

Unlocking Scotland's Full Potential; boosting skills, wages, equality and growth

August 2014

Unlocking Scotland's Full Potential

This paper assesses recent economic developments in Scotland, particularly in the labour market, and the outlook for the months and years ahead.

It highlights some of the principal short and long-term labour market challenges and opportunities that are likely to face Scotland in the future. It also shows how key Scottish Government priorities including supporting skills and training, improving workplaces and tackling barriers to employment, particularly for women and young people, will be key to unlocking Scotland's full economic potential.

Summary

There is a clear and sustained strengthening in the Scottish economy.

Last year growth was the fastest since before the financial crisis and the economy returned to pre-recession levels in the first quarter of this year.

While conditions have been challenging over the last six years, at an aggregate level the labour market has held up much better than initially feared and the number of people in employment is now at its highest level ever. However, youth unemployment remains an issue. The recession has also led to an increase in levels of underemployment and part-time working whilst the pressure on wages continues.

The aim of the Scottish Government is to do better than simply return to pre-recession levels of economic performance.

Even before the recession, Scotland had youth unemployment of 13.2% and the UK had a rate of 14.3%. That compares to just 5.9% in Netherlands, 7.4% in Norway and 7.5% in Denmark¹. The Scottish Government can and must do better.

Building a labour market and economy that are resilient, adaptable and responsive to change will take time but doing so will be key to ensuring that Scotland competes internationally and is able to deliver long-term prosperity.

The Scottish Government also seeks to ensure that the right balance of growth is supported. The type of growth that reduces inequalities and allows everyone – not just those close to the labour market – to realise their potential; that reduces disparities between different parts of Scotland; that is sustainable and resilient; and which focuses on maximising returns from work.

Through existing devolved powers, the Scottish Government has taken forward a range of initiatives – including Opportunities for All; investment in childcare; sustained investment and reform in education; record numbers of Modern

¹ Eurostat, 15 to 24 unemployment rates by countries and regions for 2007

Apprenticeships; and programmes such as Community Jobs Scotland and the Youth Employment Scotland Fund – to meet such challenges.

The Scottish Government is also implementing the recommendations of the Commission for Developing Scotland's Young Workforce to improve the delivery of vocational employment and training and in turn help support sustainable employment and boost productivity. The Scottish Government is also committed to doing more to promote workforce development and to removing the barriers that women often face from being able to fulfill their potential.

Whilst good progress has been made since devolution – including a narrowing of the gap in economic performance with the UK as a whole² – the Scottish Government believes that independence would provide greater opportunity to build a new economic framework that better utilises Scotland's unique strengths and which delivers a more outward focussed and resilient economy.

Under independence, the Scottish Government would have greater access to levers to shape both the demand side of the economy, for example the overall levels of spending and taxation, and the supply side, for example through establishing a fair work commission.

Independence would also provide an opportunity to align employability, tax and welfare policies and to deliver an employment service based on early intervention customised to the needs of individuals. In addition, it would give Scotland greater access to key economic levers – including the minimum wage, employment regulation, innovation policy, and taxation - to support job creation, reindustrialise the economy and deliver faster sustainable economic growth.

² See Box 2.2, page 14, of Building Security and Creating Opportunity,
<http://www.scotland.gov.uk/Resource/0043/00438277.pdf>

Emerging Economic Trends

Part 1

Overview: Scotland's Economy

Key Facts: Scotland and the UK		
	Scotland	UK
Population (million), 2013	5.3	64.1
GDP Per capita, 2012	£23,370	£24,463
Including geographical share of North Sea output	£26,981	£24,463
Average GDP Real Growth Rate (%), 1977-2007	2.4%	2.9%
Employment Rate (%), (Apr-Jun 2014)	73.5%	73.0%
Unemployment Rate (%), (Apr-Jun 2014)	6.4%	6.4%

Source: Scottish Government, ONS

Overview: Scotland's Economy

Scotland has strong economic foundations.

The country has substantial natural resources, a highly-skilled workforce, a longstanding reputation for innovation, an internationally-recognisable brand, and products and companies competing at the highest level in global markets.

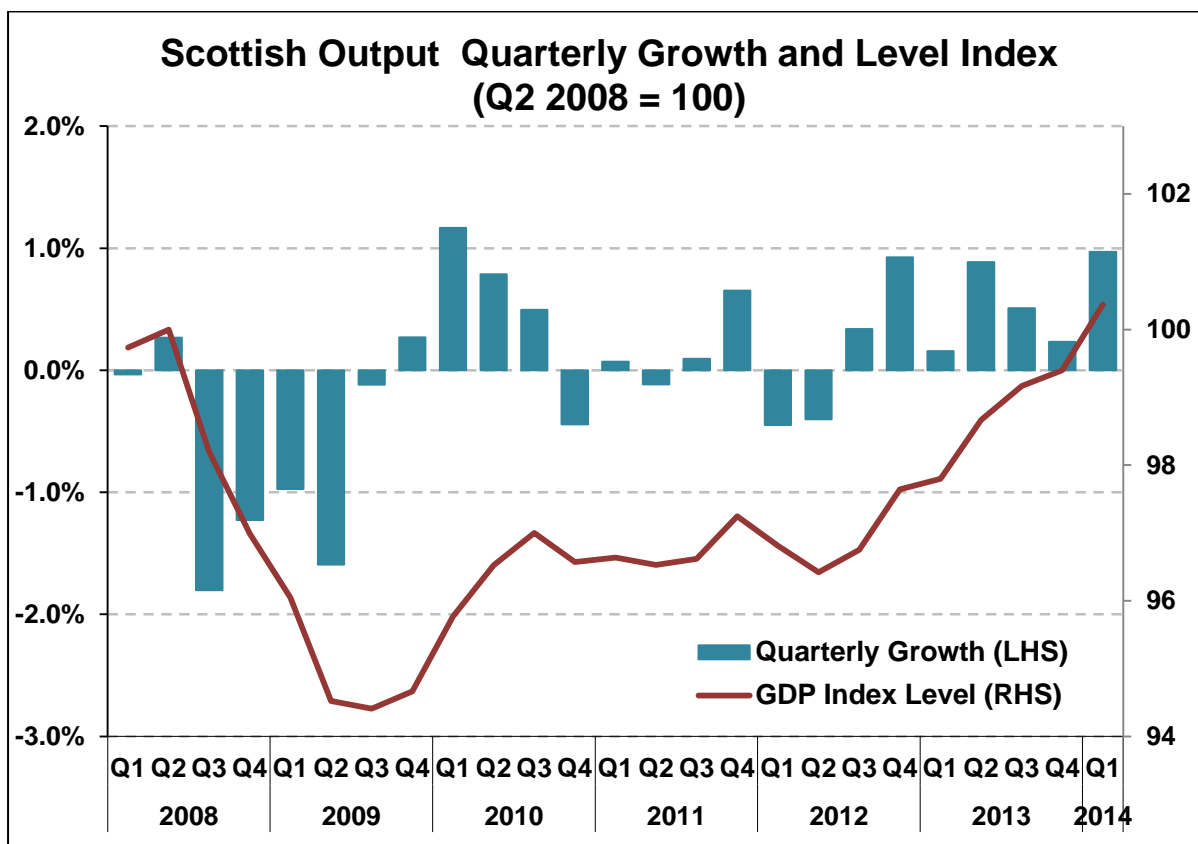
Scotland has thriving sectors in energy, life sciences and the creative industries, Scotland's tourism and food and drink are internationally renowned, and Scottish universities are amongst the best in the world.

Across a range of economic indicators – such as productivity and labour market outcomes – Scotland's performance relative to the UK as a whole has improved since devolution³. However, Scotland's long-term economic growth has lagged behind both that of the UK and other comparable countries.

As part of the UK, Scotland also faces challenges such as higher levels of inequality and lower economic resilience compared to many other countries.

³ See Box 2.2, page 14, of [Building Security and Creating Opportunity](#)

Economic Developments and Emerging Trends



Source: Scottish Government

Economic Developments and Emerging Trends

In recent months there has been a further strengthening in the Scottish economy.

In Q1 2014 output expanded 1.0%, moving beyond pre-recession levels and shifting the economy from recovery into expansion mode. The growth in Q1 was relatively broad-based across Services and Production and business survey evidence also indicates that expansion – both at an aggregate and a sectoral level – has continued in Q2 2014.

Against the backdrop of nearly two years of sustained growth we have also seen an improving picture in the Scottish labour market with increases in employment, and reductions in unemployment and economic inactivity.

