'Hollowing out' of the Scottish labour market, productivity, social mobility and inclusive growth

Jeremy Peat
International Public Policy Institute
University of Strathclyde

Making a difference to policy outcomes locally, nationally and globally

IPPI POLICY BRIEF
Jeremy Peat is a Visiting Professor at the International Public Policy Institute (IPPI) at the University of Strathclyde, Glasgow. He is a Fellow of the Royal Society of Edinburgh, a member of the Competition and Markets Authority (CMA) and a former Director of the David Hume Institute.
‘Hollowing out’ of the Scottish labour market, productivity, social mobility and inclusive growth

Jeremy Peat

Abstract

The decline in middle skill jobs and increase in low skills jobs (‘hollowing out’) is undermining attempts to increase productivity as well as threatening social mobility and ‘inclusive growth’. This IPPI Policy Brief outlines what’s happening in the Scottish labour market and how a greater policy emphasis on how this issue might be tackled, especially in industries and sectors with large low skill workforces.

I Introduction

Over time the nature and structure of employment in any economy is subject to significant change. It is evident that in recent decades the pace of change has accelerated – and that this applies as much to Scotland as to any developed, evolving, economy.

One feature of the changing labour market has been this issue of ‘hollowing out’. In brief, the share of ‘high level’ jobs, generally requiring a high degree of skill, has tended to increase – broadly to match the increase in the number of ‘skilled’ labour market participants and in particular entrants with higher education and equivalent qualifications. At the same time, the share of jobs in the next tier down – requiring certain skills and equating to what can be termed ‘semi-skilled’ workers – has tended to decline. It is these types of jobs (to generalise excessively) which have been most subject to replacement as automation and computerisation continues and accelerates. There has not been a similar decline in the share of low skilled jobs in our economies. These jobs, often in the service sector, private and public, have not been displaced to the same extent as those in the middle tier.

This then is the hollowing out. The share of total employment represented by jobs at the top and bottom ends has tended to increase, while the share of jobs in the middle segment has tended to decline. As I shall try to show below, I see this trend as a major threat to efforts to promote ‘inclusive growth’ – i.e. to work towards both stronger overall growth in our economy and reductions in inequalities.

1 See for example Frey and Osborne; ‘The Future of Employment; how susceptible are jobs to computerisation?’, Oxford Martin School, Oxford, September 2013
2 There will be other causes of the reduction in middle level jobs in addition to automation. These could include re-structuring, as manufacturing and financial services have declined relatively, and ‘off-shoring’ as some middle level jobs have been moved to lower cost overseas locations.
3 For an excellent statistical analysis see Rogers and Richmond ‘Scotland’s Labour Market; ‘job polarisation’ and inclusive growth’ in the Fraser of Allander Economic Commentary 38(3).
4 As discussed in ‘The Challenge of Inclusive Growth for the Scottish Economy’ by David Wilson, Director of IPPI, Fraser of Allander Economic Commentary 39(3).
II     How extensive is hollowing out in Scotland?

Rogers and Richmond (op. cit. – see footnote 3) examined data brought together by economists at Stirling University.\(^5\) They examined developments in the numbers of jobs by decile – with decile ranked by wage. This showed a marked reduction in the number of intermediate jobs (deciles 3-6) between 2001 and 2010, while the numbers of both high wage (deciles 7-10) and low wage (deciles 1-2) increased substantially. Looking at the period 2011-2014, there was an increase in the number of jobs in each of these three groups, but this was concentrated on the top and the bottom, with less than a quarter of the increase accounted for by jobs in deciles 3-6.

It is important to stress that these intermediate jobs are not vanishing entirely. There were still c.1 million in Scotland in 2014 and there will be openings to replace those leaving the labour force. However, the share of jobs in each of the three groups is changing. These shares were roughly the same in 2001, but in recent years the shares at the top and the bottom have both increased by several percentage points while the share of the middle group has fallen away sharply.

As Rogers and Richmond point out, this change has contributed to growing inequality in Scotland, particularly pre-recession. In addition, the top and middle-ranking jobs have tended to include a higher proportion of full-time workers than the bottom group; while the latter include relatively more part-time and self-employed workers, with a greater incidence of zero hours contracts.\(^6\) Part-time employment tends generally to be lower paid (per hour worked) and less secure than full-time employment.

By 2015 the aggregate level of employment in Scotland had returned to the pre-recession level. However, there were sharp divisions within this aggregate story. The number of part-time jobs has risen steadily in the period since the recession, by tens of thousands, while the number of full-time employees was below the 2008 level for each year until 2015. The mean real hourly pay per full-time equivalent worker will have tended to decline as this restructuring has taken place; as will the level of productivity – a major cause of concern in Scotland.\(^7\)

This changing structure of the labour force applies in many advanced economies, not just Scotland; and is entirely consistent with the hollowing out described previously. A switch from medium level to low level jobs is also associated with more part-time and less secure employment

\(^6\) Rogers and Richmond cite here ‘cleaners, care workers and call centre / customer services workers’ plus those in accommodation and food occupations.
\(^7\) See ‘Why Britain’s and Scotland’s productivity performance disappoints; causes and potential solutions’ IPPI Policy Brief, Jeremy Peat, November 2015.
and both lower pay per hour and lower productivity. This is not a sound basis for raising productivity across the economy or for stimulating inclusive growth.

