Institute for Public Policy Research Scotland

MORE THAN A SAFETY NET

THE WELFARE STATE AS SPRINGBOARD TO ECONOMIC SUCCESS AND A BETTER COUNTRY

Stephen Boyd,
Dave Hawkey
and **Casey Smith**

February 2026

ABOUT IPPR SCOTLAND

IPPR Scotland shapes public policy in pursuit of a fairer, greener, more prosperous Scotland.

Through policy, research, and communications, we work to create tangible progressive change, and turn bold ideas into common sense realities. We are cross-party and neutral on the question of Scotland's independence – but not on the question of Scotland's future.

ABOUT IPPR

IPPR, the Institute for Public Policy Research, is an independent charity working towards a fairer, greener, and more prosperous society. We are researchers, communicators, and policy experts creating tangible progressive change, and turning bold ideas into common sense realities. Working across the UK, IPPR, IPPR North, and IPPR Scotland are deeply connected to the people of our nations and regions, and the issues our communities face.

We have helped shape national conversations and progressive policy change for more than 30 years. From making the early case for the minimum wage and tackling regional inequality, to proposing a windfall tax on energy companies, IPPR's research and policy work has put forward practical solutions for the crises facing society.

E: info@ippr.org
www.ippr.org
Registered charity no: 800065 (England and Wales),
SC046557 (Scotland)
This paper was first published in February 2026.

The progressive policy think tank

CONTENTS

ABOUT THE AUTHORS

Stephen Boyd is director of IPPR Scotland.

Dave Hawkey is a senior research fellow at IPPR Scotland.

Casey Smith is a researcher at IPPR Scotland.

ACKNOWLEDGEMENTS

We would like to thank Richard Maclean and Sylvia Monkhouse for copyediting and producing the report to the highest standard and Pranesh Narayanan for his expert quality assurance.

We would also like to thank the Robertson Trust for financial support.

Download
This document is available to download as a free PDF and in other formats at:
http://www.ippr.org/articles/more-than-a-safety-net

Citation
If you are using this document in your own writing, our preferred citation is:
Boyd S, Hawkey D and Smith C (2026) *More than a safety net: The welfare state as springboard to economic success and a better country*, IPPR Scotland. http://www.ippr.org/articles/more-than-a-safety-net

SUMMARY

A perceived conflict between social spending and economic dynamism is deeply embedded in both Scottish and UK political discourse. It is widely proposed that higher social spending – especially in the form of social security benefits – is damaging to the economy.

Yet the evidence presented in this report clearly confirms that a number of countries manage to reconcile high social spending with positive economic outcomes. These countries balance high social spending with high GDP per capita, high labour productivity and consistently strong performance across international indices of competitiveness and innovation.

Given the enduring economic success of high social spending nations relative to Scotland and the UK, these findings should be unremarkable. After all, total public spending and its social spending component both tend to rise with economic output. However, the nature of political debate in Scotland requires that the case for the welfare state as a platform for economic success, as well as a mechanism to reduce inequality and provide opportunity, needs to be restated. **"The welfare state is more than a safety net"**.

STRONG WELFARE STATES, STRONG ECONOMIES

A number of European countries have both higher GDP per capita and higher levels of social spending than the UK and this performance has been **sustained over the long term**. The gap in social spending as a share of GDP between the UK and other countries **is generally large and sustained, as are the differences in economic performance.**

Although relative performance fluctuates, these high social spending countries generally achieve high rates of productivity, stable macroeconomic performance and high employment rates, and perform well on international indices of innovation and competitiveness.

BALANCING SOCIAL SPENDING WITH ECONOMIC SUCCESS

Evidence suggests that the following factors help many of these countries balance high social spending with positive economic and social outcomes.

- **A high proportion of social spending is directed to measures that support both social and economic objectives**: primarily through spending on labour market and family support measures that complement work.
- **Positive externalities created by high social spending**: such as the encouragement of entrepreneurial risk-taking, openness to internationalisation and the nurturing of positive attitudes to economic change.
- **Social partnership**: institutionalised cooperation between business, labour and government – which helps develop more consensus-driven economic development and a more even distribution of its benefits.