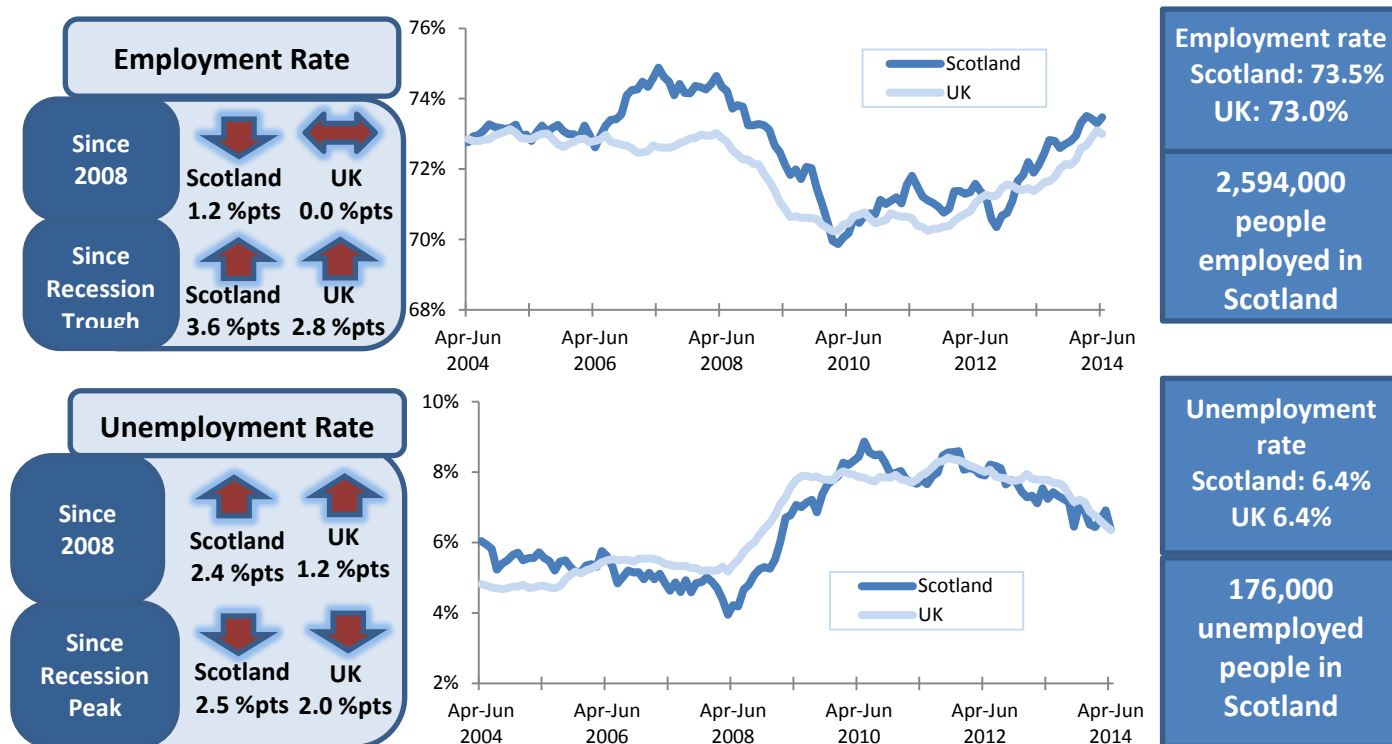
As a result, many components of the economy have surpassed, or are moving back towards, pre-recession levels.

Notwithstanding the aggregate improvements in the economy, some challenges remain. These include: the extent of rebalancing by households and across the wider economy; the pace of growth in key export markets; the degree of labour market utilisation along with the outlook for labour productivity and wages; and the as yet uncertain response to the gradual normalisation of interest rates and monetary policy as the recovery continues.

Whilst such issues will influence the pace and shape of the recovery over the medium term, the more stable economic environment and growing confidence should support a cycle of further investment, growth and employment creation.

Overall, the underlying data and trends – along with the independent economic forecasts – indicate that 2014 will be Scotland's strongest year of growth since 2007.

Recent Developments in the Scottish Labour Market



Source: Labour Force Survey, Seasonally Adjusted, ONS

Recent Developments in the Scottish Labour Market

Scotland has a highly skilled and dynamic workforce and the performance of the Scottish labour market compares well internationally and with the UK.

The consequences of the recession on Scotland's labour market are clear – see charts above – with a rise in unemployment and fall in employment. However, since the depths of the recession in 2010, the labour market has made considerable progress.

The employment level has increased over the quarter in every one of the last 18 monthly labour market releases, with the number of people in employment in Scotland increasing by 130,600 to reach 2.59 million, its highest ever level. The unemployment rate has fallen to 6.4% and is at its lowest since January – March 2009⁴. The employment rate remains slightly lower than before the recession, due to population growth and an increase in the number of people aged 65 and over who are now working.

⁴ All figures from seasonally adjusted, LFS, ONS, relating to Apr-Jun 2014

Economic activity in Scotland, those who are either in work or looking for work, has also been rising. Scotland's activity rate is now higher than in 2008 and is the highest among the 4 countries of the UK.

	Employment Rate	Unemployment Rate	Activity Rate
England	73.3%	6.3%	78.4%
Wales	69.1%	6.7%	74.3%
Scotland	73.5%	6.4%	78.6%
N. Ire	68.4%	6.7%	73.4%
UK	73.0%	6.4%	78.1%

Source: Labour Force Survey, Apr-Jun 2014, Seasonally Adjusted, ONS

Now that the labour market is recovering, focus is turning to the underlying composition and strength of the labour market.

In particular, the headline labour market figures hide important changes to the structure of the labour market. Some of these are positive, such as increasing participation by women, but others are more challenging, such as levels of youth unemployment and reductions in job security.

As the economy continues to strengthen, a key priority will be the extent to which improvements are shared not just amongst those who traditionally are the closest to the labour market, but to include those who have traditionally faced barriers – for example, women, older workers, those with disabilities and minority groups.

Economic Overview - Future Outlook

- Most indicators point to a further improvement in the outlook over the coming years, boosted by positive developments both here in Scotland and an improving external environment.
 - Attention is now shifting to the composition of growth – and how fair and sustainable it is.
 - This includes a focus on well-being and ensuring that everyone has the opportunity to fulfil their potential.
 - Just as importantly, given an increasingly competitive global marketplace and the need to re-industrialise Scotland's economy, Scotland's future economic success depends critically on creating an ever higher skilled and productive workforce.
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Economic Overview - Future Outlook

In recent years, much of the economic debate has focussed on minimising the impact of the recession on households and ensuring that the recovery is broad based and supported.

As the recovery gathers momentum attention is increasingly shifting to the outlook for future growth.

There are two aspects to this:

1. To continue to tackle the legacy effects of the downturn – e.g. youth unemployment, underemployment, in-work poverty and job security.
2. To support the long-term development of a labour market and economy that is resilient, adaptable and responsive to change.

Both of these will require a continued focus on the drivers of growth identified in the *Government Economic Strategy*⁵: strengthening Scotland's productivity; increasing labour market participation; and growing Scotland's working age population.

It also means ensuring that Scotland has the right balance of growth. The type of growth that reduces inequalities and allows everyone to realise their potential; and that reduces disparities across Scotland and society.

⁵ <http://www.scotland.gov.uk/Publications/2011/09/13091128/0>

As set out in both *Scotland's Future*⁶ and in a series of economic publications over recent months⁷, Scottish Ministers' ambition is to re-industrialise Scotland with a focus on boosting manufacturing, supporting innovation and enhancing Scotland's international profile.

At the centre of this is a vision for Scotland to be an innovative, high wage and high productivity economy that competes in international markets and focuses on high value goods and services.

The Importance of the Labour Market

Scotland's future economic success depends critically on creating an ever higher skilled and productive workforce.

Some barriers to employment and equality still exist.

For example, whilst Scotland's female employment rate compares favourably with the UK and has improved in recent years, a number of other countries perform more strongly. More generally women in employment typically face greater job insecurity, higher levels of underemployment and pay inequality which prevents them from meeting their full economic potential.

Often measuring the strength of a country's economy is dominated by headline measures of economic performance, such as the level of employment, and this can often be viewed as the sole objective. However, the type of employment, levels of job security and well-being also need to be considered. The financial benefits of work are also vital to tackling wider economic and social objectives. For example, it is estimated that 250,000 working age adults in Scotland were in in-work poverty during 2012/13⁸.

⁶ <http://www.scotland.gov.uk/Publications/2013/11/9348>

⁷ [Building Security and Creating Opportunity](#).

