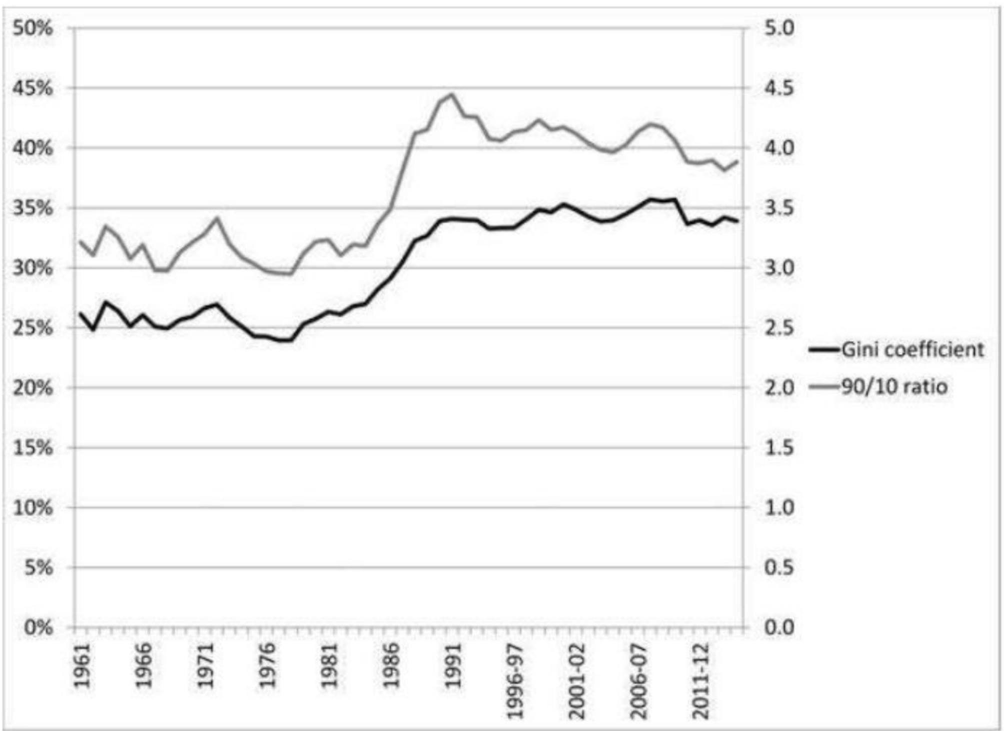

FIGURE 2: Inequality in the UK as Represented by the Gini Co-efficient and the 90/10 Income Ratio
Source: Bailey, N. & McNulty, D. (2017) 'Inequality and Poverty in Scotland' p.198

expansion of the economy, which generated wealth for the wealthiest, before falling back to pre growth levels[12]. Use of the Gini coefficient shows us that inequality has fluctuated, but ultimately remained relatively flat over the last 20 years (Figure 1), while long term UK trends depict the spike in inequality which occurred in the 80s (Figure 2). Income inequality in Scotland is marginally lower than UK levels, but if we exclude the disproportionately unequal areas of London and South East England from this analysis, then Scottish levels of inequality match almost identically with the rest of the UK[13].

Poverty levels in Scotland have been trending downwards in the twenty years since the Scottish Parliament was re-established. Absolute poverty continues to fall as of the latest Family Resources Survey data available up to the period 2014-17, with 14 per cent of Scotland's population living in absolute poverty before housing costs, and 17 per cent after housing costs (Figure 3). However, relative poverty rates have begun to slowly rise in recent years, with 16 per cent of people living in relative poverty before housing costs, and 19 per cent after housing costs[14] (Figure 4). From the 1990s until the financial crisis, poverty levels in Scotland fell. Dickens tells us that the main reason for the fall in poverty experienced from 2000 until the financial crisis was due to changes to tax and the distribution of benefits which helped to push working household incomes above the poverty line[15]. Since 2010 however, poverty rates have began to edge back up to levels at the beginning of the period. Bailey & McNulty find that while the overall poverty rate has not been greatly reduced in the last 20 years the circumstances for pensioners and young people have been dramatically improved, with pensioners now at less risk of being in poverty than working age adults and pre-

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[12] Bailey & McNulty (2017) 'Inequality and Poverty in Scotland' p.197

[13] Bell & Eiser (2013) 'Inequality in Scotland: Trends, Drivers and Implications for the Independence Debate' p.4

[14] Scottish Government (2018) 'Poverty and Inequality in Scotland: 2014-17' p.9

[15] Dickens, R. (2011) 'Child Poverty in Britain: Past Lessons and Future Prospects' R7

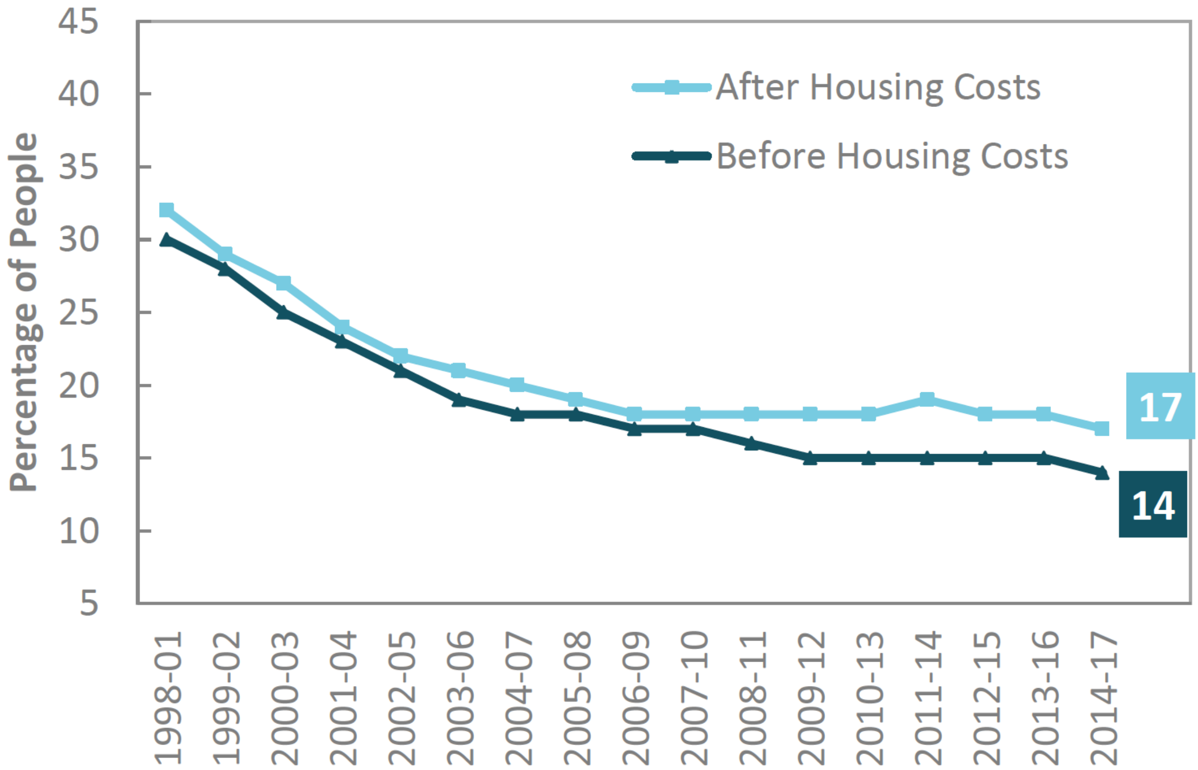

FIGURE 3: Levels of Absolute Poverty in Scotland Since 1998
Source: Scottish Government (2018) 'Poverty and Inequality in Scotland 2014-17' p.9

