Labour market changes and implications for policy and labour market information (LMI) in Scotland

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Abstract

The recovery from the deep recession of 2008/09 has been weak and somewhat unusual: employment has been stronger than anticipated given the slow recovery in output. The labour market's recovery is undoubtedly impressive when it is measured by headline employment, unemployment and activity statistics. However a focus only on headline statistics risks masking a number of trends which conflate to justify a less optimistic assessment. Of particular interest has been the rapid embedding of labour market trends which had started to emerge pre-recession such as underemployment, self-employment, youth unemployment and insecure forms of working. The unprecedented collapse in real wages since 2009 is proving more durable than many commentators believed and the remarkable increase in people aged over 65 remaining in work has hardly featured in public discourse. Though ambiguity persists as to the extent to which these trends reflect structural shifts or the remnants of a cyclical downturn, it is argued that at least some of these trends reflect structural shifts. The potential impacts of these domestic and global trends on the Scottish labour market and their implications for policy at Scottish level are discussed. In doing so, a number of ongoing and serious issues with the range and quality of Scottish labour market data are discussed.

I Introduction

The timing could hardly have been more fortuitous for Alex Salmond MSP, First Minister when he addressed the STUC conference *Decent Work, Dignified Lives* on 15 October 2014; for the embargo on the latest labour market statistics for Scotland had ended just as he took the podium at 9.30am. This allowed the First Minister to announce another set of 'stunning' figures: in the three months to August 2014 unemployment had fallen by 40,000 and employment had risen by 35,000. The data had once again confirmed the remarkable resilience of Scotland's labour market.

Yet perhaps surprisingly for an audience more concerned than most with job numbers, the response was muted. Over the course of the day a number of conference participants questioned the veracity of the figures which they struggled to reconcile with their own experience. Their perception was not of a booming labour market but one characterised by falling real wages, rising insecurity of work, record underemployment and stubbornly high youth unemployment. The salient lesson they had drawn from the turbulent period since 2008 wasn't that flexible labour markets had triumphed but that quality of employment was deteriorating and jobs increasingly lacked what they considered to be an acceptable degree of economic security.

[1] The views expressed are those of the author and not of the Scottish Trades Union Conference (STUC).

The statistics announced by the First Minister and the sceptical reaction of the audience point towards a growing problem. The headline statistics might be strong but they're also increasingly inadequate to describe the ways in which labour market trends are affecting real people in real time.

This article will argue that at least some of these trends reflect structural shifts. It will seek to describe both the potential impact of domestic and global trends on the Scottish labour market and the implications for policy at Scottish level. In doing so, a number of ongoing and serious problems with the range and quality of Scottish labour market data are discussed.

II The triumph of flexibility?

Given the length and depth of the 2008/09 recession and the prolonged period of stagnation that followed, the performance of the labour market has been remarkable in a number of respects: employment has been stronger than could have been anticipated throughout this period and although unemployment did surge it never hit the rates feared in late 2008 as the financial crisis gripped the globe. The old trope that unemployment is a lagging indicator was proved somewhat redundant when the unemployment figures subsequently recovered significantly quicker than GDP.

The performance of headline employment has led to a dominant narrative of a strong recovery that doesn't entirely stand up to scrutiny. Some six and a half years after the start of the Great Recession in the spring of 2008, neither employment nor unemployment has yet attained its pre-recession rate. Employment may well be at its 'highest ever' level in Scotland but that is not uncommon: since the Labour Force Survey was established in 1992, the level of total employment has breached its 'highest ever' level on no fewer than 50 occasions (41 occasions for 16-64 years category)[2] – as the Scottish working age population continued to expand. Indeed, the 16-64 employment rate in June-August 2014 is still a full one percentage point below that achieved in April-June 2007.

It is salutary to note that using the internationally comparable International Labour Organisation (ILO) measure of unemployment, unemployment in June-August 2014 was still 1.5% above that of March-May 2008 and the number of ILO unemployed people at 151,000 is 36% higher.

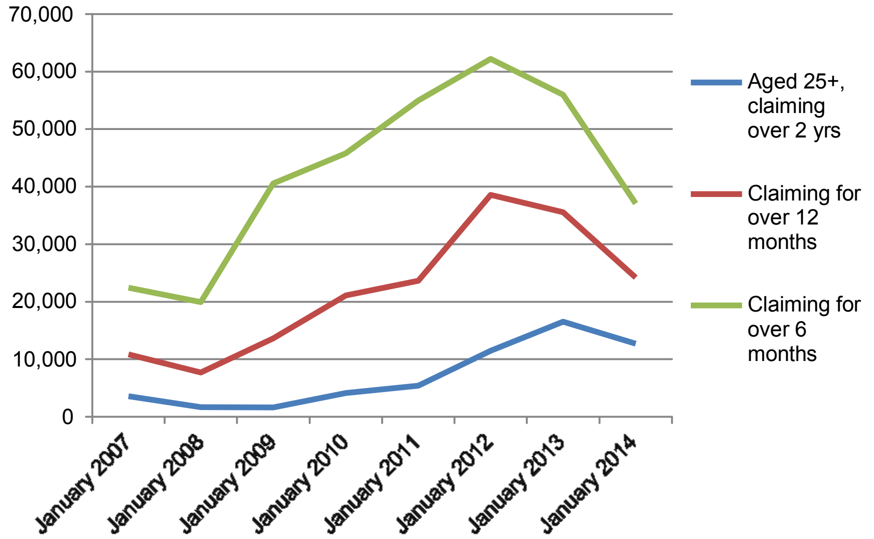
The trajectory of long-term unemployment has followed a more traditional path than other trends witnessed over the past few years. From a low in 2008, the number of those claiming Job Seeker's Allowance (JSA) for over 6 and 12 months rose to peak in 2012; the peak for those aged over 25 claiming for over 2 years peaked one year later. On all three measures, long-term unemployment has fallen encouragingly and sharply over the last year, though it remains significantly above its pre-recession levels.