Reindustrialising Scotland for the 21st Century, <http://www.scotland.gov.uk/Publications/2014/06/5184>

⁸ Poverty and Income Inequality in Scotland: 2012/13, <http://www.scotland.gov.uk/Publications/2014/07/9247>

Labour Market Key Themes

Part 2

Key Current Themes

'Shorter' Term	'Longer' Term
Understanding the changing structure of the labour market – trend in women's participation and changing age profiles	Participation – how to increase labour market participation to match best performers
Youth labour market – addressing the increase in unemployment seen during the recession	Productivity – how to close the gap with similar European countries
Underemployment – helping those working fewer hours than they would like and those over skilled for the jobs they hold	Equality – tackle inequalities between different groups and regions
Earnings – helping to reverse the effect of real wages falling since 2008	Wellbeing – promote employment and economic opportunities for all

Key Current Themes

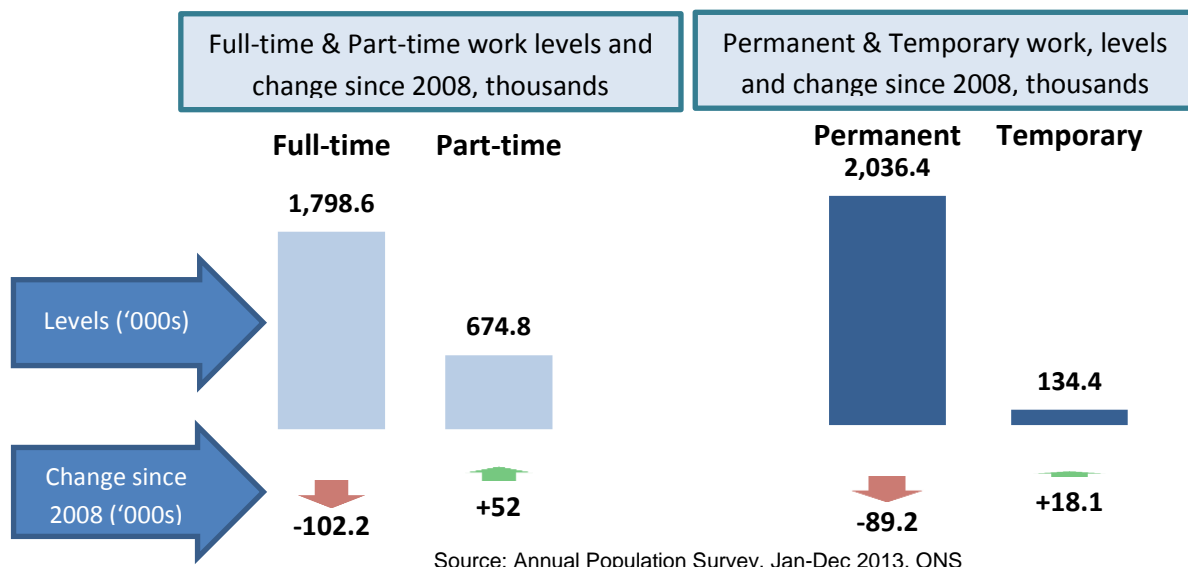
The structure and composition of the Scottish labour market has seen a number of changes since 2008.

Some of these are likely to be relatively temporary effects as a result of the downturn. Others may be longer term structural changes to the labour market and wider economy.

In reality, there is a considerable degree of overlap. Whilst some of the issues listed above are earmarked for ease as 'short-term' and may be expected to be addressed in the next few years, other aspects such as underemployment may also have a long-term element.

This next section explores some of these issues.

Changing structure of the labour market since 2008

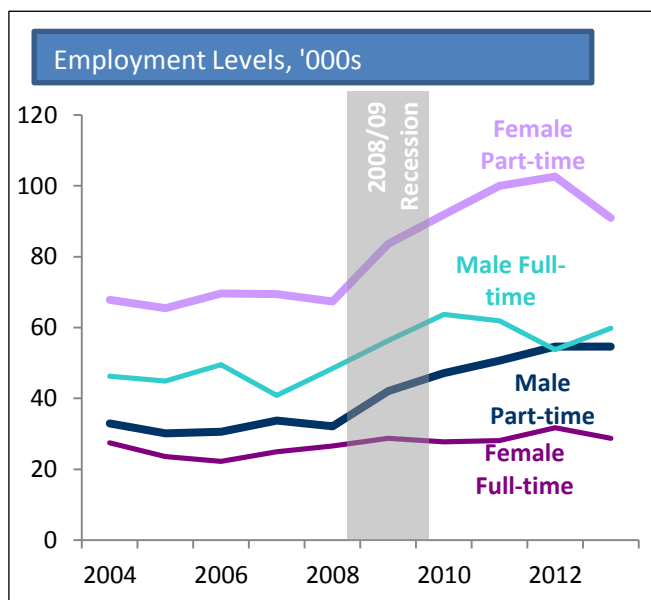


Full-time employment has fallen since 2008 whilst part-time employment has increased. Similarly, permanent employment has fallen since 2008 whilst temporary employment has increased.

Changing structure of the labour market since 2008

As discussed above, overall, the labour market has been making strong progress over the last two years. The employment level has increased over the quarter in every one of the last 18 monthly labour market releases. Over this period, the number of people in employment in Scotland has increased by 130,600 to reach 2.59 million, its highest ever level. The unemployment rate is also now 2.5 percentage points below its recessionary peak and is at its lowest since January – March 2009⁹.

These positive trends reflect the fact that the labour market has shown significant flexibility, both in the provision and supply of labour, and the behaviour of employers (e.g. terms and opportunities offered) since 2008.



⁹ All figures from seasonally adjusted, LFS, ONS, relating to Apr-Jun 2014

For example, female labour market participation has increased from a low of 71.6% in 2008 to 74.2% in the most recent data¹⁰. Employment amongst the over 65s has increased by over 75% since 2008¹¹.

However, there have also been trends that may not be universally positive:

- Underemployment has risen in Scotland by 74,000 since 2008.
- A greater proportion of workers are now in part-time/temporary work, some of which may not be voluntary.
- Similarly, self-employment has increased, although much of this appears voluntary.

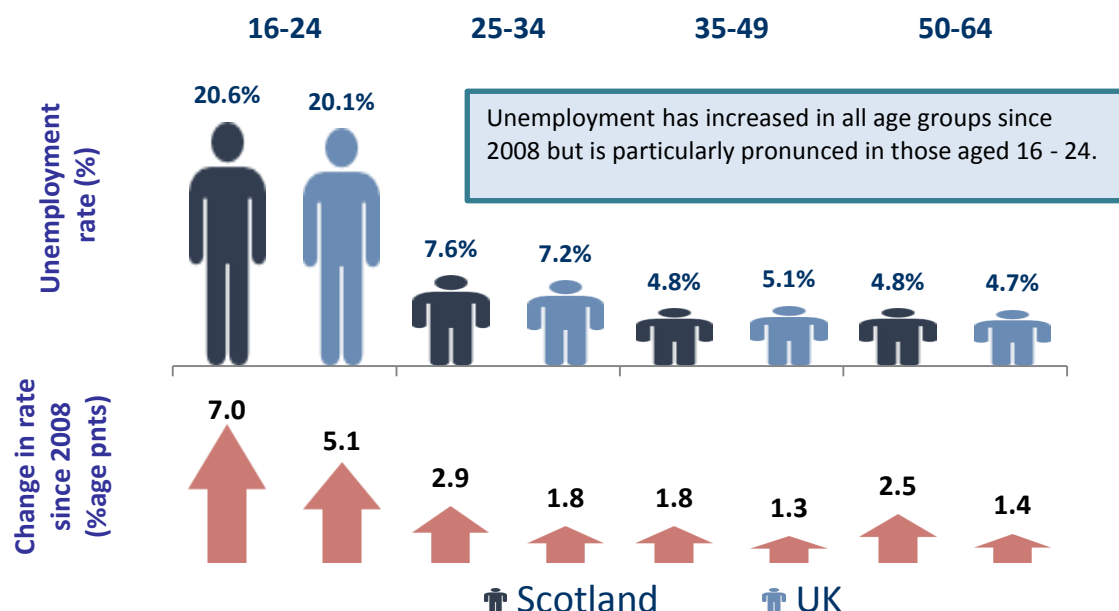
The extent to which such changes are temporary or reflect a more structural shift in the Scottish (and UK) labour markets will be important in shaping the future path of the economy, as well as appropriate policy responses.

There is evidence, for example in relation to full-time employment and underemployment, that a significant proportion of the changes highlighted appear to have a temporary component. For example, full time employment has increased by 23,000 over the past year, whilst the number of people defined as being underemployed has also started to fall.