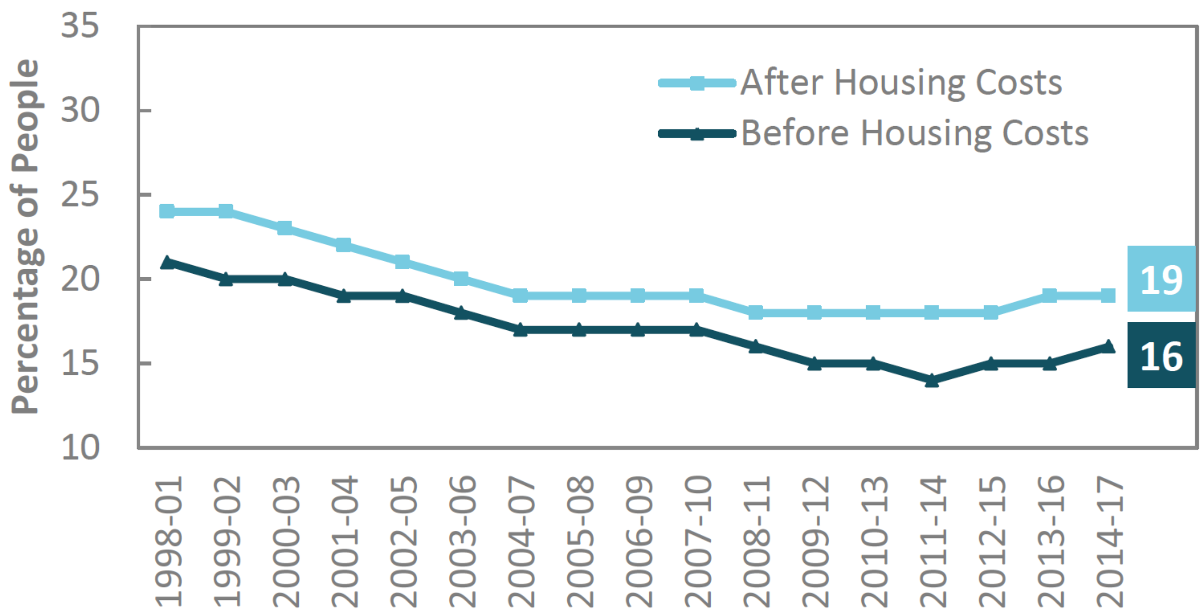

FIGURE 4: Levels of Relative Poverty in Scotland Since 1998
Source: Scottish Government (2018) 'Poverty and Inequality in Scotland 2014-17' p.9

recession levels of child poverty only slightly higher than the average[16]. At the same time the rise of in-work poverty, where a member of a household is engaged in employment, is preventing the overall poverty rate from falling[17].

What has Caused Inequality in Scotland to Grow?

The surge in income inequality experienced in the 1980s occurred during a period of magnitudinal shifts in the British economy. Several large changes precipitated the rise in income inequality such as the decline in Scottish heavy industry in this period, government monetary policy and new trade union legislation.

However, Bell & Eiser maintain that as many other countries in the western world had similar experiences with deindustrialisation, it would not be accurate to proscribe UK government policy during this time as the sole explanation[18]. Stiglitz refutes this, underlining politics and policy at the root of widening inequality:

> "inequality is a product of political and not merely macroeconomic forces. It is not true that inequality is an inevitable byproduct of globalisation, the free movement of labour, capital, goods and services, and technological change"[19]

Tomlinson depicts a more complex picture, which incorporates the 'interplay between doctrinal views and changing understandings of the forces affecting income and wealth distribution'.

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16 Bailey & McNulty 'Inequality and Poverty in Scotland' p.202

17 Ibid, p.204

18 Bell & Eiser 'Inequality in Scotland: Trends, Drivers and Implications for the Independence Debate' p3

19 Stiglitz, J. E. (2013) 'Inequality is a Choice'

Tomlinson points to tax reform, with increases to VAT and reductions to income tax during a time of high unemployment as a key agent working to polarise the income levels of the poorest and the wealthiest. Similarly, falling real benefit levels while those earning wages retained more of their income also helped to widen the distribution[20]. It remains important to recognise that technological change as well as the globalisation of goods manufacturing and production were also determinant factors, with the computerisation and effective automation of many jobs in key industries such as textiles, steel, and car manufacturing, reducing the number of intermediate jobs[21]. Mounting pressures from the increasing competitiveness of imports and foreign producers also worked to apply downwards pressure on wages. Conversely, the share of high wage occupations not affected by these changes increased during this time, with increased competition for low wage jobs suppressing wages - leading to increased income polarisation and increased income inequality[22].

Increased income inequality has been offset at the household level by the redistributive tax and benefit system in the late 1990s and 2000s, with higher taxes and more generous social security working to reduce the net income gap[23]. As a result, the inequality of household net income has not increased overall in Scotland since 1997. While this continues to be the case, there has been some widening in income inequality for the richest and poorest deciles, with incomes for the wealthiest 1-2 per cent of households rising persistently[24].

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[20] Tomlinson, J. 'The Contradictions of Capital in the Twenty First Century' p.178

[21] Bailey & McNulty 'The Scottish Economy: A Living Book' p.200

[22] Bell & Eiser (2013) 'Inequality in Scotland: Trends, Drivers and Implications for the Independence Debate' p.19

[23] Ibid, p.4

[24] Ibid, p4

Poverty and Inequality Reduction Strategies

Before considering strategies to reduce poverty and inequality, it is important to consider why it is in the interest of national governments to implement such measures. Many prominent theorists have produced works which describe the consequences if the growth of wealth and income inequality is left unchecked. Wilkinson and Pickett describe the social harm that inequality can cause, explaining how inequality leads to worse health outcomes and attainment, with an increased burden on public services like healthcare and out of work welfare as a consequence[25]. Stiglitz takes a moral stance, arguing that governments should address inequality for the betterment of all:

> "I see us entering a world divided not just between the haves and have-nots, but also between those countries that do nothing about it, and those that do…in these divided societies, the rich will hunker in gated communities, almost completely separated from the poor, whose lives will be almost unfathomable to them, and vice versa."[26]

The debate surrounding the reduction of inequality revolves around how best to optimise outcomes and fairness within communities without undermining labour market incentives and compromising economic strength. Bell and Eiser summarise the discussion well[27], illustrating the conventional view which argues that some inequality is necessary to incentivise work and an upwards financial trajectory, but how inequality may lead to worse long term economic growth outcomes if it reduces the ability of participants in the labour market to participate to the best of their ability. For example, if they live in a deprived community and cannot access appropriate medical support, educational

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[25] Wilkinson, R. & Pickett, K (2009) 'The Spirit Level' p.73

[26] Stiglitz (2013) 'Inequality is a Policy Choice'

[27] Bell & Eiser (2013) 'Inequality in Scotland: Trends, Drivers and Implications for the Independence Debate' p6

and vocational opportunities, then the value of their human capital is diminished[28]. Atkinson details the effects of persistent inequality which prevents those on low incomes from accumulating wealth, and with no means to improve their material circumstances enter the "poverty trap". This prevents individuals from expanding their resources and holds back economic growth[29]. Debate also surrounds the consequences of inequality and whether it is justifiable as a means to induce productivity[30]. Golden & Katz argue that while skill-biased technological change which increases the demand for skilled labour will also increase the income gap between skilled and unskilled workers, this is best remedied by improving the skills training of those in the labour market, with inequality telling a story of supply and demand[31] rather than rent-seeking by the richest in society. The latter explanation is proposed by Stiglitz, who argues that inequality represents the political influence of a monied elite and how they are able to protect their interests through monopolies and favourable regulation[32]. Within this issue it is important to consider whether rising inequality equates to permanent or transitory incomes. An increase in transitory inequality would be consistent with income mobility, reflecting job turnover in the short term[33]. Conversely, if rising inequality is due to permanent changes to incomes then the ability of earners to acquire incomes can be understood to have been undermined, with economic prospects becoming entrenched[34]. This idea is supported by concerns that widening inequality represents reduced social mobility[35].

[28] Aghion et al (1999) 'Inequality and Economic Growth: The Perspective of the New Growth Theories' p.9

[29] Atkinson, A. (2015) 'Inequality: What Can Be Done?' p.187

[30] Mankiw, G. N. (2013) 'Defending the One Percent' p.23

[31] Goldin, C. & Katz, L. F. (2008) 'The Race Between Education and Technology' p.91

[32] Stiglitz, J. E. (2012) 'The Price of Inequality' p.95

[33] Jenkins, S. P. (2011) 'Has the Instability of Personal Incomes Been Increasing?' R34

[34] Debacker et al. (2011) 'Rising Inequality: Transitory or Permanent? New Evidence From a Panel of U.S Tax Returns 1987-2006' p.2

[35] Portes, J. (2011) 'Poverty and Inequality: Introduction' R3

There is a growing body of literature which proposes that inequality may be fuelling political and economic instability which has an adverse effect on economic growth. Bell & Eiser present the evidence that suggests increased inequality contributed to the 2007/8 financial crisis and ensuing recession[36]. As income gains become increasingly concentrated in the hands of those in the top income deciles, we see investment in financial markets begin to swell as a means of promoting consumption. This increased the supply of credit available and made loans more accessible to those belonging to lower income households, precipitating the proliferation of debt owned by those on low incomes trying to support their improved living standards and social standing while their incomes began to fall in real terms[37]. Stiglitz supports this explanation, underlining that as increased inequality concentrates spending power in the hands of those with a low marginal propensity to consume, we see a reduction in aggregate demand. To ensure that full employment is maintained, nations will act to compensate for this reduction and encourage consumption by lowering interest rates and relaxing market regulations. While these measures may maintain consumption for a time they also create a bubble, and when the bubble bursts the economy enters recession[38].

Therefore, while discussion of the merits and consequences of inequality remains contentious, there is a convincing case which presents itself that increasing inequality has contributed to less than optimal long term economic growth, reduced social mobility with many caught in the poverty trap, as well as economic and political instability in OECD countries.