III Hollowing out and social mobility; stuck at the bottom?

One key concern which has not been touched upon above is the impact of the hollowing out of the labour market on social mobility. This was referred to by Alan Milburn, Chair of the Social Mobility and Child Poverty Commission, in his address to the David Hume Institute in Edinburgh on 2nd December 2015. He stated: -

‘Today the UK has one of the highest rates of low pay in the developed world. Five million workers, mainly women, earn less than the Living Wage. They simply do not earn enough to escape poverty. This would be less of an issue if a low paid job was the start of a journey up the career ladder. But for too many people a low-paid job turns out to be a dead end rather than a springboard to success – our research shows that only a quarter of people in low pay have escaped from low pay a decade later.’ [My italics added.]

I would hypothesise that people entering middle ranking jobs – semi-skilled employment – have a far greater prospect of moving up a career ladder than those in the lowest level jobs. These lower tier jobs tend too often to be more of a sink than a ladder to progression. Therefore the shift in the pattern of employment in Scotland, away from the middle group towards the lower end, may well have adverse implications for job progression and social mobility – and hence for inclusive growth.

The shifting pattern of employment may also help to explain the conundrum of high life satisfaction in Scotland alongside relative low job satisfaction. Professor David Bell of Stirling University has examined data from ‘Understanding Society’ and discovered that Scotland is second only to Northern Ireland among UK nations and regions in terms of overall life satisfaction but ranks a lowly 8th so far as job satisfaction is concerned.

Increasing the minimum/living wage will clearly have an immediate positive effect on the income of lowest paid workers. However, there is always a risk that, if employers do not see ways of enhancing efficiency/productivity in their workplace, then as the minimum wage increases, all else being equal, the level of employment may tend to decline. The potential dynamic effects require further careful analysis.

An increase in the minimum/living wage may also have the impact on squeezing differentials with consequent effects on incentives. The differential between pay for being ‘one of the team’ and

---

8 Text available on the DHI website www.davidhumeinstitute.com
9 https://www.understandingsociety.ac.uk/
10 As per private correspondence with Professor Bell.
the ‘team leader’ may become very small; and not deemed sufficient by some (myopic) workers who note the extra work and responsibility promotion would involve without being persuaded that longer term career prospects would be markedly enhanced. Anecdotally this effect is tending to further constrain career progression in some instances.

IV Possible remedies

Enhance the productivity of lower skilled jobs: ideally we would seek ways forward which would both tend to enhance productivity at the lower end of the labour market (and hence for the economy as a whole) but also work towards reducing inequalities, i.e. having a particularly positive effect on those in the lowest paid jobs. Those entering the labour market in this lowest tier should see scope for progression within and beyond the organisation or sector in which they first find employment.

Focus on improving the productivity of sectors with large, low skill workforces: this implies a focus on examining those sectors which employ large numbers of low paid and low productivity workers. These sectors generally exhibit other ‘non-progressive’ workplace practices such as limited training, less employee engagement and a greater tendency to zero hours contracts. Taken together this results in limited job security and limited prospects of career progression. In discussion of means of enhancing productivity the lens is generally placed upon higher tech sectors, where it is believed that greater innovation and investment in capital and skills can lead to enhanced productivity and competitiveness and hence higher growth and greater prosperity.

It may well be that given the increased priority for inclusive growth, alongside this continuing shift in the structure of employment, the lens should be moved across to the sectors in the private and public sectors which employ large numbers of people in relatively lowly skilled occupations. An increase in productivity here – greater output per head without loss of quality – could result in some combination of higher wages, lower prices and higher profits; (or in the case of the public sector activities funds saved to be used either to reduce taxation or to direct to other high priority activities).

Create more apprenticeships to upskill workers and work: one move in the right direction would be to encourage more apprenticeships in such sectors for both private and public sectors. There must be means of using more skilled manpower in these sectors, to increase the efficiency of operations and to help to set out career paths for the ambitious and able. However, this provision of apprenticeships would have to be coupled with a focus on improved management, with incentives to stimulate an environment in which ambition is valued and the able and ambitious are encouraged to seek to succeed.
**Trial sector-based approaches and work with industry:** another useful approach would be to consider specific sectors employing lower skilled labour in order to identify general principles as to how productivity might be enhanced and skill development and utilisation increased. Scottish Enterprise has set off down this route, in collaboration with Industry Leadership Groups and sector bodies, for food manufacturing and tourism. The work is at an early stage but five broad areas have been identified as the main factors influencing productivity:

1. Lack of leadership ambition and management capabilities
2. Limited use of Information and Communication Technologies (ICT) to support planning and performance management
3. Balance of skills and attracting the right people.
4. Lack of innovation – particularly from a processor business model perspective
5. Lack of investment of different types.