¹⁰ LFS, comparing Oct-Dec 2008 to Apr-Jun 2014

¹¹ LFS, non-seasonally adjusted, comparing Apr-Jun 2008 to Apr-Jun 2014

Opportunities for young and long-term unemployed



Source: Annual Population Survey, Jan-Dec 2013, ONS

Opportunities for young people and long-term unemployed

Whilst Youth unemployment is higher than it was in 2008, there are indications that it is starting to decline. Over the year to April – June 2014, the youth unemployment rate in Scotland fell by 2.9 percentage points. The youth employment rate in Scotland, at 55.6 per cent, is also higher than the UK rate of 51.6 per cent¹².

In addition, the proportion of young people staying in employment, training or education up to nine months after leaving school is at a record high, at 90%¹³. At the same time, the number of young people not in education, employment or training is at its lowest level seen since 2007¹⁴.

One of the most important considerations is around trends in youth employment and unemployment.

Trends in the youth labour market are of particular importance given the long term impact unemployment at a young age can have on individuals and the economy as a whole, in terms of productivity and future participation in the labour market. There

¹² LFS, Non-seasonally adjusted data for 16-24 age group, ONS

¹³ School leaver destination statistics, Scottish Government (June 2014)

¹⁴ APS, ONS

are also important wider implications, such as implications for life satisfaction and long-term health outcomes.

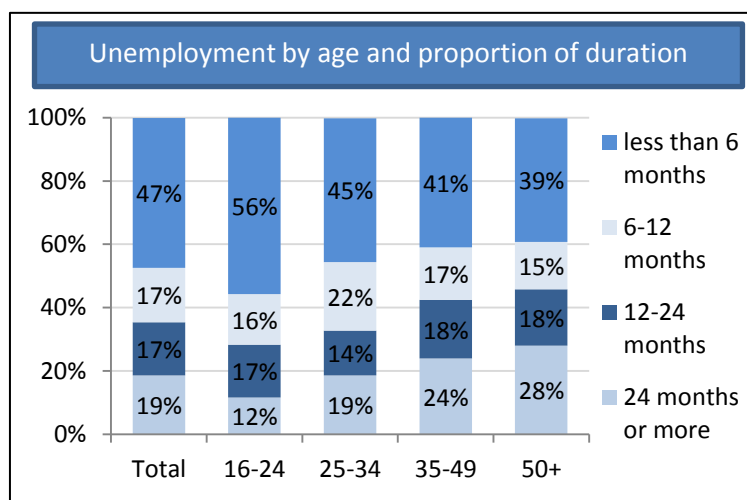
This is a key reason why governments typically prioritise efforts and initiatives to support employment, training or education opportunities for young people.

Some of the increase in youth unemployment since 2008 has been due to the recession and will be cyclical.

Even prior to 2008, youth unemployment rates were higher than the economy-wide average. In this regard, Scotland is not unique. Higher youth unemployment is due, in part, to young people having fewer demonstrable skills and less experience which makes it harder to find employment. Such effects become all the more challenging during a downturn. Youth employment might always be expected to be lower due to large numbers of people in education at this age.

On a similar theme, whilst a short term spell of unemployment may have limited long term impact on an individual, longer spells of unemployment may have greater scarring effects. Younger unemployed people tend to have shorter spells of unemployment than older workers.

The Scottish Government are supporting youth employment and creating economic opportunities through initiatives such as Opportunities for All, which offers all 16-19 year olds in Scotland not already in work, education or training, a learning or training opportunity, and the commitment to provide 30,000 new Modern Apprenticeship opportunities every year by 2020.



Source: Annual Population Survey, Jan-Dec 2013, ONS

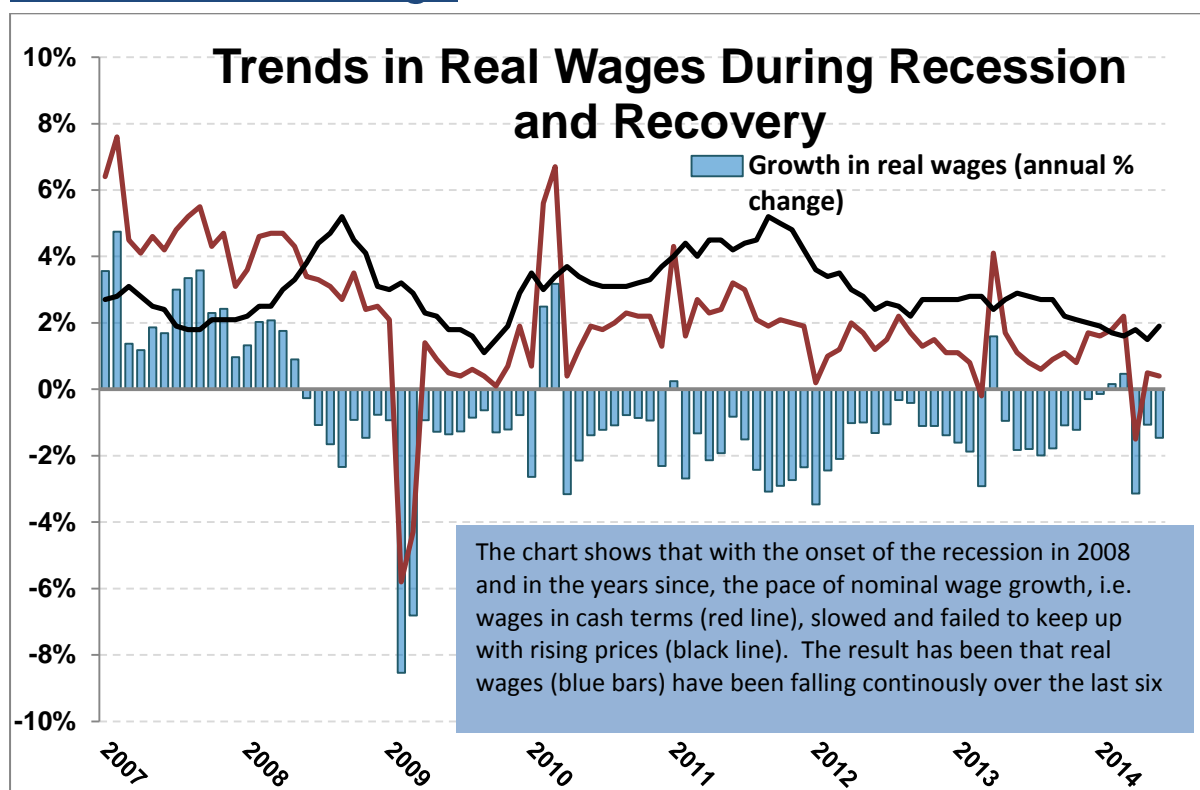
Data Challenges and Priorities

The youth labour market is a challenging area to monitor through traditional economic data and indicators. In the key headline datasets – such as the monthly releases of youth employment and unemployment from the Office for National Statistics – sample sizes are relatively small. In addition, the particular circumstances of young people can be complex – for example, many are students but also look for work. As a result, some of the data can be volatile over short-time periods and subject to a wider range of variation than many of our other core economic and labour market indicators.

An analytical priority is to explore ways to develop richer sources of data on the youth labour market and to articulate a more rounded understanding of the evidence base for young people than is currently available. This could include developing a more comprehensive and joined-up assessment of trends across a variety of indicators.

Future State of the Economy publications from the Scottish Government will revisit this issue in greater detail.

Trends in Earnings



Source: Labour Force Survey, Seasonally Adjusted, ONS

Trends in Earnings

While employment has held up better than might have been expected, for those in work there has been a period of static or falling real wages.

Real median weekly pay in Scotland has fallen back to 2005 levels. Expectations are that real wages will not recover to pre-recession levels until 2016 at the earliest. A similar trend has been observed in the UK as a whole. In addition, low pay remains a fact for some people. For example, in 2013, 17% of people in Scotland were earning less than the living wage¹⁵.

Some of the fall also reflects the sharp rise in inflation seen in recent years, but this has now receded significantly and should help support improvements in household incomes.

In reality, governments – particularly a devolved administration with limited access to demand-side tools – are relatively constrained in their ability to influence pay at an economy-wide level, although the Scottish Government's Social Wage initiative is an example of the type of measure which is possible.

¹⁵ Annual Survey of Hours and Earnings 2013, ONS

Key to unlocking pay growth will be a sustained upturn in the overall economy and improving levels of productivity which should help real wages to rise.