So headline levels are undoubtedly impressive but maybe not quite as impressive as the political narratives at Scottish and UK level would suggest. The relevant question however is whether headline

[2] Unless otherwise specified, all labour market statistics (including Labour Force Survey, Annual Population Survey and experimental LFS) included above drawn from the latest Regional Labour Market Release, Office for National Statistics, October 2014

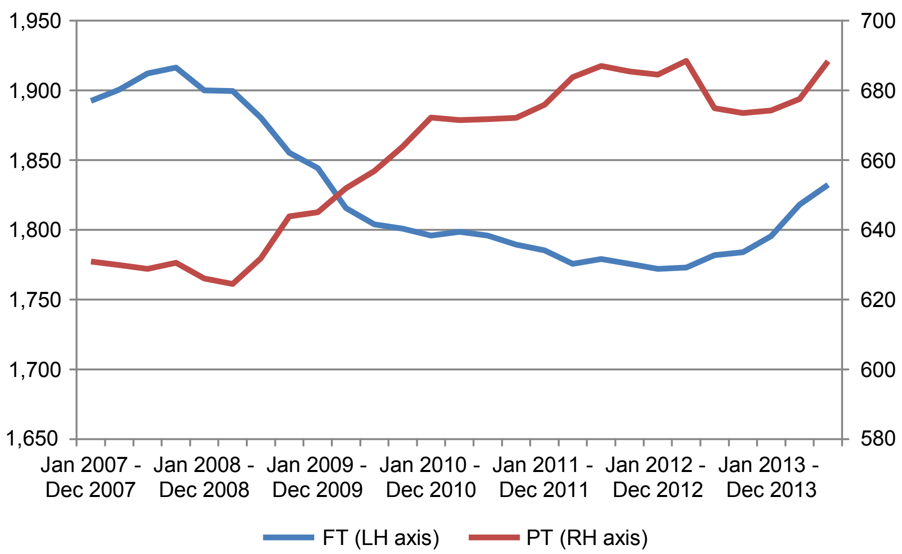
statistics continue to provide a sufficiently accurate overview of the state of the labour market? The trends discussed here suggest they might not. At the very least the growing number of low wage, self-employed, older and underemployed workers means that there is a greater degree of labour market slack than that suggested by the headline figures.

Figure 1 Numbers claiming Job Seeker's Allowance (JSA) for over 6, 12 and 24 months, Scotland, 2007-2014



Source: ONS, Nomis, 17 October 2014

Figure 2 Full and part-time employment (000s), Scotland, 2007-2014



Source: ONS, Regional Labour Market, October 2014

Full, part-time and self-employment

Total jobs may have recovered to their pre-recession level but full-time jobs have not: in the June-August 2014 period the number of full-time jobs stood at 1,832,000, still 84,000 below their pre-recession peak. There were 688,000 part time jobs during this period; 64,000 or 10.26% higher than the pre-recession level.

Perhaps of more concern is the rise in self-employment. Since 2007 self-employment in Scotland has increased by 27% to from 248,000 to 315,000 while employee jobs have fallen by 120,000 or 5% from their peak in September 2008.

Figure 3 Employee and self-employed jobs (000s), Scotland, 2004-2014

Source: ONS, Regional Labour Market, Scotland, October 2014

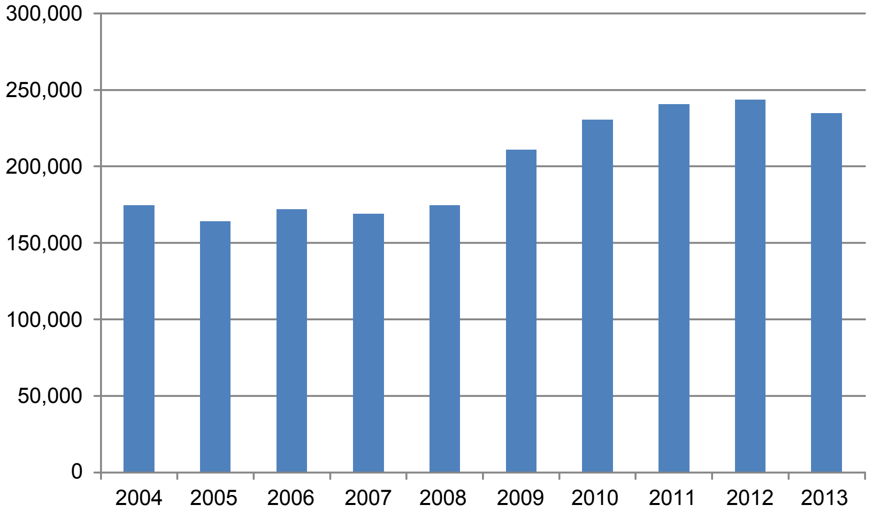
Although data is limited in Scotland, evidence from across the UK as a whole indicates that the recent surge in self-employment does not reflect an entrepreneurial boom; rather it suggests a large new cohort of self-employed workers who currently work less hours and earn less by doing what they used to do as employees (CIPD 2012, ONS 2014).