While these other countries don't provide simple templates to follow, they do provide Scotland with useful policy lessons.

SCOTLAND

Relative to OECD nations, **Scotland currently has high public spending** (total public spending as a proportion of GDP) **and around average economic outcomes** (as measured by GDP per capita).

This has **provoked legitimate questions around the value and sustainability of public spending, the size of the state, and the effectiveness of economic policy**. These questions have added force in the current climate of real and intensifying fiscal constraints which are at least partially explained by – in international terms – Scotland's disappointing economic performance.

Yet in per capita terms, **both total public spending and social spending in Scotland are significantly lower than in European countries where far superior economic and social outcomes have been sustained over the long run**.

RECOMMENDATIONS

This report does not seek to ignore or minimise Scotland's medium- and longer-term financial challenges which are undoubtedly significant. Rather, it draws on international evidence to show that, over the longer term, there need not be a conflict between a strong welfare state and economic dynamism.

It is difficult to envisage current levels of social spending in Scotland being maintained let alone increased over the medium- to longer-term without an improvement in economic performance. This will be difficult to achieve; Scottish government policy is only one factor influencing the shape and pace of economic development in Scotland.

Scotland will not find an easily replicable template for a new economic and social model in any other country and nor can it match the per capita levels of social spending of the Nordic (and other) nations anytime soon. To do so will require an improvement in economic performance. However, Scotland can learn from the success of other nations.

- First, building on recommendations in recent reports such as Anton Muscatelli's report for Scottish Labour (Muscatelli 2025) and Andrew Wilson's Sustainable Growth Commission (2018) for the SNP, **there should be a renewed drive to build a national consensus on economic development**. This will involve the establishment and proper resourcing of new institutions which should be established in such a way that they outlast political cycles.
- Second, **the composition of social spending should shift over time to increase spending in areas – such as employability and childcare – that directly address both social and economic objectives.** Doing so will help Scotland nurture and sustain a virtuous cycle between high social spending and improved economic outcomes. Some will be uncomfortable with the finding that economic growth should be prioritised – but the examples set by other countries show that with the correct mechanisms in place, the benefits of future growth can be more evenly distributed.
- Third, further to developing national economic consensus, **"social partnership" should be pursued across other dimensions** including sectoral bargaining and, as far as possible within devolved powers, corporate governance.

More detailed recommendations are included in the body of the paper.

1. INTRODUCTION

> *"We are becoming a welfare state, with an economy attached. Twenty-eight million people in Britain are now working to pay the wages and benefits of 28 million others. The rider is as big as the horse."*
> Kemi Badenoch, in a speech at the Centre for Social Justice, 10 July 2025

The above quote reflects what is now a sustained, embedded reality of Scottish and UK political discourse: a perceived conflict between social spending and economic dynamism. It is widely proposed that higher public spending – especially in the form of social security benefits – is damaging to the economy.

Opponents of stronger social protection – in Scotland, the UK and elsewhere – routinely discuss the welfare state in negative economic terms; it is often simply assumed to be a barrier to more rapid economic growth.

Such arguments tend to fall into two brackets. First, the welfare state is assumed to provide clear disincentives to work and entrepreneurialism: if people receive out of work benefits, many will choose not to work or start a business. Such views are currently prominent in the debate over the post-pandemic rise in economic inactivity.

The second is macroeconomic: funding the welfare state is believed to prevent investment in growth enhancing policies such as infrastructure, skills and R&D. Public debt accrued in funding the welfare state will also tend to push up interest rates, thereby "crowding out" productive private investment. Such views are deeply embedded in political discourse and often go unchallenged.

This report aims to help shift the emphasis and tone of the debate about the future of Scotland's welfare state by putting the current social spending into context and showing how stronger social protection can support economic dynamism and performance – an aspect of the welfare state's role that is routinely and aggressively contested.