Longer Term & Structural Trends

Part 3

Structural Trends

- **Participation** – how to make best use of all the nation's talent, supporting those who are willing and able to work to meet their potential.
 - **Productivity** – how to increase Scotland's competitiveness and create a high skilled and productive workforce.
 - **Equality** – how to ensure that both the opportunities for economic success, and the proceeds of such success are shared equitably amongst the population.
 - **Wellbeing** – how to ensure that, entirely consistent with boosting economic growth over the long-term, there is also a focus on creating employment and work environments which improve the lives of the people of Scotland on a day-to-day basis.
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Structural Trends

A resilient and productive labour force is central to long-term economic success.

Valued work that leads to sustainable employment is vital to maximising Scotland's economic potential. It is also a key avenue for tackling a range of related issues from poverty and income inequality, to improving health and increasing life expectancy.

Overall, Scotland boasts a highly skilled and dynamic workforce.

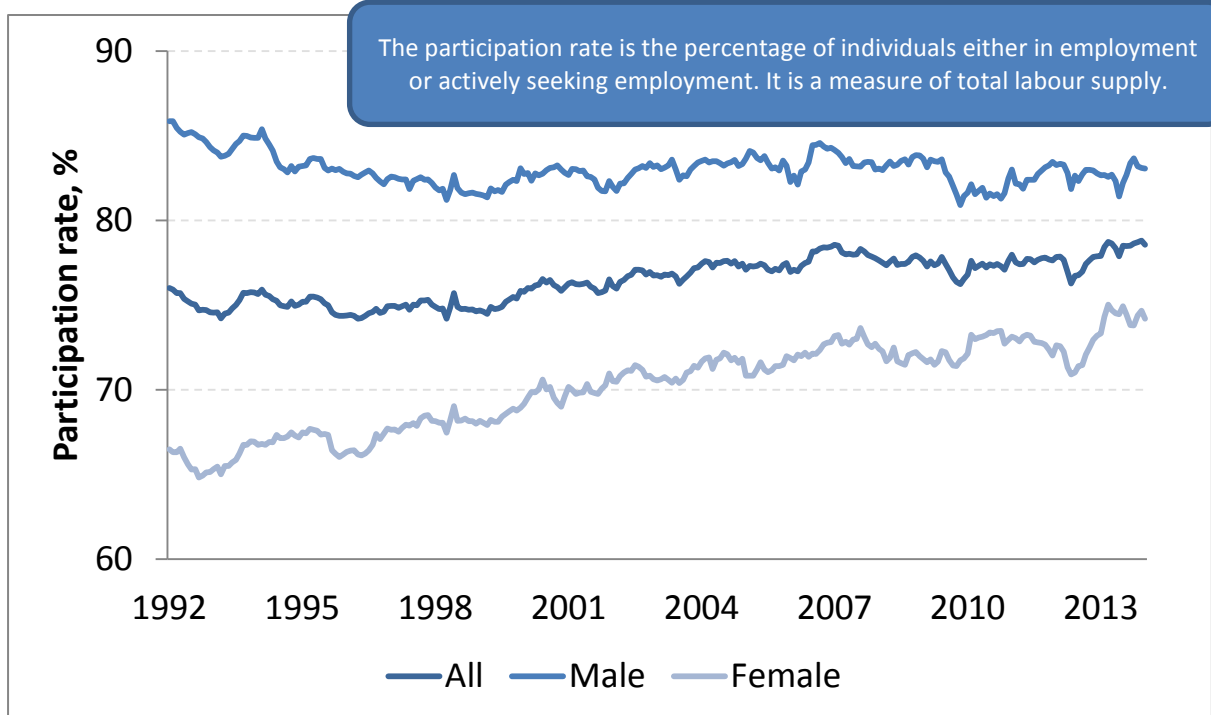
Like many other countries however, Scotland faces a number of challenges in both its economy and labour market – including tackling barriers to participation, job security, in-work poverty and inequality.

As discussed in part 2, some of these challenges have become more pronounced during the recession.

Success over the longer term will be driven by structural improvements in terms of participation, productivity, equality and well-being. There can be synergies and tensions between these individual objectives but ultimately success will depend upon improving all of them. Each objective is dealt with in turn but they should also be considered as a whole.

These priorities will be vital to ensuring that, not only is Scotland able to compete in global marketplaces, but that the benefits of economic growth deliver real and meaningful financial, economic and social benefits to the people of Scotland.

Participation



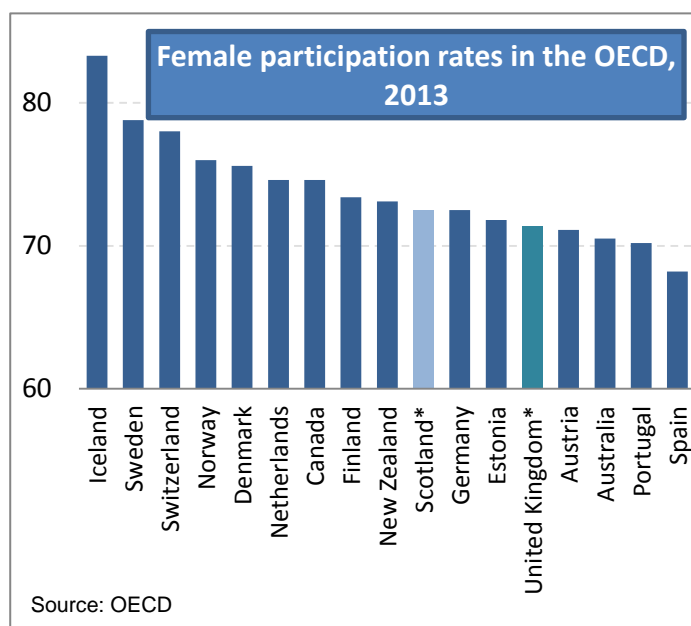
Source: Labour Force Survey, Apr-Jun 2014, Seasonally Adjusted, ONS

Participation

Greater participation increases the economy's potential output. It is also a key avenue for tackling issues such as poverty and social deprivation. In addition, increasing women's labour market participation is seen as a key target for improving gender equality.

Scottish Government analysis shows that if the current participation rate in Scotland was to increase by just 1 percentage point, this could boost the level of output by around 0.6% (£700 million) in the long-run¹⁶.

Scotland does relatively well in comparison to other countries. Scotland's female participation rate is currently 74.2%, which is 1.7 percentage points higher than the UK as a whole. The chart shows that



¹⁶ See page 25 of [Building Security and Creating Opportunity](#)

Scotland has a similar, or higher, rate of female participation to many successful economies, such as Germany and New Zealand. However, Scotland has the potential to do better with a number of countries particularly in Scandinavia having higher still levels of female participation.

If Scotland is to achieve its full economic potential, further improvements in participation will require key long-term barriers that inhibit participation in the labour market to be addressed.

For example, there are long-standing gender differences in labour market participation, as highlighted in the chart above. Women's participation rates in Scotland have been on an upward trend for over two decades and Scotland compares favourably both with the UK and other countries. However, a gap does remain between women's labour market participation in Scotland and the best performing countries in the OECD.

This gap may be closed through pursuing policies around, for example, childcare or women's entrepreneurship. However, increasing women's participation is not the only objective, and focus is increasingly considering the type and quality of employment women undertake¹⁷. For example, in addition to issues surrounding the gender pay gap, more women are underemployed than men¹⁸.