Underemployment

Two factors behind stronger than anticipated employment since 2008 are falling real wages and cuts in working hours; two obvious ways in which a labour market can adjust to falling demand without a concomitant increase in unemployment. One consequence has been historically high levels of underemployment: those who report as wanting to work more hours in their current job (the majority), or want a new job with more hours or an additional job.

Underemployment increased by 44% between 2007 and 2012 to nearly one in ten (9.9%) workers. It's important to note that average underemployment in Scotland between 2005 and 2008 was 7.2% of the workforce – hence underemployment is not, as is sometimes presented, a new, post-recession feature of the Scottish labour market (Scottish Government 2014).

Figure 4 Underemployment in Scotland ('000s), 2004-2013



Source: Scottish Government, Local Area Labour Markets 2013

Recent work by the Trades Union Congress (TUC) suggests that the slight fall in underemployment between 2012 and 2013 might not have been sustained (TUC 2014). The underemployment level between March-January 2014 was 252,305 -perhaps reflecting the impact of another year of falling real earnings. When combined with the underemployed, self-employed workers the total rises to 279,495. Therefore, despite the strong growth in employment through 2014, the best current information indicates that underemployment may also have risen since 2013.

Insecurity

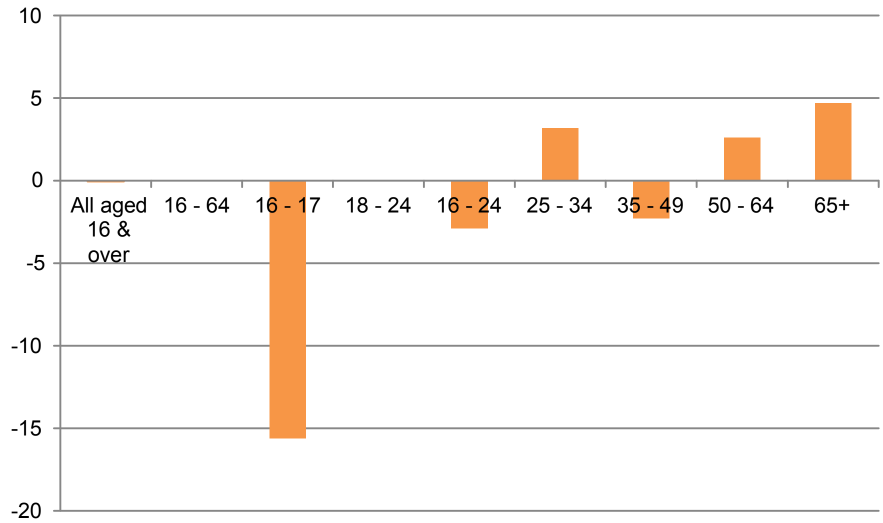
Since 2008, the anecdotal evidence fed back from trade union workplace representatives has focused less on redundancies or the threat of redundancies (although clearly these have happened) than on the growing use of insecure forms of employment contracts. These include pay between assignment contracts, illusory forms of self-employment designed to avoid responsibilities such as paying tax, aggressive forms of performance management and, above all else, zero hours contracts. These trends are not picked up in official labour market surveys and therefore the quality of information we have is, once again, scant.

Extracting from recent Office of National Statistics (ONS) work, the Scottish Trades Union Congress (STUC) estimated that around 120,000 workers in Scotland are employed on zero hours contracts (ONS 2014, STUC 2014). Again, it's important to stress that such contracts weren't invented during the recession; rather the economic circumstances of the past few years have seen the increasing normalisation of such insecure forms of employment.

Employment by age

Interestingly, the trend with perhaps the most profound long-term implications is the one that has been the least discussed. Stubbornly high youth unemployment has been firmly on the political agenda but not one of the contributory factors: that is the significant rise in the number of those aged 65 and over who are remaining in work and in the labour market.

Figure 5 Percentage change in the employment rate, by age groups, Jan-Mar 2008 to May-July 2014, Scotland (*experimental* Labour Force Survey (LFS)



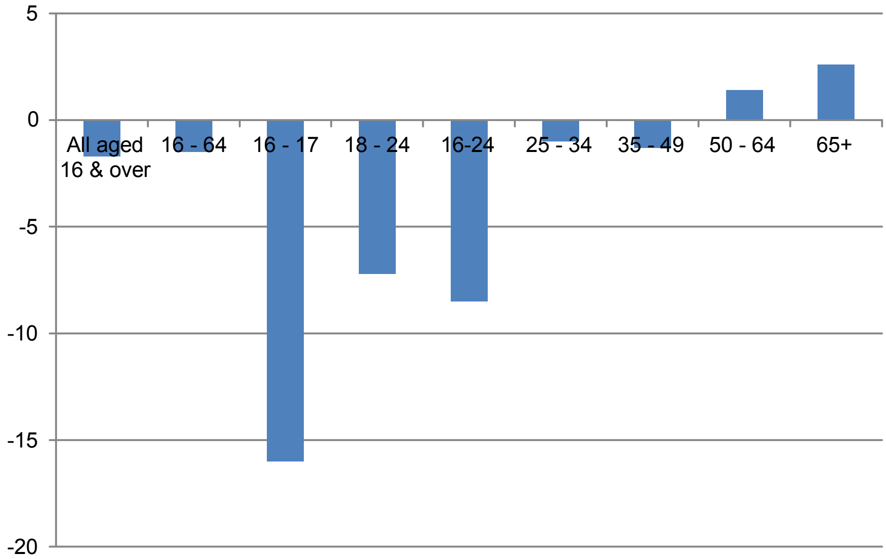
Source ONS, Regional Labour Market, October 2014

The latest experimental ONS statistics for employment by age (refer Figure 5), show that between Jan-March 2008 and May-July 2014 the employment rate of the over 65 age group increased by 4.7% compared to a decline of 2.9% for the 16-24 age groups (accounted for by 16/17 year olds).