[36] Bell & Eiser (2013) ‘Inequality in Scotland: Trends, Drivers and Implications for the Independence Debate’ p.6

[37] Wisman, J. D. (2013) ‘Wage Stagnation, Rising Inequality and the Financial Crisis of 2008’ p922

[38] Stiglitz, J. E. (2012) Macroeconomic Fluctuations, Inequality and Human Development’ p.33

What Can Be Done?

Atkinson offers a broad schedule of policy recommendations to help reduce inequality. Some key changes stand out from among list of proposals such as replacing the UK system of local taxation - the Council Tax - with a progressive property tax based upon reviewed property assessments[39]. Atkinson sees the introduction of the regressive Council Tax as one contributing factor to the surge in inequality which occurred across the United Kingdom in the 1980s, and argues that there is significant benefit to reducing inequality through its replacement with a more progressive property tax system. Atkinson writes that it should be the responsibility of government to set an explicit target for reducing unemployment and underemployment, while developing a capacity to offer guaranteed public employment at the minimum wage for people who require it[40]. Atkinson recognises that changes to the labour market which have occurred since the mid-1970s have led to rising amounts of unemployment and non-standard employment seeing people increasingly engaged in multiple activities encompassing paid and unpaid labour[41]. In the UK, there has been a considerable rise in the number of unpaid internships and people employed on zero hour contracts with no guaranteed weekly income [42]. Atkinson argues that it is the role of government to minimise involuntary unemployment through guaranteed employment, not unlike active labour-market programmes pursued in the United States as part of the New Deal during the 1930s[43].

Atkinson also proposes that national governments should implement a national minimum wage set at a living wage, alongside a code of practice for pay above the minimum. Atkinson is concerned

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[39] Atkinson (2015) 'Inequality: What Can Be Done?' p.198

[40] Ibid, p.140

[41] Ibid, p.135

[42] Ibid, p.135

[43] Ibid, p.140

with improving the relative bargaining power of workers and consumers in affecting the rate of pay, as well as closing the gap between highest and lowest earners[44]. Instead of a statutory maximum pay ratio, Atkinson argues that this is best achieved through a citizens advocacy group to be consulted in the development of wage related policy, helping to equalise the power imbalance between workers and business owners.

Another plank put forward by Atkinson surrounds manipulating personal income tax. He proposes marginal rates of taxation increasing by increments of income with a top rate of 65 per cent, supported by work to broaden the tax base[45]. Atkinson arrives at this proposal by investigating the revenue maximising top income tax rate. He disagrees with the assertions of Brewer, Saez & Shepherd[46] who recommend a top rate of 40 per cent, pointing out that their estimate of elasticity is tentative and allows that the top rate could range from as little as 24 to as high as 62 per cent. Atkinson also highlights that the arithmetic within the Mirlees report which was informed by the work of Brewer, Saez and Shepherd, and suggested the top rate of income tax be cut to 40 per cent assumes the maximisation of all other forms of taxation in lieu of the proposed income tax cut. However, Atkinson takes issue with this assumption, arguing we cannot depend on top rate taxpayers to spend all of their retained income on goods taxed by VAT when in reality they are more likely to save some or all of this money, or perhaps spend it overseas[47]. Furthermore, it is important to consider the other social objectives of taxation alongside goals such as revenue maximisation, which Atkinson argues is best reflected in a top rate of tax which is more “fair” and helps to prevent

[44] Ibid, p.148

[45] Ibid, p.188

[46] Brewer, M., Saez, E., & Shepherd, A. (2010) ‘Means-Testing and Tax Rates on Earnings’ p110

[47] Atkinson (2015) ‘Inequality: What Can Be Done?’ p.186

the poverty trap which holds back those on low incomes from improving their economic and social circumstances[48].

Therefore it is clear that many avenues exist for national governments who wish to reduce the extent of poverty and inequality. A review of trends in inequality in Scotland reveal that there has been little change to the overall distribution of wealth over the last 20 years, with a slight widening experienced by the top 1 per cent of income recipients.

[48] Atkinson (2015) 'Inequality: What Can Be Done?' p.187

Chapter 2: The Scottish Government's Changing Response to Poverty and Inequality

This dissertation is not an assessment of the strengths of the Scottish Government's policy or its success in tackling poverty or economic inequality, but an evaluation of the shifting debate in Scotland surrounding poverty and economic inequality, and an illustration of how Scottish Government policy priority has changed over the course of its almost two decade history. Analysis of key government publications reveals a transition away from limited direct intervention and a reliance on UK government policy to meet poverty reduction targets, and a movement towards more policy autonomy in the face of public spending retrenchment by the UK government since 2010 as well as a more interventionist approach to the reduction of poverty and economic inequality. While there are some key similarities in policy approach, the government has increasingly committed itself to a policy platform which advocates the reduction of inequality over poverty.

Scottish Government Economic Strategy since 1999

A good indication of how the Scottish Government's approach to the reduction of poverty and economic inequality has changed can be seen through the different plans produced to reflect the national economic strategy. Published in 2000 and 2004 as 'The Framework for Economic Development in Scotland' (FEDS) and in 2007, 2011 and 2015 as 'The Government Economic Strategy', these publications outline how the Scottish Government has identified key issues related to the Scottish economy and the proposed solutions. These plans are a key primary source as they encompass the full extent of government policy related to the Scottish economy and society, and provide an indication of the direction of travel for government policy. The first 'Framework for Economic Development in Scotland' states that the framework:

"will be the instrument that focuses our actions, whether in the design of our policies, programmes or specific initiatives."[1]

In this sense, the plans are a useful resource in relation to the changing debate surrounding poverty and economic inequality as they can tell us how the government is approaching these issues and the specific philosophy which underpins the creation of subsequent policy. This chapter shall review the change in Scottish Government policy priority over time, with discussion of why this change could have taken place in chapter three.

The Framework for Economic Development in Scotland 2000

The turn of the 21st century was a period of great overhaul for government policy in the United Kingdom. The election of a Labour government in 1997 brought about a considerable amount of welfare reform in its early years as well as legislating for Scottish devolution with the Scottish Government (then the Scottish Executive) reconvening in 1999 after being adjourned for almost three centuries.

Published in 2000, the 'Framework for Economic Development in Scotland' was the first plan of its kind published under devolution, produced to illustrate the vision of the then Scottish Executive and their design for the Scottish economy and society, as well as a diagnosis of the key issues facing the nation. The plan outlines the key principles of the framework as being to provide economic development which "should raise the quality of life of the Scottish people through increasing

[1] Scottish Government (2000) 'The Way Forward: Framework for Economic Development in Scotland' p.v

economic opportunities for all'[2]. The plan is underlined by the belief that economic growth will be driven by private sector investment, growth, and innovation, and that the Scottish government's role is to facilitate that in all ways it can such as through improvement to early years education and skills training, alongside the development of better transport and communications infrastructure[3]. This forms the greatest extent of the government's approach to the reduction of poverty, which relies heavily on policy and initiatives implemented by the UK Government, and demonstrates how little attention is afforded to the issue of economic inequality, which is acknowledged sparingly.

The framework establishes its focus as being a consideration of how to 'stimulate high levels of sustainable growth and increasing incomes per head', and how the Executive could contribute to creating conditions which allow this to occur[4]. Central to the framework's basis for securing economic growth is the goal of enhancing productivity; improving the quantity and quality of goods produced per worker and reducing costs. Embedded within this desire to increase output are a number of different factors according to the Executive, including improving transport and communications infrastructure[5]; encouraging private sector investment and innovation[6]; and the reduction of poverty through improved incentives to work, such as the Working Families Tax Credits system, the implementation of a national minimum wage and changes to income tax rates, as well as a plan to eliminate structural unemployment through the UK government's New Deal for Scotland[7].