The evidence strongly suggests that it is possible to nurture virtuous cycles whereby strong social protection and a dynamic economy become mutually reinforcing. The welfare state is more than just a safety net.

SCOTLAND'S STARTING POINT

Relative to OECD nations, Scotland has high total public spending and around average economic outcomes. This has provoked legitimate questions about the value and sustainability of public spending, the size of the state, and the effectiveness of economic policy. These questions have added force in the current context of real and intensifying fiscal constraints which are at least partially explained by disappointing economic performance.

Some also speculate that high public spending – especially on social security benefits – is, inevitably, a barrier to Scotland improving its economic performance. This debate is as old as devolution itself and, indeed, has even longer historical antecedents.

Yet in per capita terms, both total public spending and social protection spending in Scotland are significantly lower than in other European countries where significantly superior social and economic outcomes have been achieved over the long run.

Will Scotland's relatively high public spending and more generous social security regime (at least relative to the UK) inevitably undermine economic performance? Can the international data and literature provide any clues? If so, what might be the lessons for Scotland? Providing compelling answers to these questions should be regarded as critical to Scotland's future. This report is an attempt to start providing such answers.

2. WHAT IS THE RELATIONSHIP BETWEEN SOCIAL SPENDING AND ECONOMIC PERFORMANCE?

In considering the relationship between social spending and economic performance, a broad range of data on spending, economic and social outcomes have been analysed. Key findings include:

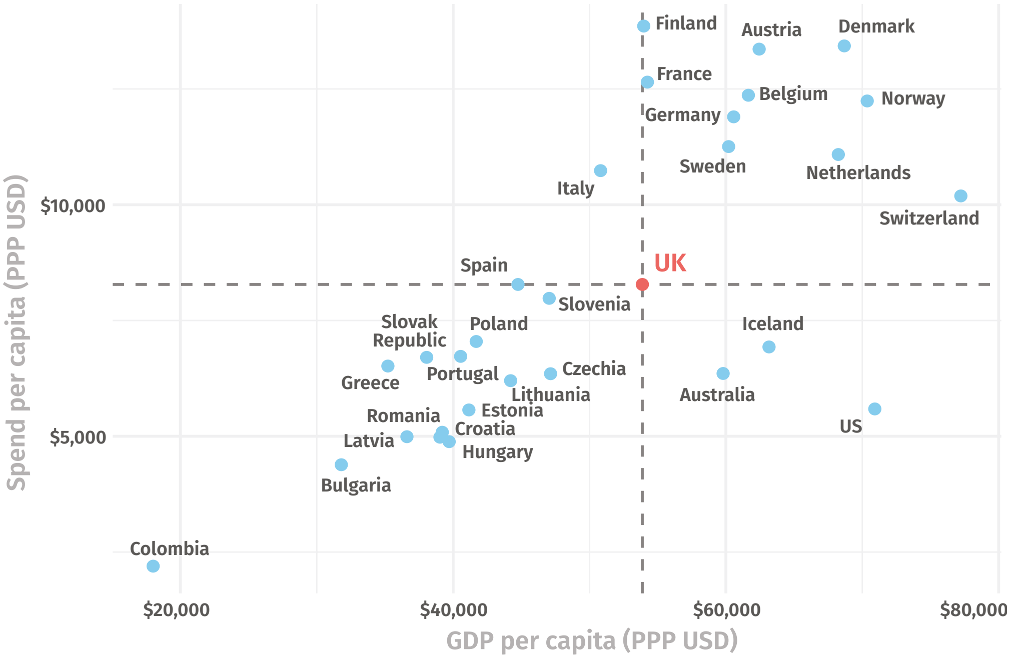
- The relationship between social spending and economic growth is complex: different countries find different ways to develop their economies and provide social assistance.
- However, **the evidence clearly confirms that a number of countries manage to reconcile high social spending with positive economic outcomes**. These countries balance high social spending with relatively high GDP per capita, high labour productivity, high employment rates and consistently strong performance across international indices of competitiveness and innovation.
- All the following countries have both higher GDP per capita and higher levels of social spending per capita than the UK: **Austria, Denmark, Norway, Germany, Belgium, France, Sweden, Switzerland, the Netherlands** and **Finland**. These countries are henceforth described as the "the reference countries". **Ireland** also has higher GDP per capita and higher social spending than the UK but is omitted from this analysis due to the widely recognised problems with measuring its GDP (Central Bank of Ireland 2021).
- **The successful marrying of high social spending with positive economic outcomes has been sustained over the long term**; it is not a result of cherry picking data from specific years.[1]
- **The data also reveal a positive connection between growth in social spending and growth in GDP per capita**. This of course tells us nothing about the direction of causation – ie it should not be argued that high social spending *causes* economic growth, only that the former needn't be a barrier to the latter.
- **The gap in social spending as a share of GDP between the UK and other countries is large and sustained, as are the differences in economic performance.** Among this group, with the exception of Finland, the UK has the lowest GDP per capita throughout this decade.