More reliable, but older, statistics drawn from the Annual Population Survey tell an even starker story (refer Figure 6): between Jan-Dec 2008 and July 2013/June2014 the 50-64 age group increased its employment rate by 1.4% and the over 65s by 2.6%. These were the only age groups to register *any* increase in the employment rate over the period since the financial crash in 2008.

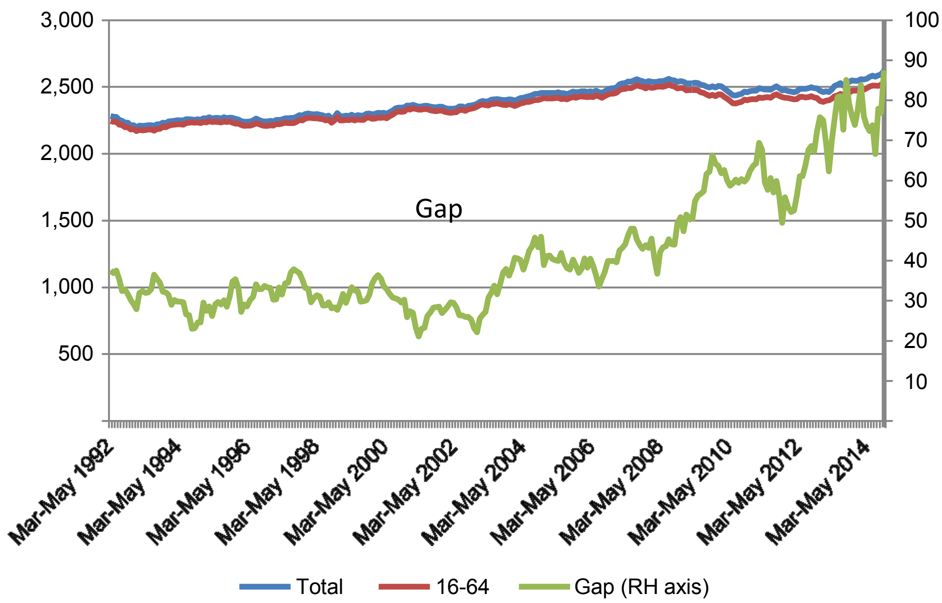
However, it is important to emphasise that the numbers of the over 65s staying in the workplace are still relatively *very* low; employment for this group has risen from 49,000 in January 2008 to 78,000 in July'13-June'14 but the increase has been rapid, as demonstrated in Figure 7 which shows the growing absolute gap in employment between measurers of total employment and those aged between 16-64 to May-July 2014.

Figure 6 Percentage change in employment rate, by age groups, Jan-Mar 2008 and May-July 2014, Scotland



Source ONS, Regional Labour Market, October 2014

Figure 7 Gap between total employment and 16-64 years employment (000s), 1992-2014



Source ONS, Regional Labour Market, October 2014

An optimistic account of these changes would stress that people are living healthier, longer lives and therefore wanting to work for longer. A more pessimistic account might highlight pension reforms and falling real wages, forcing people to work for longer when their own and/or partner's pension entitlements are eroded or wages fall.

The unprecedented decline in real wages

Real wages have declined across the UK for all but three of the last 74 months under report and the cumulative fall in the median real wage is around 10%. As the Bank of England recently reported this fall is without precedent since records began in the mid 1800's (Haldane 2014).

Scotland has seen a fall in the real median wage similar to that for the UK as a whole. Between 2009 and 2013 (the latest Annual Survey of Hours and Earnings Data are for the year to April 2013) the Scottish median real wage fell by 7.6% representing an annual loss in 2013 of £1,760.

Table 1 Declining real wages in Scotland, percentage change for selected groups 2009-2013

Total		**Full-time**		**Part-time**		**Median Worker**
Male	Female	Male	Female	Male	Female	
%-7.7	-8.2	-7.1	-5.8	-6.8	-8.8	**-7.6**
£-1,993	-1,406	-2,002	-1,372	-545	-789	**-1,760**