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[2] ibid p.viii

[3] ibid p.viii

[4] Ibid, p.xiii

[5] Ibid, p.xvi

[6] Ibid, p.xviii

[7] Ibid, p.20

The last of these measures represent legislation enacted by the UK Government The Working Families Tax Credit (WFTC) was introduced in 1999 as a more generous replacement for Family Credit (FC) which had been in operation since 1986, and served as the largest form of support for low-income working families with children. The WFTC offered a higher credit amount as well as more support for childcare to households where at least one person was working, incentivising non-working families to gain employment. Under WFTC, families could earn more before the credit began to be withdrawn, with a limit of £90 per week as opposed to the £70 limit under FC[8]. In April 1999, the UK Government introduced a National Minimum wage of £3.60 per hour to address the issue of underpaid work. While the UK had legal wage minimums in several sectors until 1993, there was no national minimum across the British economy[9]. The New Deal for Scotland focuses on engaging people who are not active in the mainstream economy with work as part of the conventional labour market, with a particular emphasis placed on youth unemployment. The New Deal established a four stage 'Gateway' programme to ensure young people are able to enter gainful employment in some capacity[10]. As part of the New Deal, an Employment Zone was established in Glasgow, an area of particularly high long-term unemployment. Other changes implemented during this time to reduce poverty and make work pay for low income families include a reduction to the starting rate of tax from 20 per cent to 10 per cent as of April 1999, increases to the primary threshold (where National Insurance contributions become payable by employees), the abolition of the mortgage interest subsidy programme, increases in income support such as income related jobseeker's allowance and associated benefits for families with children, and increases in support for families with children under 12 months by way of a lump sum grant[11]. While this list may

[8] Brewer, M. & Browne, J. (2006) 'The Effect of the Working Families Tax Credit on Labour Market Participation' p.4

[9] Metcalf, D. (1999) 'The Low Pay Commission and the National Minimum Wage' p.47

[10] Fairley, J. (1998) 'Labour's New Deal in Scotland' p.93

[11] Scottish Government (2000) 'The Way Forward: Framework for Economic Development in Scotland' p.20

comprise an extensive schedule of reform to help tackle poverty, it is important to recognise that all of these policies concern reserved matters and were legislated by the UK Government rather than at Holyrood, highlighting how the Scottish Government's poverty reduction strategies rely on cooperation with policy makers in the UK Government.

In terms of poverty reduction initiatives within devolved competence, the framework offers that education is an important inoculation against poverty. The government commits to raising standards in schools to improve the number of those from deprived areas gaining qualifications as to ensure their integration in society and the economy[12]. Additional consideration is given to the increasing importance of lifelong learning and the availability of skills retraining for those already part of the labour market, as well as those who have been unemployed for an extended period as part of the Executive's Training for Work programme[13].

The issue of poverty and the Executive's approach to social justice at this time is detailed further in their plan titled 'Social Justice… A Scotland Where Everyone Matters' published in 1999[14]. In this document the Executive commits to defeating child poverty within a generation and to eliminate regional inequalities which exist between the best performing communities and more deprived areas. The Social Justice plan highlights the inequalities which exist between Scotland's communities, with some particularly deprived areas at this time plagued by chronic high unemployment, poor health and housing, and high crime[15]. However, the plan delivers no particular policy prescriptions to remedy this issue, instead serving largely as a rhetorical commitment to a set of values related to reducing poverty and interregional inequality.

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[12] Ibid, p.22

[13] Ibid, p.20

[14] Scottish Government (1999) 'Social Justice… A Scotland Where Everyone Matters'

[15] Ibid, p16

A review of measures put forward by the government reveals that the framework relies heavily upon support from the UK government to deliver on its poverty reduction targets. The framework acknowledges the limits of its remit and that many powers - particularly surrounding welfare - remain reserved matters, stating that while the ability to tackle issues such as poverty and exclusion "are very closely in accord with the powers and responsibilities granted to the Scottish Executive...some of these channels lie out with the immediate powers and responsibilities of the Executive, especially with the UK government"[16]. Furthermore, the Social Justice plan concedes that the Scottish Executive relies on "working alongside a UK government that shares our aspirations" for the plan to work and to ensure targets surrounding poverty reduction are met[17]. A particularly important matter reserved to Westminster which the Scottish Government touts as a key part of its poverty reduction strategy is that of welfare; without control over social security spending devolved to Holyrood, the Scottish Government relies on the UK Government to pursue a like-minded approach. In this instance, legislation to expand welfare spending at Westminster is critical for the Scottish Government to fulfil its targets surrounding poverty reduction. While the two parliaments may have initially worked concertedly in this regard, the UK government's retrenchment of public spending after 2010 and the global financial crisis could be understood to have precipitated calls for the devolution of welfare powers to provide continuity in Scotland and prevent poverty and economic inequality targets from being compromised.

Within the framework and the government's wider plan, it is clear that the Scottish Government's approach to the reduction of poverty and economic inequality is almost entirely concerned with the former issue. The government's strategy focuses on the benefits of economic growth through strong

[16] Scottish Government (2000) 'The Way Forward: Framework for Economic Development in Scotland' p.xiii-xix

[17] Ibid, p.7

private sector investment, contending that this approach shall improve living standards for all. The Scottish Government position is one of limited direct intervention, instead relying on UK Government welfare spending plans and labour market policies to achieve its goals. One important devolved matter central to the Scottish Government's poverty reduction is that of education and skills training, which it sees as necessary to the prosperity of the Scottish economy and crucial to alleviating deprivation by incorporating all of Scotland's people into the mainstream economy. It is clear therein that at this time the Scottish Executive is concerned primarily with the reduction of poverty through UK Government led welfare initiatives and the promotion of private sector investment and reward. At this time, the Scottish Government is not concerned with direct intervention, nor the prevalence of economic inequality in Scottish society, while relying heavily on UK Government policy and initiatives.

Continuity - The Framework for Economic Development in Scotland 2004

There is a great degree of continuity found in the themes which comprise the Scottish Government's economic strategy published in 2004. The Labour-Liberal Democrat coalition which formed the first Scottish Executive retained its majority in the 2003 election, publishing this follow up to the previous framework in two parts. The first of which establishes the key elements of government strategy[18], while the second considers in more detail the underlying thinking which influenced the creation of the Framework with deliberation given to the economic challenges facing Scotland as well as the progress made since the first FEDS was published in 2000[19]. The Framework is also closely linked to a third publication, the 'Partnership for a Better Scotland'[20] which broadly outlines

[18] Scottish Government (2004) 'The Framework for Economic Development in Scotland'

[19] Scottish Government (2004) 'Background Analysis for FEDS'

[20] Scottish Government (2003) 'A Partnership for a Better Scotland'

the coalition's working policy objectives. Despite this abundance of literature, the 2003-2007 Scottish Government represents a low water mark for policy developed to address poverty and economic inequality by the Scottish government, with limited emphasis given to either issue across these key government publications, especially considering the comparative rigour which was applied to detail the government's approach in the strategy which preceded it.

The 2004 framework opens by reaffirming the priority of the first FEDS:

"to raise the quality of life of the Scottish people through increasing the economic opportunities for all on a socially and environmentally sustainable basis."[21]

The Framework goes on to identify four principle outcome objectives as the end goal of government policy, as well as four enabling objectives established as general economic conditions through which the principle outcomes shall be achieved. The Scottish Government seeks to: achieve economic growth and sustained competitiveness in the global economy; encourage regional development and improved economic opportunities throughout all of Scotland's regions; close the opportunity gap which exists between the best and worst off in Scottish society; ensure sustainable development in economic, social, and environmental terms[22]. To secure these outcomes, the Government establishes four enabling objectives: a stable and supportive macroeconomic environment; a facilitative national economic context underpinned by strong physical, human, and electronic infrastructure; dynamic competitiveness in Scottish enterprise; economic policies which secure social, regional, and environmental objectives[23].

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[21] Scottish Government (2004) 'The Framework for Economic Development in Scotland' p.2

[22] Ibid, p.2

[23] Ibid, p.4

While the notion of an 'opportunity gap' is touched upon within the strategy, the government does not give a thorough consideration of its implications. The government recognises the existence of inequality between Scotland's regions and communities[24], but this point is made in relation to the relative economic strength of Scotland's cities and the weakness of its rural areas rather than as a social justice issue, nor is the concept of inequality acknowledged as understood through disparities of income or wealth. The Framework underlines Scotland's ageing population and the need to equip Scottish people and businesses with the means for success as the greatest challenges facing the Scottish economy[25]. The paper states plainly in its opening remarks that "growing the economy is our top priority", and the Framework emphasises that central to economic growth in Scotland is raising the productivity of enterprises in an international context and the public sector[26].

The 2004 Framework itself makes only brief reference to the government's strategy related to the reduction of poverty, pointing instead towards another government publication 'A Partnership for A Better Scotland' which serves as a policy roadmap for the ensuing four years of government and combines the manifesto commitments of the two parties, Labour and Liberal Democrats, which formed the ruling Scottish Government coalition from 2003-2007. Within the partnership plan commitments are made to reduce poverty and improve the quality of communities in Scotland through different measures including housing, community based initiatives, and support for the voluntary sector. To reduce poverty, the Partnership proposes improvements to housing by encouraging local authorities to pass control over housing stock to tenant co-operatives and local, community based housing associations[27], and sets a target to develop 18,000 homes for 'social rent

[24] Ibid, p.29

[25] Ibid, p.26

[26] Ibid, p.5

[27] Scottish Government (2003) 'A Partnership for a Better Scotland' p.38

and low-cost home ownership' by 2006[28]. The government also promises to reduce the extent of fuel poverty by 30% by 2006[29]. To improve the standard of living in Scottish communities, the government wants to: expand money advice services available from the Citizens Advice Bureau and other voluntary sector groups; support the development of credit unions and community banking; and revitalise the Post Office network in Scotland[30]. Finally, the Government will support the voluntary sector by delivering changes recommended by the strategic funding review of the voluntary sector and support rolling core funding for the sector[31].