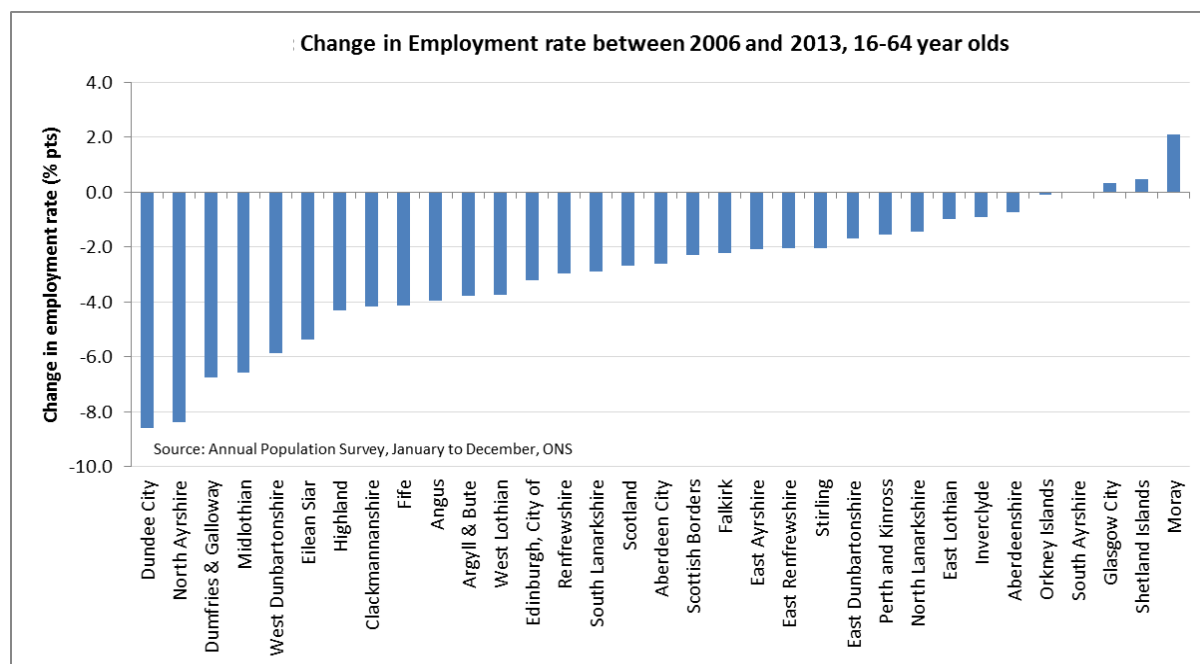
Labour market outcomes also vary across Scotland. For example, employment rates ranged from 60% in North Ayrshire to 83% in Shetland during 2013 (Scottish average was 71%). The gap between employment rates in the top 3 and bottom 3 local authorities in 2013 was 17.4 percentage points¹⁹.

Improving regional economic cohesion is one of the Scottish Governments Purpose Targets. Current Scottish Government policies aimed at supporting participation include improving opportunities for women through investment in childcare and support for entrepreneurship through the Women's Enterprise Framework. In addition, the Youth Employment Scotland Fund provides financial incentives to employers to create up to 10,000 jobs for young people unemployed for up to 6 months.

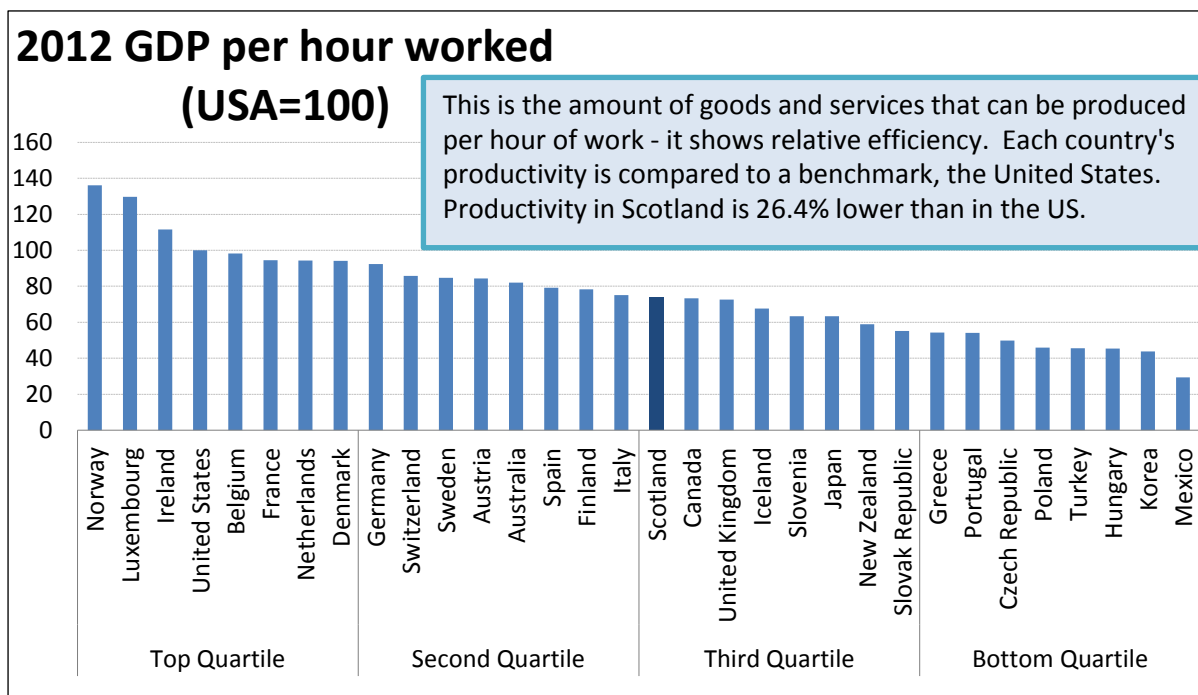
¹⁷ <http://news.scotland.gov.uk/News/Maximising-the-benefits-of-female-employment-a2b.aspx>

¹⁸ Labour Force Survey, April to June 2014, ONS

¹⁹ Annual Population Survey, January to December 2013, ONS



Productivity



Source: Scottish Government, ONS, OECD

Productivity

Productivity is the principle long-term driver of economic growth.

More productive economies can produce greater quantities of goods and services for a given set of resources, typically leading to higher wages, incomes, living standards and wealth.

Scottish Government analysis shows that even relatively small changes in productivity can have significant impacts. It is estimated that boosting labour productivity in Scotland by just 1% could increase output by approximately 1.7% (£2.1 billion) and raise employment by over 21,000 over the long-term²⁰.

Scotland currently matches UK productivity, in terms of GDP per hour worked. However, in an international context Scotland's performance is less favourable, ranking near the top end of the third quartile of OECD countries.

A country's long-term rate of productivity is influenced by a number of factors including levels of innovation and capital investment. As such, the Scottish Government is supporting entrepreneurship and innovation in Scotland through initiatives such as the SMART: SCOTLAND programme and the Scottish EDGE

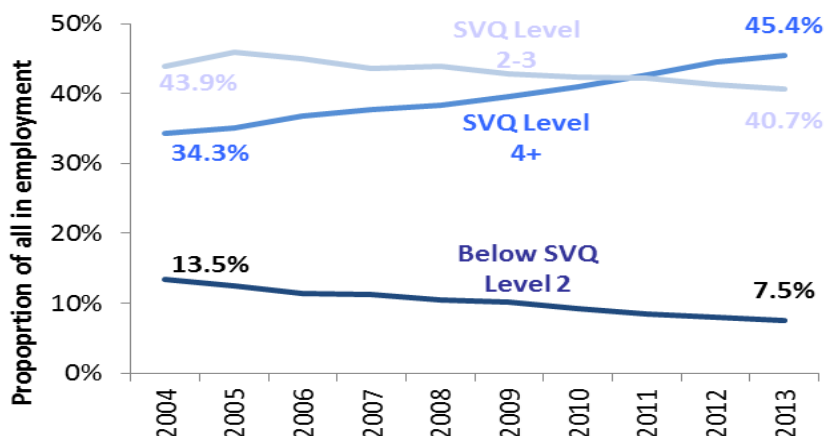
²⁰ See page 22 of [Building Security and Creating Opportunity](#)

Fund as well as through a variety of public sector organisations, such as Scottish Enterprise, Highlands and Islands Enterprise and Business Gateway.

The skills of the workforce and their own productivity (which in turn is influenced by their well-being and workplace environment) also play a central role in improving overall economy-wide efficiency.

Skills and their role in boosting productivity

Proportion of all in employment (16-64) by qualification level



- The proportion of workers with Higher or Further Education qualifications has been increasing since 2004 while the proportion with low or no qualifications has been reducing.
- Those with HE or FE qualifications now make up the majority of Scotland's 16-64 workforce

Source: Annual Population Survey, Jan-Dec 2013, ONS

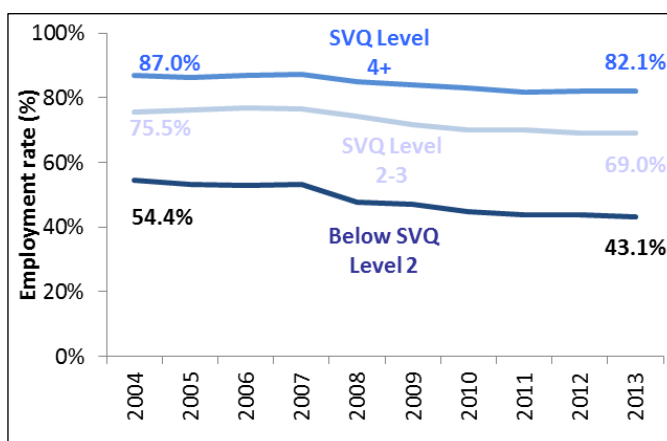
Skills and their role in boosting productivity

As highlighted above, productivity is the key driver of long-term economic success – and skills and workforce development have a vital influence on productivity.