Source: Annual Survey of Hours and Earnings 2013

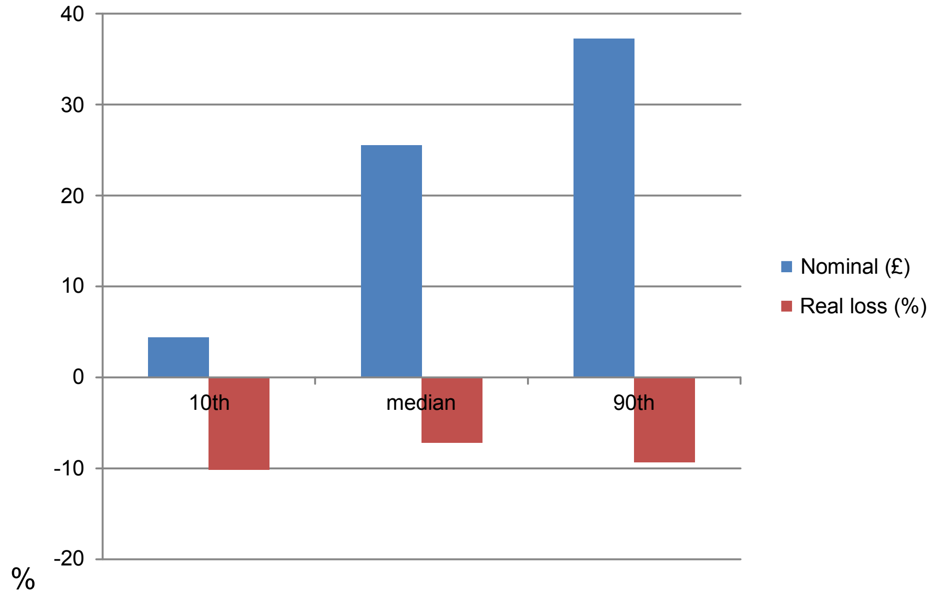
In 2013, the median worker would be earning £1,760 more if wages had kept pace with inflation over the period 2009-13. Female part-time workers have seen the biggest fall in real wages at a time when the numbers of people working in part-time jobs has increased.

Perhaps even more concerning is that young workers and workers at the very bottom of the wage distribution (10th percentile) have seen the biggest proportionate fall in their real wages of 10% (refer Figure 8).

The situation of falling nominal wages is even more acute when specific occupations are considered (refer Figure 9) which shows the percentage change in nominal wages by occupational groups, for the lowest paid (10^{th} percentile, median workers and the highest earning (90th percentile).

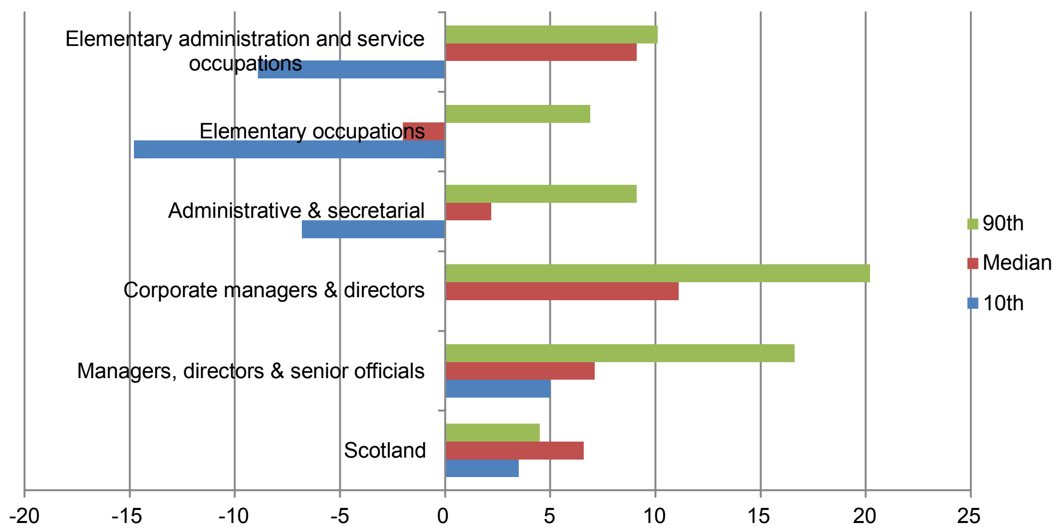
The bottom 10% of the 70,000 workers in elementary occupations suffered a fall in *nominal* wages (wages *before* adjusting for inflation) of 14.8% over this period. The bottom 10% of the 180,000 workers in elementary administrative and service occupations suffered a decline in nominal wages of 9%. Given the protection afforded by the minimum wage, it is safe to conclude that nominal wage falls have been driven by cuts in working hours.

Figure 8 Percentage change in nominal and real wages for selected percentile groups, 2009-2013



Source: Annual Survey of Hours and Earnings 2013

Figure 9 Nominal gross weekly wages, percentage change by selected income percentile, 2009-2013



Source: Annual Survey of Hours and Earnings 2013

Whilst real term wage cuts have been a fact of life for a significant majority of workers across all occupations some have received *real terms* increases; the largest going to the top 10% of corporate managers and directors. This group received an *increase in gross weekly wages of £82 per week or £4,290 a year above inflation*.

To put this fully in perspective, the gross wages of the top 10% of corporate managers and directors are now £283 a week or £14,176 a year higher than in 2009. In 2013, the average weekly gross wage of the bottom 10% of *all workers* was £125 a week or £6,500 a year.

So, while a large majority of workers have suffered a decline in the real value of their wages over 2009-2013, the pain has not been evenly distributed with the lowest paid workers in the lowest paid sectors experiencing significant nominal wage cuts.

III Structural or cyclical change?

Only the passage of time will provide a complete answer as to whether the trends outlined above are structural shifts or an ongoing hangover from the economic downturn of the Great Recession. However, the case that current trends signal significant structural change is becoming more persuasive.

The shift towards the 'hour glass' labour market is likely to continue and possibly accelerate; a labour market characterised by increasing opportunity (and rewards) at the top and growing employment in low pay, low skill, low productivity sectors at the bottom (Resolution Foundation 2013). The next wave of automation is anticipated to curtail job creation in middle income, middle status jobs in manufacturing and some services although the extent to which this will happen is hotly contested and many economists worry more about the impact of technology on inequality rather than employment levels per se (Brynjolfson, McAfee 2014; Cowen 2013).

