

## **British Academy/Royal Society of Edinburgh Enlightening the Constitutional debate**

20 November 2013 Glasgow, seminar on Welfare and Public Services

### **Rescaling Welfare**

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I do not have a blueprint for the reform of welfare after independence or further constitutional change. My aim is rather to explore the principles that might underlie such reform. Since independence would imply a separate Scottish welfare state, the argument has more relevance for further devolution within the United Kingdom.

#### *The Devolution Settlement*

The current allocation of powers in social policy is largely inherited from the old Scottish Office system, but is consistent with traditional federal and public goods theories. Redistributive matters are mostly reserved for the centre, while allocative matters such as the organization of public services, are largely devolved. This was also true of the devolution proposals of the 1970s, with the exception that the current settlement gives Scotland some important instruments in the field of economic development while reserving the main macro-economic powers. There are two rationales for reserving redistributive powers. First is an instrumental argument, that a larger area is better able to mobilize resources for redistribution and insure against asymmetric shocks. Second is the argument that it is at the level of the nation that affective solidarity exists, which provides the rationale for selecting the community within which redistribution takes place (no welfare states are ever truly universal). These arguments were recently explicitly confirmed in the report of the Calman Commission.

My argument is that these assumptions must, at least, be modified in the current era of welfare state transformation. There are two dimensions here, the functional and the territorial.

#### *The functional dimension*

Social policy specialists talk of old and new social risks. Old social risks are those posed by the traditional industrial labour market and male-headed household. They include the need for family support, pensions and insurance against spells of unemployment. New social risks reflect the complexities of modern society. They include the highly complex mechanisms of generation and reproduction of poverty, about which there is little consensus; skill erosion in a high-tech economy; changing family structures; precarious employment; and new demographic challenges. The context also includes the appreciation that generational and gender divisions are also relevant. There is a broad consensus on the need to move from passive support to active measures to incorporate excluded sections of the population in the labour market, although there are striking differences between right and left on the generation of the new

inequalities and on how they should be tackled, notably on the balance between incentives and coercion. The modern vocabulary includes 'social inclusion', 'activation', 'social investment', 'active labour market policy' and 'workfare'.

The old distinction between redistributive and allocative policies has also broken down, with the appreciation that most policies (and all public services) are redistributive to some degree. This is especially true if we enlarge the notion of distribution beyond income groups to include things like gender, generation and place.

#### *The territorial dimension*

Recent years have seen a rescaling of functional systems across economic, social and cultural domains, and a rescaling of government to match. The 'new regionalism' literature emphasises the way in which economic restructuring follows global, regional and local logics, and not just national ones. Regions and cities have been identified as key levels for the analysis of economic and social restructuring and the emergence of new problems and policy opportunities. Training and active labour market policies are increasingly elaborated and implemented at local and regional levels, corresponding to labour markets. Politics at these levels is increasingly contested by social forces seeking to define the terms of development projects, notably the balance between competitive growth, social inclusion and environmental considerations. The idea of inter-regional competition within open markets has become a central feature of political debate, although it has been questioned in economic theory.

At the same time, national solidarity is under challenge as affective identities are shifting. The evidence here is mixed and rather inconsistent, but it is at least no longer axiomatic that the 'nation-state' is the sole locus of social solidarity, especially in plurinational states. There is evidence of welfare differentiation across devolved regions in Europe, largely in the form of differing definitions of the deserving target groups and more in the field of services than of cash payments.

There is a strong argument for Europeanizing certain welfare provisions. Europe is now the framework for market regulation and therefore for its social counterpart. It is Europe, not the nation state, that covers the largest population and most resources and can best respond to asymmetrical shocks. On the other hand, it is manifestly clear that Europe has not generated the affective solidarity to make it possible to produce more than small-scale transfers (through Cohesion policy) and one-off bail-outs.

All of this is prising apart the formally coterminous domains of economic regulation, social solidarity, political representation and governing institutions. It does not mean that solidarity is leaving the nation-state and relocating at either the supranational or sub-state level. We are witnessing, rather, a multilevel solidarity, operating at distinct scales and in different arenas. The old assumptions described at the beginning of this note no longer apply.

#### *Implications for Scotland*

In present-day Scotland these functional and territorial dimensions intersect, providing, shaping the discussion of social welfare and devolution. Survey evidence shows that Scots do not differ radically from citizens elsewhere in the United Kingdom in their broad preferences for welfare. Public policy, however, does not emerge directly from citizen preferences but from the aggregation and compromise among interests and preferences within political institutions. This has produced a rather different balance within Scotland, notably on matters of universalism and public provision. In the longer run such differences necessarily imply distinct fiscal choices, and indicate the need for mechanisms by which Scotland might recapture the benefits of its own social investments, for example in university education. It also points to changes in the balance of welfare instruments so as to fit local needs and preferences. Measures like the 'bedroom tax/spare room subsidy', designed for conditions in the south of England, may have little relevance in Scotland (or in the north of England for that matter).

As a matter of functional efficiency, the present division between passive welfare (reserved) and active welfare (largely devolved) creates mismatches and disincentives, which are beginning to be recognized. The location of housing benefit at the same level as responsibility for social housing is one instance. Another matter is the interface among unemployment support and disability support with training, economic development, urban regeneration and social work services. There is never an undisputed optimal level for the integration of public services and the idea of 'joined-up government' is often a naïve illusion, but we can probably do a lot better than at present.

It is fruitless to design a reformed system of devolution predicated on the present mode of welfare state. One thing that we do know is that the welfare state is going to undergo some major changes, if only for pressing financial reasons. This provides an opportunity to rethink of how Scottish welfare might fit into an emerging multilevel model and how resources might most effectively be deployed.