The objectives, challenges, and key themes of the 2004 FEDS are very similar to those found in the first framework. The framework opens with a direct quotation from its predecessor which sets the tone as one of continuity, with a great degree of consistency in policy but the prominence of poverty reduction measures and the specific importance of poverty reduction is less significant within the 2004 FEDS in comparison to plans produced by the previous Scottish Government administration. While skills training and early years education remains important to the Framework's overall objectives, its connection to the Scottish Government's broader poverty reduction strategy is not a strongly made point. Based on the government framework and associated publications, the Scottish Government's priorities at this time are afforded to neither poverty or inequality.

A New Approach - The Scottish Government Economic Strategy 2007

In 2007, the Labour-Liberal democrat coalition which had governed Scotland since 1999 was replaced by a minority administration formed by the Scottish National Party. The outcome of the

[28] Ibid, p.38

[29] Ibid, p.38

[30] Ibid, p.38

[31] Ibid, p.38

2007 election created a major shift in Scottish politics, with one of the main differences between the SNP and the other major parties in the Scottish Parliament being their stance on the constitution. The SNP support Scottish independence from the United Kingdom, and as analysis of the strategy shows the party are much strong advocates for the devolution of further powers to the Scottish Parliament. Government policy from 2007 represents a move away from a reliance on UK government policy to pursue poverty reduction targets and pushes inequality into national political debate.

The 2007 strategy identifies Scotland as a country with a low growth economy falling behind other small independent nations, but emphasises the potential of Scotland's human capital which it sees as the country's greatest resource[32]. The strategy laments sluggish Scottish GDP growth which has been lower than comparable European countries and below the UK average[33]. To overcome this, the strategy proposes five priority areas to maximise the economic output of Scotland's human capital: learning, skills and well being; a supportive business environment; infrastructure development and place; effective government; and equity. The strategy echoes the idea of 'sustainable growth' seen in previous economic frameworks and is defined here as the process which builds 'a dynamic and growing economy that will provide prosperity and opportunities for all, while ensuring that future generations can enjoy a better quality of life'[34].

The strategy goes on to define five strategic objectives which are 'internationally recognised as being critical to economic growth' and policies designed to achieve the key priorities set out above. The Scottish Government aims to ensure that national economic policy should consider how it will:

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32 Scottish Government (2007) 'The Government Economic Strategy' p.v

33 Ibid, p.11 Figure B2

34 Ibid, p.viii

1) Make Scots smarter, expanding opportunities for Scottish people and "ensuring higher and more widely shared achievements".
2) Make Scots healthier, helping people to maintain healthy lives and improve health standards, particularly in disadvantaged communities.
3) Make Scots and Scottish communities safer and stronger through initiatives which will help local regions to prosper and cultivate greater opportunities.
4) Make Scotland greener by ensuring policy incorporates ideas of sustainability as well as outright improvements to Scotland's "natural and built environment".
5) Make Scotland wealthier and fairer, enabling Scottish business and Scottish people to generate wealth more evenly by allowing "more people to share fairly in that wealth".[35]

Within these strategic objectives the government recognises the importance of policy which supports the even distribution of rewards associated with economic growth. Whether that is the generation of wealth, academic achievement or the creation of opportunities, the Scottish Government is committed to guaranteeing that these different outcomes are delivered 'more fairly' and for all in Scottish society[36]. The strategy gives significant backing to the argument that Scotland will be more economically successful if it is "fairer". The strategy defines this concept in relation to income inequality as understood through the Gini coefficient[37]. The Scottish government targets Scandinavian countries such as Norway, Finland, Iceland and Denmark, pursuing policy which will allow Scotland to achieve similar levels of Relative National Performance by reducing inequality[38]. The strategy identifies a "continuing problem of the persisting level of inequality", illustrating that

[35] Ibid, p.3

[36] Ibid, p.4

[37] Ibid, p.5

[38] Ibid, p.5

income received by the bottom 30 per cent of earners has remained unchanged since 2000-01 with the bottom three income deciles holding around 14 per cent of all income in Scotland, while the top 30 per cent of earners retaining around 52 per cent of all income[39].

To help define the government's policy direction the strategy points towards the success of Ireland, which has experienced "rising prosperity and exceptional growth" through consistent investment in education, a low corporate tax rate, sustainable investment in infrastructure and housing, and a "strong social partnership" with a coordinated approach to implementing the country's governance strategy[40]. This also informs the opinion of the government's economic strategy which calls for the devolution of further powers to tackle inequality. With control over economic and fiscal policy, oil and gas reserves, a Scottish competition authority and employment law, the Scottish Government argues that it could better achieve the purpose of the devolved administration and sustainable economic growth[41]. The strategy also contends that through the further devolution of powers over welfare and personal taxation, the Scottish Government would be better able to address the causes and consequences of inequality, resolving to pressure the UK government on issues of welfare reform which meets Scotland's equality objectives[42].

The strategy maintains that learning, skills, and well-being are key to delivering sustainable economic growth while also acknowledging the importance of all people in Scottish society, particularly those from deprived areas or poorer socioeconomic backgrounds are able to access education and go on to participate in the labour market. The strategy commits to designing specifically the delivery of learning and education for those "furthest away from the labour market"

[39] Ibid, p.17

[40] Ibid, p.7

[41] Ibid, p.8

[42] Ibid, p.38

and make quality childcare available to ensure parents are able to participate in employment and training[43]. These measures are linked by the Scottish Government to the issues which underpin inequality such as persistent exclusion from the job market and the importance of early years education to ensuring people are equipped to participate in the mainstream economy[44]. The 2007 economic strategy expressly marries their plans for education to the objective of creating a "fairer Scotland" where opportunities are available to all[45].

While the importance of early years education, skills retraining and closing the opportunity gap has been a priority for both preceding Scottish Government administrations, the 2007 economic strategy also features explicit targets to reduce inequality, with a selection of specific policies to achieve that aim. To achieve greater equality in Scottish society, the Scottish Government proposes policies which fall into one of three areas: policy which promotes solidarity through social equity, cohesion through regional equity, and sustainability through inter-generational equity[46]. To achieve social equity, the strategy commits to widening access to public services such as business support and transport and focus policy throughout its broader strategy to reduce inequality in Scotland. The government will also legislate to abolish the Graduate Endowment fee required to be paid by students upon completion of their university education, a measure to ensure that higher education remains accessible to all and not only those able to pay. The strategy also promises to freeze the Council Tax before legislating for its replacement with "a fairer Local Income Tax" which will mean a smaller tax bill for the majority of households. The strategy states that it will also work to improve support for those most at risk, particularly young people, to help improve their chances of success, while supporting social enterprise and the third sector to provide supported employment.

[43] Ibid, p.25

[44] Ibid, p.24

[45] Ibid, p.23

[46] Ibid, p.37

Lastly, the Scottish Government commits to pushing for the full devolution of personal taxation and benefits, which it would use progressively to achieve greater inequality[47]. To promote regional equity, the Scottish Government plans to encourage the regeneration of urban areas and implement the Scotland Rural Development Programme to ensure all areas of Scotland benefit from the economic growth derived from the strength of its urban areas[48]. The strategy also intends to achieve greater inter-generational equity through its planning framework and strategic transport investment drive to better the quality of Scotland's environment, as well as prioritising the expansion of the renewable energy sector and the development of the North Sea grid so Scotland can access European markets with its supply of renewable energy[49]. These measures are expressly linked to promoting greater equality, with poverty mentioned within the strategy only to describe those who occupy the bottom three deciles of income shares and tied to inequality reduction targets[50].

The 2007 Scottish Government economic strategy provides significant evidence of a turning point for Scottish Government policy, within which we can see how the government has pivoted away from addressing poverty and towards reducing inequality. The strategy indicates that dealing with inequality is central to unlocking the potential of the Scottish economy, and is a theme which runs throughout the government's plan. The major shift towards pushing for the further devolution of powers is another key change in the government's approach to reducing poverty and inequality. The 2007 strategy proposes that the Scottish Government would be better equipped to address inequality if it was able to design its own system of social security, labour market policy and personal taxation. This is a considerably different attitude compared to previous administrations, which rejected the notion of greater devolution and interpreted the current settlement as adequate to deal with

[47] Ibid, p.38

[48] Ibid, p.38

[49] Ibid, p.39

[50] Ibid, p.17

identified issues. Instead of relying on UK government welfare policy and employment legislation to achieve their objectives, the Scottish Government signals here that it would prefer to administrate itself in these areas. The prominence of inequality as a headline concern for the Scottish Government over the reduction of poverty and the push for devolved powers to address these issues within the strategy reflects a new approach to managing poverty and inequality in Scotland.