Should pay growth continue to be muted it is reasonable to assume that underemployment could remain above pre-recession levels. Slow pay growth and pension reforms will continue to exert pressure on the over 65s to remain in the workplace. The shift from employee jobs to low wage self-employment has been apparent since before the recession and has accelerated significantly over the past two years.

And there are good reasons to believe that real wages will not improve even if the recovery in GDP and employment endures. Over the past 18 months forecasts of rising real wages have proved consistently optimistic.

The unprecedented decline in real wages is a consequence of a number of factors including the long-term decline of union membership and collective bargaining coverage and the prioritisation of policies aimed at enhancing flexibility for employers. Very poor productivity growth post-recession has limited the scope for wage rises but it would be a mistake to assume that real median wages will recover with productivity; indeed growth in median wages had decoupled from productivity growth prior to the recession of 2008/09 due to rising wage inequality (Machin, Blanchflower 2014).

Stephen Machin of the LSE argues that these trends are compounded by:

> '*…the increased substitutability of the unemployed with low wage workers – driven by increase in 'welfare conditionality' and breaches are associated with sanctions, reductions in cash payments, which in turn have become more severe. At the same time has occurred the development of a system of tax credits which supplement low wages for those with children. The increased pressure to take low waged work and*

compensation for doing so may have increased the willingness of workers to trade lower wages for employment, and also their substitutability for low wage workers". (Machin 2014)

The UK coalition government is committed to extending the flexibility of the UK's labour market. Measures that would directly and substantially tackle employment insecurity and low wages are unlikely to be forthcoming. Indeed, the commitment to maintaining the UK's relative flexibility is deeply embedded across the mainstream parties and proposed new approaches to the minimum wage by the Labour Party and SNP might best be described as timid.

IV Data issues – UK and Scotland

The UK does not compare favourably with other OECD nations in the quality of its labour market statistics or in the speed of their collection and publication (Blanchflower 2014). The employment and unemployment statistics published in October 2014 are an average for the period June-August 2014. The three month average is published because the sample sizes are too small to allow for an accurate single month figure. By October 2014, most other developed nations had published single month figures for August and some, including the US, for September 2014.

Unfortunately, the unfavourable international comparison is further compounded at the Scottish level (as it is for any one of the twelve ONS nations and regions). The ONS regional release does not provide a Scottish version of the UK release. The all UK release provides information in most categories for the latest rolling three month period but in some key categories (e.g. full-time /part-time /temporary employment; hours worked, employment and unemployment by age and duration) Scottish data is only updated four times a year and even then the data is an average for the latest year under report.

The situation is particularly acute with regard to employment by sector and wages. Sectoral employment data is derived from the Workforce Jobs Survey which simply estimates Scottish jobs on the basis of an all UK survey. This ignores the different compositions of both public and private sectors and leads to figures which are scarcely credible. It is no exaggeration to say that at present using current official statistics our understanding of where people actually work in Scotland is very limited.

On a monthly basis the only data published by ONS – Average Weekly Earnings (AWE) – is derived from the Monthly Wages and Salaries Survey (MWSS) which does not include self-employed workers or those workers employed in a firm with fewer than 20 employees. Given these are significant groups – in sum around a third of all workers – and ones in which wage growth might be expected to be slowest, the survey fails to provide an accurate account of what is happening with wages.

Again, the data is much worse at Scottish level where the best current data is an annual survey (the Annual Survey of Hours and Earnings or ASHE). In short, here in autumn 2014, Scottish policymakers have to make do with data for the year ending April 2013, data that are effectively (at best) 18 months old. This is not a satisfactory position if we want to develop policies to improve and strengthen the Scottish labour market and help reduce inequality.

V The Global Picture

A quick look at Eurostat will confirm that the UK has relatively high employment and low unemployment but high underemployment and low wages. It is tempting to pick any one of these indicators and use it to paint a simplistic picture of the UK labour market and how it compares to those of other developed nations. And many seem unable to resist this temptation!

It is therefore important to note that large employment gaps, quality of employment, insecurity and falling wages remain a concern in many developed nations. In the period since 2008 wage growth has failed to recover with productivity in most G20 nations. A declining labour share and rising wage inequality are not unique to the UK and US (ILO, OECD, World Bank 2014).

But recent OECD and ILO (2014) work also found that '*there does not appear to be any necessary trade-off between job quality and job quantity: some countries manage to do well on both counts. There are also considerable differences in job quality between socio-economic groups within countries. Youth, low-skilled workers and those with temporary jobs appear to cumulate many disadvantages*'.

The policy remedies suggested by these global institutions are a mix of the orthodox (increasing participation, investing in skills and training) plus a new emphasis on tackling labour market inequality and supporting aggregate demand (the latter has not been considered orthodox since the 1970s – at least by the global institutions). It is illuminating that the IMF and OECD now acknowledge that '*supply side interventions to increase participation may not yield the desired positive impact on growth unless accompanied by successful interventions to increase labour demand'*.

The pressures facing the UK labour market are not dissimilar to those facing other countries. There are of course lessons to be learned from other approaches to labour market management and in particular how various models have coped with the turbulence of the 'great recession' (Schmitt 2011).