Much more will be learned as the work progresses, including lessons from the examination of successful companies where productivity and skill utilisation are progressing hand-in-hand.

**Learn from elsewhere:** a similar approach has to be feasible in the public sector. One massive employer is the care sector – a sector set to grow at pace for the decades ahead. One example of doing things differently in this sector has been brought to my attention\(^\text{11}\). This is an organisation called Buurtzorg in the Netherlands. This started out in 2007 with 1 team of 4 nurses and by 2013 had 6,500 nurses in 630 independent teams across the country. Buurtzorg is a not for profit organisation, whose success is founded upon some key principles such as:

1. Independent and *self-managing* teams of a maximum of 12 nurses.
2. Each team responsible for organising and implementing the full care package across a broad range of clients
3. Effective use of appropriate ICT.
4. High quality staff – 70% registered nurses as compared to a norm in the sector in their country of 10%.
5. Each team having their own education/training budgets and a focus on up-skilling.
6. One back office for all 630 teams including 15 coaches to aid training and development – with the back office taking care of all the bureaucracy.

The end product appears to be a service with a very strong customer focus, very content customers and a high staff satisfaction rate; along with highly cost-efficient delivery of the required services. There have to be lessons for those operating in this sector across Europe. No doubt others know much more and there will be other examples.

---
\(^{11}\) My thanks go to a senior official for suggesting that I look at this organisation. At this stage all that I have is a very rough idea of their activities.
The key message that I take is that it is possible to innovate in the delivery of such key services and to create an environment where there is real scope for in-work progression and job satisfaction – and indeed enhanced productivity. It is not a matter of dragging everyone down to the lowest cost alternative at all times. I am sure that it is much more complex and challenging than the limited literature I have seen tells us. Recent work by the University of the West of Scotland and Oxfam\(^\text{12}\) finds that low paid workers value the following to have ‘decent work’:

- An hourly paid rate that is enough to cover basic needs
- Job security
- Paid holidays and paid sick leave
- A safe working environment free from physical and mental risk or harm
- A supportive line manager.

Valuable additions to this list could be:

- Scope for training and development
- The prospect of advancement in post.

V Conclusions

The economist’s crystal ball is inevitably cloudy and fallible. However, I would have every expectation that the hollowing out of the labour force, globally not just in Scotland, is set to continue or probably accelerate as automation etc. takes its (inevitable) toll across a range of sectors.

At the same time there are likely to be continuing employment opportunities across the public and private service sectors. The challenge for a policy of inclusive growth is to stimulate much enhanced (and much needed) efficiency across these sectors, including a marked emphasis on making the most of and encouraging the development of the sectors’ workforce.

There will be ways forward. But progress will require strong management and an emphasis on innovation as much as is the case in high tech sectors. If we are to avoid a widening gap between pay and job satisfaction of those employed in different sectors of our economy then the priority is clear.

\(^{12}\) See [http://uwsoxfampartnership.org.uk/](http://uwsoxfampartnership.org.uk/)
About the author:

**Jeremy Peat OBE** is a Visiting Professor to the International Public Policy Institute. He has a distinguished career as an economist and economic commentator and was Group Chief Economist at the Royal Bank of Scotland (1993-2005). He is currently a member of the Board of Scottish Enterprise and Chair of the Royal Zoological Society of Scotland and was a long-standing Director of the David Hume Institute (2004-14). He is a fellow of the Royal Society of Edinburgh, of the Chartered Institute of Bankers and the Royal Society of Arts.

Jeremy writes a monthly column for the Herald newspaper on economic and wider public policy issues.

Contact details:

Jeremy Peat  
Visiting Professor  
International Public Policy Institute  
University of Strathclyde  
e: jeremy.peat@strath.ac.uk

**International Public Policy Institute (IPPI)**  
McCance Building, Room 4.26  
University of Strathclyde  
16 Richmond Street  
Glasgow G1 1XQ  
t: +44 (0) 141 548 3865  
e:ippi-info@strath.ac.uk

**The International Public Policy Institute**  
IPPI is the University of Strathclyde’s principal gateway to policy research expertise. IPPI has within it, several discrete policy centres: the Centre for Government and Public Sector Policy, the Centre for Health Policy, the Centre for Energy Policy, the Centre for Education and Social Policy and the Institute for Future Cities. IPPI draws on expertise from across all four Faculties of the University – Humanities and Social Sciences, Strathclyde Business School, Science and Engineering – and from highly experienced practitioners who work with the Institute. For more information, please see www.strath.ac.uk/ippi