The skills of workers influence productivity directly, as they define the capabilities that the labour force can contribute to the production process, and indirectly, where the contribution of skill is mediated instead through other drivers, for example, encouraging enterprise and innovation.

Increasing skill levels is not only good for the economy but also for individuals. For example, as shown in the chart, those with higher skill levels tend to have higher employment rates and fared better since the recession.

In reality, 'skills' can take on a number of characteristics from personal characteristics, skills developed through formal education and training, and skills developed through work experience and informal training.



Source: Annual Population Survey, Jan-Dec 2013, ONS

In 2013, Scotland (44.0%) had the highest percentage of the population with tertiary education attainment of all European countries. This is 4.4 percentage points higher than the UK figure (39.6%).

In general, feedback from employers on the skills-base in Scotland is positive. For example, the UK Employer Skills Survey 2013²¹ found that 26% of Scottish employers recruited a leaver from Scottish education, with employers finding that they were well prepared for work. This perceived level of work-readiness increased with time spent in education. This provides a strong platform on which to build.

As Scotland emerges from recession the type of jobs available to help drive economic growth will be in sectors that demand a higher level of skills. The labour market is changing and while some areas of lower skilled work will grow between now and 2020 the majority of jobs created will be highly skilled roles. A key focus therefore in the months and years ahead will be on boosting the level of skills in Scotland and tackling skill shortages and skill gaps.

In addition to raising skill levels across the board, there are advantages in tilting the balance of skills development towards those sectors of competitive advantage that could be at the heart of a successful industrial strategy for Scotland. This requires careful planning and Skills Development Scotland have an important role to play in continuing to work closely with employers and industry bodies to ensure that provision matches the needs of these growth sectors and reflects regional priorities.

The Commission for Developing Scotland's Young Workforce's recommendations are central to how such challenges are met, alongside the Scottish Government's education priorities such as post-16 education, Curriculum for Excellence and the Government's support for Higher Education.

It will also be important to consider issues beyond the supply of skills within the Scottish economy, in particular around skills utilisation within the economy and encouraging demand for higher skill levels. These will impact on individuals' incentives to invest in learning and qualifications, and on the quality, as well as the quantity, of jobs in the Scottish economy²². In addition, attention can be given to the areas of the economy which traditionally have higher labour intensity – such as the care sector – and their workforce development, opportunity and quality and rewards, for example through Foundational Economies (see box). This can be important for understanding how to tackle issues of inequality.

²¹

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/326641/UKCESS_2013_Scotland_Slide_Pack_FINAL.pdf

²² A discussion of issues related to this can be found in Hermannsson, K., Keep E., et al. 'Further Education, the Scottish Labour Market and the Wider Economy', David Hume Occasional Papers No. 94, <http://www.davidhumeinstitute.com/publications/category/1-hume-occasional-papers.html>

Foundational Economies

The concept of 'Foundational Economies' has a particular focus on local economies and increasing local economic participation. Some parts of the country – such as those close to universities or renewable assets – are naturally well placed to take advantage of the opportunities in Scotland's areas of comparative advantage.

In contrast, in other areas a broader approach may be required to reflect the opportunities in sectors such as health, education and utilities, with policies potentially focused on supporting the spatial concentration of these activities. An approach which takes account of geographic differences in economic opportunities should lead to more sustainable and balanced levels of growth at the national level

A number of stakeholders have raised the prospect of considering the opportunities and challenges from a greater role for the Foundational Economy and in areas where activities linked to local service delivery – both in the private and public sector - account for a higher proportion of local economic activity.

Equality & Links to Labour Market Outcomes

International Comparison of Inequality (Gini Coefficient 2010 Source, OECD)				This table shows international comparisons on a key measure of income inequality, the Gini Coefficient. The figure summarises how equally or unequally income is distributed. The closer to zero, the more equal and vice versa. In 2010, Iceland had the most equal income distribution in the OECD, and Chile had the most unequal. The figure for Scotland places it in the middle of the OECD.
Iceland	0.24	Korea	0.31	
Slovenia	0.25	New Zealand	0.32	
Norway	0.25	Estonia	0.32	
Denmark	0.25	Italy	0.32	
Czech Republic	0.26	Canada	0.32	
Finland	0.26	Ireland	0.33	
Slovak Republic	0.26	Australia	0.33	
Belgium	0.26	Japan	0.34	
Austria	0.27	Greece	0.34	
Sweden	0.27	Spain	0.34	
Luxembourg	0.27	United Kingdom	0.34	
Hungary	0.27	Portugal	0.34	
Germany	0.29	Israel	0.38	
Netherlands	0.29	United States	0.38	
Switzerland	0.30	Turkey	0.41	
Scotland	0.30	Mexico	0.47	
France	0.30	Chile	0.51	
Poland	0.31			

Equality & Links to Labour Market Outcomes

As the Government Economic Strategy makes clear, the nature of the growth that is created, in terms of its sustainability and how it is shared across society, are not only important *objectives* in their own right, but are themselves important *drivers* of sustainable economic growth.

Improving the social, health, environmental and economic opportunities for all of Scotland will be key to improving Scotland's long term economic performance.

Although levels of income inequality and poverty are lower in Scotland than in the UK, Scotland lags behind other comparable countries.

Debates regarding levels of inequality often solely focus on welfare and taxation. As the Joseph Rowntree Foundation recently pointed out, a key avenue to tackling income inequality is the provision of greater employment opportunities and appropriate rewards to work²³.

²³ Joseph Rowntree Foundation (2014), 'Referendum Briefing: Poverty and Work in Scotland', <http://www.jrf.org.uk/publications/referendum-briefing-poverty-and-work-scotland>

The recent trends in labour force participation and returns to work highlighted in Parts 1 and 2, mean that this is an increasingly important area of focus.

Although work provides a positive outcome, low pay is an issue with an estimated 398,000 employees, around 17.4% of all employees, earning less than the living wage in Scotland in 2013²⁴. Households where at least one member is working (either full or part-time) but where household income is below the poverty threshold are classified as living in in-work poverty. In 2011/12, 280,000 individuals in Scotland were living in in-work poverty.

Around half of working age adults in poverty are in working households, and over half of all children in poverty live in working households.

In reality, there are a range of factors that contribute to in-work poverty – including:

- low wages;
- under-employment; and
- insecure and transient employment.

Improving labour market outcomes, tackling poverty and inequality and supporting economic growth are not mutually exclusive objectives. Well-designed labour market policies and institutions not only reduce inequality but also boost the economy. For example, employers that take an interest in the development and wellbeing of their employees can help to boost productivity. This can be achieved, for example, through effective employer-employee relations and social partnerships.

The Working Together Review²⁵, which has recently published their report, was established to review progressive workplace policies in the public and private sectors, identify opportunities for innovation which would enhance productivity, highlight good practice, and recommend how the Government Scottish Government builds on that to optimise the relationships that link trade unions, employers and government. The Scottish Government has made it clear that it will work with employers and trade unions to frame a shared response to its recommendations.

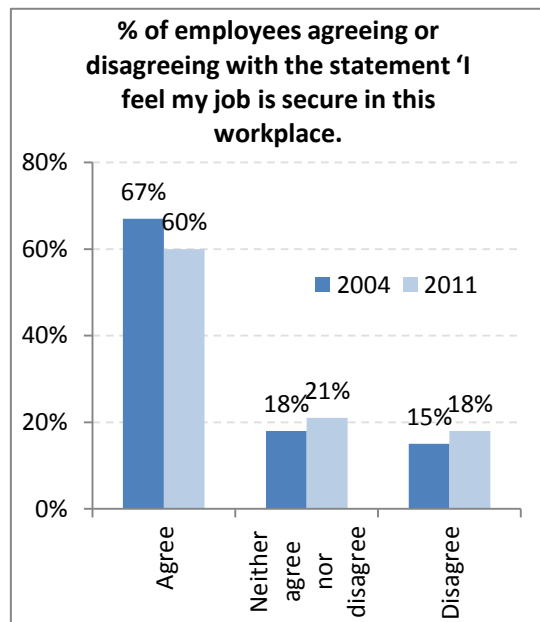
²⁴ Annual Survey of Hours and Earnings 2013, ONS

²⁵ <http://www.scotland.gov.uk/Topics/Business-Industry/Workingtogether>

Wellbeing and Workplace Development

% of employees experiencing impact as a result of the recession, 2011

	Wages frozen or cut	Work-load increased	Other impacts
Male	35%	29%	64%
Female	31%	28%	58%
Managers	38%	39%	67%
Non-managers	32%	27%	60%
Full-time	35%	32%	64%
Part-time	24%	19%	50%
Aged <20	1%	8%	26%
Aged 20-29	23%	24%	55%
Aged 30-59	36%	31%	64%
Aged 60+	31%	23%	52%