Crude characterisations of the UK and other models do not assist the learning process. Neither does the (peculiarly Scottish?) tendency to ignore or discount global trends. It's remarkable that the ongoing and raging debate about the state of the economy and Scotland's constitutional future managed to almost completely ignore the challenges of automation, digitisation and secular stagnation – the IMF's Christine Lagarde's characterisation of the outlook for the global economy as the 'new mediocre' - with which the rest of the global economic community is currently obsessed. Global trends do and will exert profound influence on the shape of the Scottish labour market and must be acknowledged, discussed and addressed.

VI Policy responses

A reasonable (and often not so reasonable) debate about the structure and regulation of the UK labour market will continue. Advocates of retaining flexibility as the defining characteristic will feel emboldened by the trajectory of employment and unemployment over the past few years. Others will wish to see reforms aimed at improving wages and the security and quality of employment. They will point not only to trends discussed above but the ongoing experience of other countries that manage to combine both higher wages and better quality work with employment rates similar to or higher than the UK. The policy responses discussed below unashamedly flow from the latter perspective. However it is also suggested that some caution is appropriate when seeking to draw lessons from experience elsewhere.

The Smith Commission will soon make recommendations on a new package of powers for the Scottish Parliament. Employment law, active labour market policy and economic development are – as they were during the referendum campaign – very much viewed as secondary issues; powers over taxation and welfare continue to dominate the debate but the obvious connections between the labour market and taxation and welfare are rarely if ever drawn. This is unfortunate especially when the issue of inequality remains to the fore. There are good arguments on both sides as to whether the devolution of employment would be good for Scotland in the long run, but these are insufficiently aired.

Given the active debate on Scotland's new constitutional settlement, the following labour market policy responses are critical under whatever constitutional changes emerge.

Facilitating better policy

The data deficit described above should be addressed as a matter of urgency; whilst it's impossible to see these problems being resolved without additional investment by the Scottish or UK Governments the absolute sums involved would be very small in the context of total budgets. There is a compelling case that better information will lead to better policy design which will save money in the longer term. The minimum aspiration should be for the ONS regional labour market monthly release to provide the same information for Scotland as it does for the UK as a whole. The next step should be to improve the quality of the main surveys and speed up the process in order to allow publication of single month, reliable estimates within two months (as is currently the case in the US).

There also needs to be a discussion about the ongoing relevance of key labour market indicators. For instance, as more over-65s remain in or return to the labour force, using the 16-64 age group as the key employment measure might need to be revisited. This is one area that would benefit from additional focused, qualitative research to help determine the reasons why greater numbers of older people are working past retirement age.

The use of the ILO unemployment rate as the main gauge of young people's position in the labour market should also be revisited. There are fiercely compelling reasons why tackling youth unemployment should be a priority for government; the 'scarring' effect of youth unemployment will remain with young people affected and the costs to the public purse are well documented. But using the ILO youth unemployment rate can *overstate* the extent of youth unemployment as the denominator (all economically active people in the age group) is less relevant for this group when so many are in full-time education. Using the 'youth unemployment ratio' (where the denominator is the total population of the group) would better define the problem and allow for more accurate comparisons with other nations (Eurostat 2014).

Measuring outcomes

Does it make sense to continue to extol the strength of the labour market on the basis of headline employment and unemployment figures if real wages are falling, people are unable to find the working hours they need to make ends meet and employment is becoming more insecure?

Building Oxfam's Human Development Index and a range of other work, the STUC is currently working with the Scottish Government through the Scotland Performs Roundtable to develop indicators for the National Performance Framework (NPF) to better measure work and well-being. Recognising the data deficiencies above and that Workplace Employment Relations Survey (WERS) – the one survey that seeks to measure *quality of work* issues - isn't disaggregated by nation or region, discussions are ongoing as to how a basket of indicators might measure more effectively peoples' experience of the labour market. Whilst this work is important and it is encouraging to see Government committed to improving the NPF, it is difficult once again to envisage real progress being made until investment in a new Scottish survey is forthcoming.

Towards more and better jobs

The Scottish economy has failed to generate sufficient good jobs or ensure that those that are created are distributed evenly around the country. This is a structural problem with no easy remedy. Those proposing populist solutions whilst ignoring the realities of 40 years of increasing globalisation do nothing to improve the lot of workers in low wage, insecure jobs or even help generate a better quality of debate about economic development in Scotland.

Much of the 'new industrial strategy' literature adds little to the debate. With policies focused on a few 'higher value' sectors employing relatively few people it is hardly surprising that policy fails to resonate with the majority of workers (Williams, Johal et al 2013, 2014) – or indeed businesses.

Whilst space isn't available here to discuss full proposals for a new approach to economic development in Scotland it is worth stressing that under any constitutional scenario, the creation of 'more and better' jobs in Scotland is necessarily a difficult, uncertain and long-term process. It will be necessary to supplement current policy with an approach that addresses the 'mundane' sectors where employment is highest and likely to grow. An approach that simply reinvents existing strategy and rearranges institutions is unlikely to deliver much of a 'good jobs' dividend.

Social Partnership

In Scotland's Future, the 'white paper' on independence, the Scottish Government promoted a European style social partnership approach to labour relations:

> "*We will work with the STUC and the business community on mechanisms to formalise the relationship between government, employer associations and employee associations with a particular focus on encouraging wider trade union participation and in recognition of the positive role that can be played by collective bargaining in improving labour market conditions*". (Scottish Government 2013)

It will be interesting to see post referendum how this agenda develops in Scotland. The First Minister's announcement in October 2014 that a new Fair Work Convention would be established in response to the Working Together Review signals that this approach will be pursued, even if no further relevant powers are devolved at the end of the Smith Commission process.