A Post Crisis Plan - The 2011 Scottish Government Economic Strategy

The Scottish Government's 2011 economic strategy provides a great deal of continuity from its predecessor, with the reduction of inequality still a key component of its plan to secure long term economic growth[51], and offers a plan to secure post-crisis economic growth. While the top priority remains creating opportunities for all through sustainable economic growth, the strategy acknowledges that global economic conditions have soured considerably since 2007 and that this presents new challenges to economic growth as well as poverty and inequality reduction objectives[52].

The strategy also takes time to address the UK Government's plans for welfare reform in response to the 2008 financial crisis and recession. The strategy underlines that spending cuts from UK departments which will impact Scottish recovery, particularly Scotland's capital budget[53]. Furthermore, the implementation of Universal Credit by the UK Government as a replacement for several in-work and out-of-work benefits is likely to reduce disposable household incomes, and as such the Scottish Government promises to take several measures to ensure inequality and poverty

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[51] Scottish Government (2011) 'The Government Economic Strategy' p.14

[52] Ibid, p.7

[53] Ibid, p.4

levels are affected as little as possible. By freezing the council tax and abolishing prescription charges the strategy hopes to reduce pressure on household incomes, while protecting health budgets and concessionary travel[54].

The strategy outlines its priorities as working to create a supportive business environment; learning skills and well being; infrastructure development and place; effective government; equity; working to transition towards becoming a low carbon economy[55]. All of these goals - with the addition of reducing carbon emissions - provide continuity from 2007 and are updated to incorporate specific policy related to economic recovery[56]. The government remains committed to improving "learning, skills and well being" because they see a skilled, educated and creative workforce as essential to creating a competitive and resilient economy. This will be achieved through their 'Opportunities for All' plan which ensures every 16-19 year old not in work, modern apprenticeship or education will be offered a place in education or training. The government also promises to deliver 25,000 modern apprenticeships each year and to investment in higher education so access is based on ability to succeed rather than ability to pay[57].

The strategy also relays concerns about how the structure of the Scottish economy should be moving forward after the financial crisis. The government argues that the 2008 financial crisis makes clear the need to create an economy that is more resilient to economic shocks[58]. This desire to insulate the Scottish economy from economic instability is an idea which influences the

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[54] Ibid, p.93

[55] Ibid, p.5

[56] Ibid, p.7

[57] Ibid, p.9

[58] Ibid, p.12

government's 2015 economic strategy, where the desire for stability is understood to be best achieved through reduced inequality.

The government maintains that reducing inequality is both a desirable outcome in its own right as well as being one which drives economic growth. By reducing inequality, the government finds that it can incorporate more people into the mainstream economy and maximise the potential economic output of individuals[59]. Ensuring all are able to participate in the labour market is key to long term economic growth, echoing the sentiment of the 2007 economic strategy[60]. The government again highlights the importance of early years education and skills training which influence whether or not individuals are able to participate in the mainstream economy and reduce poverty and inequality. In the government's poverty and inequality reduction framework 'Achieving our Potential', the Scottish Government outlines how it will work to ensure more Scots achieve qualifications and quality vocational training to maximise their economic potential[61]. The government also commits to ensuring work pays by pushing for greater control over personal taxation and welfare from the UK government and will work alongside third sector partners such as Poverty Alliance and the STUC to promote worker's rights surrounding the minimum wage, maternity and paternity leave[62]. To support those living in poverty, the government promises to replace the Council Tax with a more progressive system of local taxation which it estimates will lift 80,000 Scots out of poverty[63].

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[59] Ibid, p.89

[60] Ibid, p.90

[61] Scottish Government (2008) 'Achieving our Potential' p.10

[62] Ibid, p.11

[63] Ibid, p.16

Overall, the 2011 government strategy does not deviate far from the principles laid out in 2007, offering an updated plan which incorporates measures to combat the impact of the recession and encourage economic recovery in Scotland, while calling for the further devolution of powers in anticipation of welfare reform and the retrenchment of public spending by the UK government.

Substantive Change - The 2015 Scottish Government Economic Strategy

While the government did not appear to offer much change in its approach to the reduction of poverty and inequality in 2011, the economic strategy published in 2015 establishes economic inequality as a headline feature of the Scottish Government's approach to strengthening the Scottish economy, linking the issue of inequality to broader concerns around raising competitiveness and long term economic prosperity. In the paper's opening statement, the government's strategy underlines that inequality and the strength of the wider economy are "important interdependent ambitions"[64]. This statement characterises the government's agenda, and demonstrates a substantive shift in Scottish government policy priority away from the reduction of poverty and towards addressing economic inequality, and is informed by a significant amount of prominent academic literature produced since the financial crisis.

The main objectives of the 2015 SNP majority government's strategy form a new plan published as part of the same administration, but outlined by new First Minister of Scotland Nicola Sturgeon, following Alex Salmond's resignation after the 2014 referendum on Scottish independence. The strategy proposes to increase opportunities for all in Scotland through increased sustainable growth, and outlines how the government will ensure "inclusive growth" - growth which distributes its

[64] Scottish Government (2015) 'Scotland's Economic Strategy' p.5

benefits more fairly throughout Scottish society - as a key priority[65]. While some continuity from the Scottish Government's first economic strategy outlined in 2000 are apparent, the 2015 strategy for economic growth is considerably different in tone, underlining its vision for Scotland as one of equity and fairness with references throughout to the burden income inequality is placing on Scottish society, and how Scotland is held back by continuing to have key fiscal levers reserved at Westminster.

The strategy defines the perceived benefits of inclusive growth by stating that:

> "a more cohesive economy that improves the opportunities, life chances and wellbeing of every citizen in our country not only improves outcomes for individuals and households, but is a critical driver of economic performance over the long term."[66]

Additionally, the challenges to economic growth are presented definitively as inequalities observed by the unequal distribution of income, disparities in regional performance, and limited opportunities available to those on low incomes[67]. The strategy also highlights that household incomes have been suppressed as a result of the global financial crisis, which served to aggravate existing labour market challenges and led to welfare budget reductions due to UK Government public spending retrenchment since 2010 in an attempt to combat the recession[68]. The strategy outlines the impact of the recession in Scotland, noting that Scotland's output contracted 6%, and while unemployment may be falling since 2011, underemployment is 32% higher than in 2008. Real wages also remain

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[65] Scottish Government (2015) 'Scotland's Economic Strategy' p.8

[66] Ibid, p.59

[67] Ibid, p.59

[68] Ibid, p.60

substantially below pre-recession levels[69]. The strategy explains that part of the reason for this can be seen as due to the disproportionate impact the recession had on the financial sector, which has a large presence in the UK, particularly London and Edinburgh. The strategy also blames the policies pursued by the UK government in response to the financial crisis as another key reason for the deep and long lasting impact on the Scottish economy. The strategy points out that this is all taking place during a time of "significant public spending cuts as a result of the UK government's austerity and fiscal consolidation agenda", highlighting that the Scottish Government spending limit was cut by around 10% in real terms in the period 2010-11 to 2015-16[70]. The strategy states very plainly that Scotland is held back in terms of equality by the UK's economic model which it argues has "exacerbated inequalities"[71].

The strategy goes on to underline the importance of addressing inequality to ensure the success of the wider Scottish economy and society; addressing inequality offers remedies for a range of issues that Scotland faces, according to the Scottish Government. The strategy tells us:

> "Key challenges of underemployment, youth unemployment, low pay growth, and weak productivity all relate to, and in some cases are exacerbated by, patterns of inequality in Scotland... ensuring that the benefits of economic growth are shared more equally across society is just as important as boosting overall growth."[72]

The Scottish Government highlights the growth in income polarisation since the Scottish Government was re-established at the turn of the 21st century. The share of income earned by the

[69] Ibid, p.19

[70] Ibid, p.19

[71] Ibid, p.21

[72] Ibid, p.20-21

top 1 per cent of earners has increased since 1997-8, when the richest 1 per cent of income taxpayers in Scotland earned around 7% of total pre-tax income. The top 1 per cent now account for over 8% of all income as of 2010-11, with the top 1 per cent of income taxpayers in Scotland retaining income greater than the bottom 20 per cent put together[73]. The strategy also identifies the added issue of wealth inequality, which becomes increasingly pronounced as incomes diverge and the disparate abilities of low income and high income earners to accumulate wealth become increasingly pronounced. The strategy highlights that during the period 2008-10, the wealthiest 30 per cent of Scottish households retained 76 per cent of all private household wealth in Scotland while the least wealthy 30 per cent owned less than 2 per cent[74].