Source: Workplace Employee Relations Survey (WERS) 2011, Department for Business, Innovation and Skills

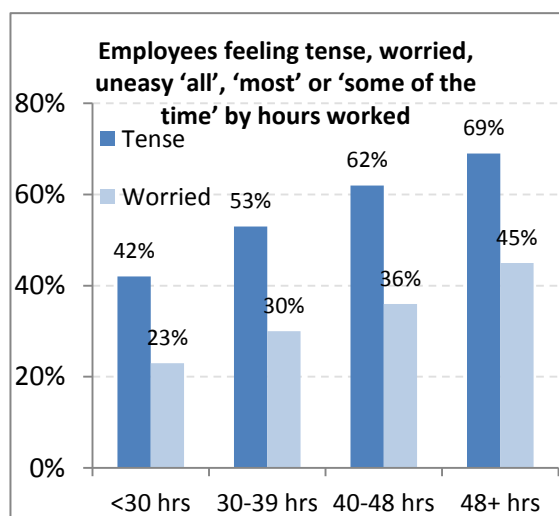
Wellbeing and Workplace Development

Following the recession, attention has focused on trends in headline labour market and economic indicators.

More recently debate is also turning to the extent to which work conditions may also be changing considerably for those who remain in work. 75% of workplaces responded to the recession in a way that impacted on their workforce – most commonly by cutting or freezing wages (42%). Other responses included a recruitment freeze (28%), changing the organisation of work (24%) and postponing expansion (21%)²⁶.

Pay cuts, pay freezes and increased workloads combined with reduced job security can have negative outcomes for an individual's wellbeing in terms of standard of living, opportunities for progression and overall welfare.

A workplace that supports its employees and has a focus on wellbeing will also help increase performance and productivity. It can lead to greater staff retention and fewer sick days, leading to overall growth and prosperity.



Source: WERS 2011, Department for Business, Innovation and Skills

²⁶ WERS 2011, Department for Business, Innovation and Skills

Conclusion

In summary, this document has provided an assessment of recent economic developments in Scotland, particularly in the labour market, and the outlook for the months and years ahead.

It has highlighted a number of key short and long-term themes that will be important in shaping the nature of the recovery.

This has included an assessment of the changing structure of the labour market, the challenges for the young and long-term unemployed as well as the trends in earnings. It has also highlighted Scotland's principal long-term challenges and structural priorities, covering improvements to participation, productivity, equality and well-being and workplace development.

These issues – and how Scotland responds to them – will be key to ensuring that, not only is Scotland able to compete internationally, but that Scotland's full economic potential is unlocked, with the benefits of economic growth delivering real and meaningful financial, economic and social benefits to the people of Scotland.

Glossary

Glossary

Capital Investment – Money spent on tools, equipment or infrastructure for the benefit not just for today but for future years (e.g. to reduce long-term costs, increase output or improve quality).

Claimant Count – This is the most timely measure of unemployment. It measures the number of people who claim unemployment benefits.

Consumer Price Index (CPI) – A measure of **Inflation** calculated by observing price changes in a representative basket of goods. Usually measured over a month or a year.

Demand Side Policy – Policies designed to affect aggregate demand through **Fiscal** and **Monetary Policy**, for example increasing demand in a recession by reducing taxes/increasing government spending or reducing the cost of borrowing by cutting interest rates.

Economic Output – Actions that involve the production, distribution and consumption of goods and services at all levels within a society.

Employment Rate – The percentage of individuals in the working age population (16-64 years) who are in employment.

Fiscal Policy – Policies which aim to influence economic growth and inequalities through government spending and taxation.

Gini Coefficient – A measure of income inequality that measures the distribution of wealth within society by measuring the proportion of total income that is held by the bottom x% of the population. The value lies between 0 and 1, with inequality increasing as the coefficient tends to 1.

Gender Pay Gap – The difference between male and female earnings.

Gross Domestic Product (GDP) – A measure of the value of goods and services *produced* in a country. It is the sum of domestic consumption, government spending, investment and net exports (i.e. exports less imports). Usually measured on an annual or quarterly basis.

Gross Domestic Product per head (GDP per capita) – As GDP varies according to the size of a country, GDP per capita is often used as an indicator of a country's relative economic strength adjusted for population. It is sometimes used as a proxy for a country's standard of living – although it does not explicitly relate to wealth or the distribution of wealth.

Gross National Income (GNI) – A measure of the total income received by a country both at home and abroad. It is effectively domestic income net of revenues to and from other countries.

Gross Value Added (GVA) – One particular measure of GDP. At each stage in the production process the 'value added' by that stage is added to reach a cumulative total for the overall economy. It is sometimes referred to as GDP at Basic Prices as taxes and subsidies are not included (unlike in other measures of GDP).

Inactivity – Individuals who are not classified as employed, unemployed or actively seeking employment.

Inactivity Rate – The proportion of the working age population (16-64) who are not in the labour force.

Inequality – This relates to the gap between the rich and the poor and typically refers to the unequal distribution of income among individuals in a group, among groups in a population, or among countries.

Inflation – The rate at which the price of goods and services is rising or, conversely, purchasing power is falling.

Innovation – The creation of new methods, ideas, processes and products.

Labour Force – The total number of people who are eligible to work (those who are employed or seeking employment) .

Labour Intensity – A measure of the demand within an industry for labour. For example, the care sector is traditionally labour intensive compared with life sciences which tends to be more capital intensive

Living Wage – The amount an individual needs to earn to cover the basic costs of living. The current Living Wage in Scotland is £7.65 an hour.

Macroeconomic – Factors affecting the economy as a whole. Key macroeconomic variables include unemployment, inflation and interest rates.

Monetary Policy – A set of policies (e.g. interest rates, Quantitative Easing) that uses to control inflation and to smooth economic fluctuations. In most countries, day-to-day monetary policy is devolved to an independent central bank such as the Bank of England.

Nominal Variables – Economic variables – e.g. GDP or wages – that are not measured in constant prices and so will be affected by inflation. For example, if earnings grow in nominal terms but by less than inflation then the purchasing powers of such earnings will fall.

Occupational Segregation – It is one of the barriers which prevents women and men from fulfilling their potential in the labour market. It is the concentration of men and women in different kinds of jobs and different grades.

Organization for Economic Cooperation and Development (OECD) – A body formed from the governments of 34 democracies with the aim of working together to address the economic, social and environmental challenges of globalisation.

Output – The quantity of goods or services produced in a given time period, by a firm, industry, or country. At a national level measures such as GDP are used to measure Output and the terms are often used interchangeably.

Participation Rate – The proportion of the working age population (16-64) who are either in employment or actively seeking employment. It is a measure of total labour supply. It is the inverse of the inactivity rate. For a given population, a rise in the participation rate will either be reflected in an increase in employment (if people secure employment) or an increase in unemployment (if people are yet to secure employment).

Per Capita – Adjusting an economic variable for population - translates to average per person. It is often a useful way to determine what an aggregate economic measure - e.g. GDP - means for each individual.

Production – The process used to transform inputs of labour, capital, and goods and services into outputs of goods or services which have an exchange value.

Productivity – A measure of how efficiently an firm, industry or economy is able to convert its inputs (e.g. labour and capital) into output. At an economy wide level, it is the key long-term driver of sustainable growth in advanced economies. It is typically measured by output per hour worked or output per job.

Real Variables – Variables e.g. GDP or wages - measured in constant price terms, eliminating the effect of Inflation. For example, if earnings are growing in real terms, the rise is larger than inflation and therefore the purchasing powers of such earnings will increase.

Supply Side Policies – Policies designed to make markets and industries operate more efficiently through factors affecting the quantity or quality of goods and services produced by an economy such as increasing levels of productivity, participation in the labour force or the size of the population. Over time, supply-side policies are the key to boosting the long-term growth rate of an economy.

Underemployment – A measure of employment that looks at how well the labour force is being utilised in terms of skills, experience and availability to work. People can be referred to as underemployed if they are in a job that is not making full use of their skills or if they would like to work more hours than they are currently employed for.

Unemployed – Those actively seeking work but unable to find a suitable job.

Unemployment Rate – The percentage of the labour force (defined as economically active) without a job but are registered as actively seeking employment.

Well-Being – A state of health, happiness and contentment.

Youth Unemployment – Those 16-24 year olds who are actively seeking work but are unable to find a suitable job.