There are however likely to be some significant institutional and cultural barriers to creating a genuine and substantial social partnership focused on the availability and quality of work in Scotland.

As the OECD has argued, '*National industrial relations structures and practices are part of the social and political fabric, implying that bargaining structures are not easily changed by government action*'. (OECD 2011)

It needs to be recognised that a set of societal factors exists in the Nordic nations which enable social partnership to flourish. Institutional, cultural and historic factors have led to different if similarly successful arrangements in countries such as Germany, Austria and the Netherlands. These conditions do not currently apply in Scotland.

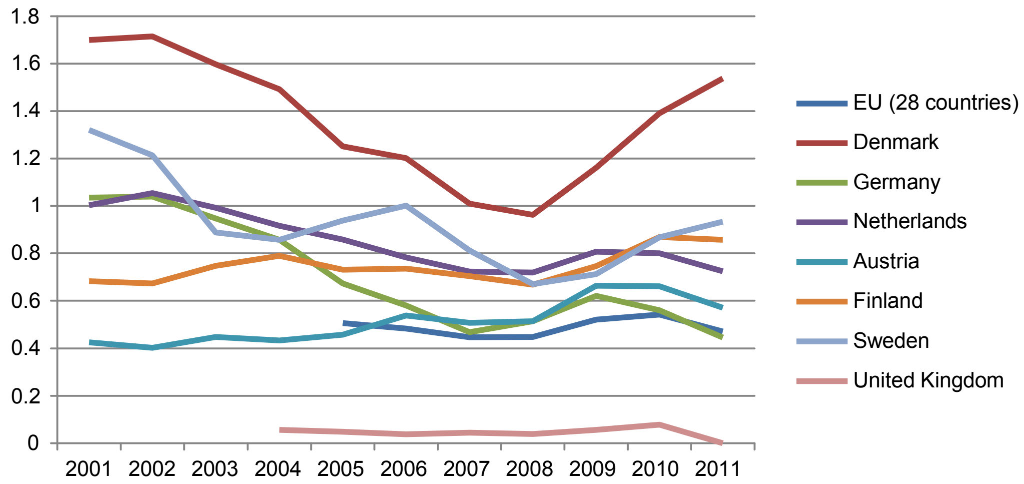
It remains to be seen if it is possible to establish a coherent, durable system of social partnership in Scotland. The employer pillar in Scotland currently lacks coherence with a range of overlapping representative business organisations including: the Federation of Small Businesses (FSB), (non-statutory) Chambers of Commerce, a Scottish Chambers of Commerce, the Confederation of British Industry (CBI), the Institute of Directors (IOD), as well as the multipartite Scottish Council Development and Industry (SCDI). Most, if not all, lack any substantive analytical capacity and some have an ideological outlook. This is clearly a challenge if we wish to build in Scotland an effective social partnership approach to the labour market that helps move us towards a northern European model.

Nevertheless it is an approach worth pursuing. With appropriate investment a new approach to the labour market with strong social partner buy-in is a necessary component of making the Scottish economy less short-termist and closer in nature to the productive and innovative economies of western and northern Europe.

An active labour market policy

If better outcomes in the labour market are to be achieved then higher and more consistent investment is required in active labour market policy (ALMP) measures. AMLP measures or 'active interventions' cover policies aimed at providing people with new skills or experience of work such as: training, job rotation and sharing, employment incentives, supported employment and rehabilitation, direct job creation and start-up incentives; they do not include welfare benefits or support services such as jobsearch). In the EU, the UK is an absolute outlier in how little is spends on such ALMP measures (refer Figure 10).

Figure 10 Spending on active labour market measures as % of GDP, 2001-2011



Source: Eurostat 2014

It should be noted that this low spend is not explained by the UK's relatively low unemployment rate as both high and low spending levels are observed among countries with high or low employment. It can be argued that spending is consistently and significantly higher in those countries with the most enduringly successful labour markets. And, it is a remarkable fact that Denmark spends more in cash terms on AMLP measures than does the whole of the UK. Spending on active ALMP measures is also higher in countries that manage to reduce labour market inequalities still prevalent in the UK.

Though there are no separate figures for ALMP spend in Scotland, it is difficult to envisage that any additional Scottish Government spend will help shift Scotland much higher in the EU rankings. Developing a nascent social partnership – no matter how challenging - is not sufficient to create a Nordic style labour market in Scotland; it will also take the investment of hard cash to achieve.

V Conclusions

Rapidly improving headline employment and unemployment statistics through 2014 should not be allowed to distract from the profound changes taking place in the Scottish labour market. The Great Recession and the prolonged stagnation which followed provided the economic and political conditions for the trends discussed above to take firm root. The consequences are that relatively high employment levels are accompanied by very weak pay growth, rising insecurity and hidden unemployment. Those groups already disadvantaged within the labour market, especially the young, increasingly struggle to access secure, decent job opportunities.

A twin-track policy response is required. First, a properly resourced effort to dramatically improve the range, quality and timeliness of Scottish labour market information is essential to facilitate better analysis and enable the design and implementation of effective interventions. Second, Scottish policymakers need to build on both the aspirations set out in Scotland's Future and the Working Together Review's recommendations to develop a distinctly Scottish system of social partnership. This will require – as a minimum - significant, sustained investment in ALMP measures and a radical overhaul of employer representation.

The extent of the challenge is great but the development of a labour market which meets the needs of all of Scotland's citizens will not be achieved through tinkering with current policy responses.

Please …

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