The strategy describes how these enduring trends of inequality will continue to undermine the strength of the Scottish economy in terms of long term growth, as well as contribute to instability. The Scottish Government cites the work of Stiglitz and Piketty in its analysis of trends in income and wealth inequality, and their consequences. Specifically, the strategy incorporates Stiglitz's analysis that persistent income inequality undermines the ability of people to contribute effectively to the economy[75]. As was demonstrated in Chapter 1 where the effects of inequality were reviewed, Stiglitz explains how inequality is both a cause and consequence of economic crisis, with inequality reducing aggregate demand due to the decreased ability of consumers on lower incomes to purchase goods and services. Historically, nations such as the United States have attempted to offset the reduction in aggregate demand to maintain consistent levels of economic activity and full employment by lowering interest rates and relaxing regulations, which may offer short terms gains but in the long term contributes to a bubble, and its eventual burst leading the economy into a

[73] Ibid, p.21

[74] Ibid, p.22

[75] Ibid, p.22

contraction[76]. Stiglitz argues that the increased volatility of the economy will negatively impact growth as it discourages investment from individuals and firms in human and physical capital due to the increased risk[77]. In this regard, it is important for the Scottish Government to consider how it can prevent the continued concentration of incomes in the hands of those with high incomes, who have a low marginal propensity to consume, and redistribute this wealth to those on low incomes and a marginal high propensity to consume, driving the economy. Furthermore, the paper relays Stiglitz's case that inequality undermines government investment in infrastructure, investment, and education, public sector investment which Mazzacuto identifies as underpinning private sector innovation[78]. The strategy goes on to incorporate analysis from the OECD working paper by Cingano[79] who finds income inequality in the UK to restrict education opportunities, skills development, and social mobility. The strategy gives further consideration to Scotland's regional inequalities, proposing that while cities and urban areas inevitably benefit from the concentration of economic activity, more must be done to assist areas still inflicted by the long term impact of deindustrialisation and ensure all regions of Scotland are maximising their economic potential[80]. The Scottish Government shows here how it has been influenced by the expansion in academic literature on the subject of inequality in the years since the financial crisis and how their conclusions are influencing Government strategy.

The Scottish Government's economic strategy commits to tackling inequality as a key component of its plan to secure strong and sustainable economic growth. These specific measures are outlined to tackle inequality and encourage inclusive growth alongside the government's commitments to

[76] Stiglitz, J. E. (2012) 'Macroeconomic Fluctuations, Inequality and Human Development' p.33

[77] Ibid, p.47

[78] Mazzucato, M. (2015) 'The Entrepreneurial State' p.3

[79] Cingano, F. (2014) 'Trends in Income Inequality and its Impact on Economic Growth'

[80] Scottish Government (2015) 'Scotland's Economic Strategy' p.24

internationalisation of the Scottish economy, investment in Scotland's public services, and encouraging innovation. Within these different dimensions, particular attention shall be given to measures related to the reduction of poverty and inequality in Scotland. Regarding the issue of reducing economic inequality, the government identifies four key components to its approach: promoting fair work to help create a labour market constituted of well paid and long term employment; eliminating long standing barriers in the labour market to gaining and progressing in employment; tackling persistent, intergenerational inequality by improving attainment; working to ensure growth that is experienced throughout Scotland's regions and communities[81].

The concept of Fair Work forms a large part of the government's strategy to reduce income inequality. The strategy promotes the physical and mental health benefits of meaningful work for members of Scottish society, engendering a healthier population which in turn benefits the wider economy. This is why Fair Work, which pays a fair wage, is secure, and respects the autonomy of its workers, is important to the Scottish Government in achieving inclusive growth[82]. Within this lies the issue of labour market legislation, a reserved matter which the Scottish Government says it will push for control over[83]. One specific initiative detailed in the strategy is the Scottish Government's funding of Poverty Alliance which promotes the Living Wage Accreditation Scheme which promotes employers who pay the UK Living Wage[84]. The Living Wage is a minimum calculated by the Resolution Foundation and overseen by the Living Wage Commission which calculates the real costs of living based on a core basket of goods and other expenses such as housing, council tax, travel, and childcare[85]. The government commits to establishing a Fair Work Convention to promote

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[81] Ibid, p.59

[82] Ibid, p.60

[83] Ibid, p.60

[84] Ibid, p.62

[85] D'Arcy, C. & Finch, D. (2016) 'Calculating a Living Wage for London and the Rest of the UK' p.2

best practice and advocate for the adoption of the living wage, as well as develop a Scottish Business Pledge to recognise good practice[86]. The Scottish Business Pledge will offer support to the private sector in return for commitments such as promising to pay the Living Wage, abandon zero-hours contracts, and push for gender balance, among other initiatives.

Another area of concern for the economic strategy surrounds what it identifies as long standing barriers to participation in the labour market. The plan says that while the labour market participation rate in Scotland has risen for the last 20 years, more could be done to encourage women into employment, address youth unemployment and reduce the number of people who are underemployed. Youth unemployment is a vital issue as the framework explains that long-term unemployment at a young age can have an adverse effect on life-long employment prospects as well as health outcomes and life satisfaction; the Scottish Government wants to reduce youth unemployment by 40% by 2021[87].

The strategy acknowledges the challenge to improve attainment and give children an optimal start to their lives, as this impacts their long term health, social, educational and economic outcomes[88]. The government points out that is has already introduced a number of initiatives to address the attainment gap such as free school meals for all Primary 1 - 3 children in 2015 and the Scottish Attainment Challenge, which seeks to improve literacy, numeracy and health of children in the most disadvantaged communities in Scotland. The strategy outlines how this programme will be supported by the Attainment Scotland Fund, which the government commits to allocate more than £100 million to distribute over four years. The strategy maintains the Scottish Government's

[86] Scottish Government (2015) 'Scotland's Economic Strategy' p.62

[87] Ibid, p.29

[88] Ibid, p.65

commitment to the provision of free tuition for undergraduate Scottish students, but acknowledges that the number of students from the most disadvantaged parts of society still needs improvement[89]. The government makes use of income deciles to inform its approach to reducing inequality, setting a target for closing the attainment gap such that 20% of university entrants in Scotland should come from the most deprived 20% of society[90].

The strategy is also concerned with the reduction of regional inequalities in Scotland, stating that it aims to encourage economic growth which can be shared across the whole of Scotland. The strength of Scotland's cities, home to over two thirds of the Scottish economy, must work in partnership with rural areas, which feature some of Scotland's fastest growing sectors such as tourism and food and drink[91]. The strategy commits to growing Scotland's rural economy through initiatives such as Scotland's Rural Development Programme (SRDP), established to support Scotland's natural heritage and create a foothold for growth in tourism and hospitality. Furthermore, the strategy highlights the government's Digital Scotland Superfast Broadband (DSSB) programme, which aims to extend improved broadband infrastructure to rural areas and encourage the expansion of online business presence and ensure the competitiveness of Scottish businesses[92].

Upon review of the government's 2015 economic strategy, it is clear that economic inequality is an issue of key importance to the Scottish Government. Income inequality is seen as pervasive throughout Scottish society, and is considered to be undermining Scottish government objectives for long term economic growth. Key challenges to the Scottish economy identified by the strategy such as that of productivity and sustainable growth are viewed through the lens of increasing income

[89] Ibid, p.66

[90] Ibid, p.66

[91] Ibid, p.67

[92] Ibid, p.68

inequality, with a large focus placed on reducing such inequalities through early years education and the regeneration of deprived Scottish communities. Despite this, little policy is directly concerned with the redistribution of wealth from those on the highest incomes to those on the lowest. The strategy focuses on ensuring inclusive growth that benefits those on low incomes and from the most deprived backgrounds, but there is limited consideration given to how to directly address the increasing concentration of wealth in the hands of fewer people. Policies such as the promotion of Fair Work, improving attainment and unlocking the economic growth potential of Scotland's deprived regions may improve the living standards of the most disadvantaged and address the prevalence of poverty in Scottish society, but does not necessarily make attempts to prevent the capture of capital by the wealthiest; in other words, these policy objectives can still largely be understood to be primarily concerned with the reduction of poverty, and not the widening gap in incomes and wealth for the top percentiles of earners and wealth owners. There is some evidence to suggest that significant changes to government policy may be coming. Since the publication of the economic strategy the Scottish Government has implemented reforms to income tax, introducing a starter rate of 19 per cent for those earning £11,850 to £13,850; an intermediate rate of 21 per cent for those earning £24,000 to £43,430; raising the higher rate to 41 per cent for those earning £43,430 to £150,000; and a new top rate of 46 per cent for those earning over £150,000[93]. Raising the income tax to aid the redistribution of wealth is a policy put forward by Atkinson, and reflects the Scottish Government's commitment to reducing inequality. However, the Scottish Government is yet to fulfil its 2007 election promise to replace the regressive Council Tax, another proposal supported by Atkinson, though this may be implemented in the future.

[93] For a more detailed break down of the changes to income tax as well as a comparison to rates of income tax in the rest of the UK, see Scottish Government (2018) 'Income Tax Policy Proposals in Budget Bill - Fact Sheet' p.1

What Has Changed?

The Scottish Government returned in 1999 with a litany of policies designed to address poverty. The reduction of poverty was a strong priority for the government, but the government's ambition relied heavily upon legislation passed by the UK Government. As of 2004, reducing poverty clearly became a less prominent objective for the government. While the focus on education, skills training and the regeneration of Scottish communities remained important, there is not a strong sense of how this is being used to address poverty levels. In 2007 the Scottish National Party took control of the parliament from the Labour party and Liberal Democrats, and instituted a new approach to the issue of poverty, replacing some anti-poverty measures with similar policies but a new emphasis on tackling inequality. The 2011 government economic strategy introduced the idea that economic recovery and the future of the Scottish economy must work to reduce inequality. A review of the 2015 Scottish Government economic strategy and associated publications reveals that since 1999 there has been an increasing focus on the issue of income inequality and its importance to the success of the Scottish economy, with an increasing amount of policy framed in terms of how it will ensure the reduction of income inequality. By 2015, reducing inequality has become a pillar of national economic policy.

Anti-poverty measures such as increasing welfare expenditure have over time formed less of the Scottish Government's strategy. Part of this can be explained as being due to the retrenchment of public spending and reduced social security spending by the UK Government since 2010, which has implications for Scottish services. This has fuelled calls for the further devolution of powers surrounding welfare to the Scottish Government so that they can address inequality, a major change in policy priority compared to that which is outlined in the 2000, where the government rejected the further devolution and relied heavily on UK government policy. Another important difference in government policy is underlined in 2011, where the government lays out its desire to create a Scottish economy more resilient to economic shocks and instability[94]. This objective is taken up in 2015, where the government uses the work of Stiglitz to support its rational for pursuing reduced inequality in Scottish society[95]. However, analysis of Scottish Government policy also offers some similarities in the approach taken by successive governments. Pay related policy has remained important to the Scottish Government throughout the last 20 years, with its support for the minimum wage in 2000 continuing into the 2015 economic strategy where the government advocates for businesses in Scotland to pay the living wage. This can be considered a policy evolution over time rather than change. The importance of early years education and skills training has also remained consistent, being touted by the government in 2000 as key to the reduction of poverty just as it pushed in 2015 to achieve reduced inequality. The government's commitment outlined in 2015 to achieve 'inclusive growth' which shares its rewards fairly amongst all Scots[96] is strikingly similar to the 2000 government framework's outcome objectives which seek to distribute economic growth and opportunities more evenly throughout Scottish society[97]. Given the similarities between anti-poverty and inequality reduction measures, we can say that poverty has been replaced as a policy priority rather than argue that policy priority has changed.

[94] Scottish Government (2011) 'The Government Economic Strategy' p.12

[95] Scottish Government (2015) 'Scotland's Economic Strategy' p.22

[96] Scottish Government (2015) 'Scotland's Economic Strategy' p.5

[97] Scottish Government (2000) 'The Way Forward: Framework for Economic Development in Scotland' p.3

Chapter 3: What has Driven the Change?

This chapter shall discuss the confluence of ideas and events which can be understood to have driven the change in approach that the Scottish Government has taken to addressing the issues of poverty and inequality.

It could be argued that the Scottish Government's pivot towards inequality as a policy priority over poverty could be to do with the relative success of government policy in reducing poverty amongst pensioners and young people since 1999, with absolute poverty also in decline throughout this period. Measures introduced by the UK Government such as the minimum wage and reforms to welfare including the introduction of the Working Families Tax Credit system have contributed to a significant reduction in child and pension poverty in Scotland. Poverty, while an issue of great importance in the 2000 framework does recede in importance almost immediately in the years to follow, with very little reference given to the issue in the following framework published in 2004. However, this explanation is not entirely convincing as while absolute poverty has trended downwards since 1999, there has been a slight increase in relative poverty and child poverty in recent years. Conversely, we can dismiss arguments that significant increases to inequality have directed the change in policy priority, as though levels of income inequality have slowly widened in the last 20 years, net income inequality levels - measured after taxes and benefits are included - have remained relatively flat[1].

Another explanation could be that inequality has emerged as a Scottish Government policy priority because of the renewed academic interest in the subject since 2008. While inequality is a long

[1] Bell & Eiser (2013) 'Inequality in Scotland: Trends, Drivers and Implications for the Independence Debate' p.4

studied issue, there has been a wealth of literature published by prominent economists and social researchers since the global financial crisis which have attempted to explain the causes and consequences of inequality. Bell & Eiser recognise that inequality has become an increasingly large focus of debate, particularly due to the financial crisis and in its aftermath which they argue has pushed the issue into the mainstream political debate[2]. They cite the publication of prominent works such as Capital in the 21st Century by Piketty in 2014, The Spirit Level by Pickett and Wilkinson in 2009, and the Price of Inequality by Stiglitz in 2012. These publications have all worked to direct attention from the public and politicians towards inequality and its consequences since the recession. The government's 2015 economic strategy cites both Piketty and Stiglitz in its justifications, giving support to the argument that the academic literature has been influential in shaping government policy and determining policy priorities. However, analysis of government publications shows that the policy pivot occurred largely in 2007, preceding the financial crisis and the publication of these works. This somewhat refutes the influence of prominent academics on shaping policy priority post financial crisis, but does not detract from the obvious impact they have had on government policy when we look at how thoroughly the 2015 government economic strategy references the work of Piketty and Stiglitz. While reducing inequality formed one of the key challenges and strategic priorities of the government in 2007, it is not afforded the critical attention or notable prominence to the extent that it is in 2015. The language used by the government in their 2015 economic strategy ties inequality to the sustained long term growth of the economy in an unprecedented way, and its influence is felt throughout the government's plan. So while 2007 can be understood as a key turning point for Scottish Government policy, the government goes even farther in 2015 to cement its position as a headline government policy priority with strong reference to the literature published in the wake of the financial crisis.

[2] Bell & Eiser (2013) 'Inequality in Scotland: Trends, Drivers and Implications for the Independence Debate' p.6

However, if we consider the global financial crisis to be the event which has thrown these key publications into the public and political spotlight, then perhaps we should consider the financial crisis itself, and its consequences, as the determinant factor influencing Scottish Government policy priority. Stiglitz explicitly links the cause and consequence of the financial crisis to inequality, explaining how the concentration of incomes reduced aggregate demand and fuelled the accumulation of debt which underpinned the financial crisis[3]. Furthermore, we know from the 2011 economic strategy that one of the Scottish Government's objectives is to ensure the Scottish economy is better insulated from economic instability as a result of the financial crisis, a concept strongly linked to the reduction of inequality. The government goes on to identify this link in the 2015 economic strategy, citing the work of Stiglitz. However it remains true that the Scottish Government embarked on its plan to tackle inequality in 2007, before the magnitude of the financial crisis could be acutely felt. While it still applies that the Scottish Government has turned the reduction of inequality from a working objective to a pillar of economic policy in its most recent economic strategy, the idea that the financial crisis is the root of government policy is not fully satisfying.

One other such explanation emerges from a consideration of the politics of inequality, which may be more closely tied to the SNP's constitutional stance than economic policy. Bell & Eiser see attempts by the Scottish Government in recent years to raise awareness about inequality and its emergence as a policy priority as explicitly linked to debate surrounding Scottish independence[4]. In the Scottish Government's paper titled 'Scotland's Economy: The Case for Independence' (2013), it is argued that through secession the Scottish Government would be able to address issues of

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3 Stiglitz (2012) 'Macroeconomic Fluctuations, Inequality and Human Development' p.33

4 Bell & Eiser (2013) 'Inequality in Scotland: Trends, Drivers and Implications for the Independence Debate' p.5

inequality by using powers surrounding welfare and taxation, as it is argued throughout the government's economic strategies published since 2007. Moreover, Stiglitz underlines that the politics of inequality are deeply anti-establishment, referencing the Occupy movement and how they presented the issue of inequality as part of their agenda for reform[5]. O'Connor also links the rise of populism in Western democracies to increased economic inequality[6].

Conclusion

In conclusion, it is is clear that there has not been a shift in policy priority away from addressing poverty and towards inequality, so much as it can be said that the issue of inequality has replaced the policies deployed to tackle poverty in Scotland. While there is sufficient crossover in policy used to reduce poverty in 2000 and the same policies outlined in 2015 to reduce inequality to support this statement, the government's changes to income tax in 2018 point to the development of a stronger slate of policies to address inequality in the future. The influence of the 2008 financial crisis and recession is an influence keenly felt in the Scottish Government's desire to reduce inequality, particularly through the work of academics produced since, but this does not show the full picture. Therefore, we should consider the policy shift away from the reduction of poverty and towards addressing inequality as deeply political, and reflective of the SNP's constitutional stance. While answering this question is beyond the scope of this dissertation and would require the incorporation of political theory not discussed here, it offers an avenue through which further research should take place.

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[5] Stiglitz (2012) 'The Price of Inequality' p.xi

[6] O'Connor, N. (2017) 'Three Connections between Rising Economic Inequality and the Rise of Populism' p. 30

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