1 Over the period 2013 to 2023, only France and Finland saw any years with lower GDP, though it never dipped below 99 per cent of UK GDP.

FIGURE 2.1

Many European countries have both higher GDP and higher social spending than the UK

Per capita GDP and social spending (COFOG category 10) in 2023



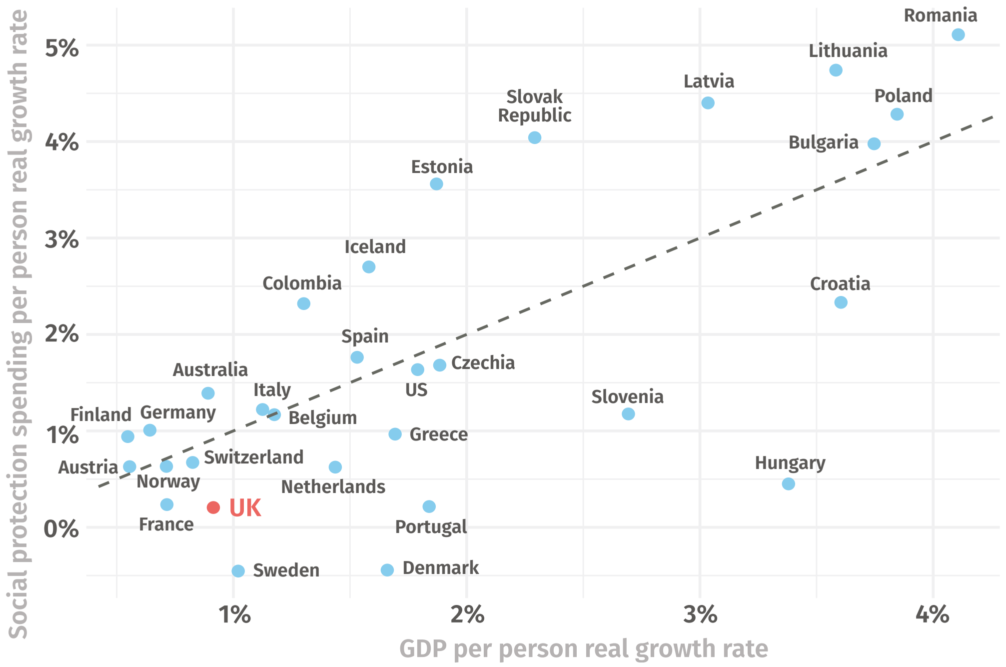
Source: OECD (2025)

Note: Figures expressed in constant terms using 2020 price base.

FIGURE 2.2

Many countries have seen social spending grow faster than the UK, even when GDP growth has been weaker

Annualised 10-year real terms growth rate in GDP per capita and social spending per capita (COFOG category 10) to 2023

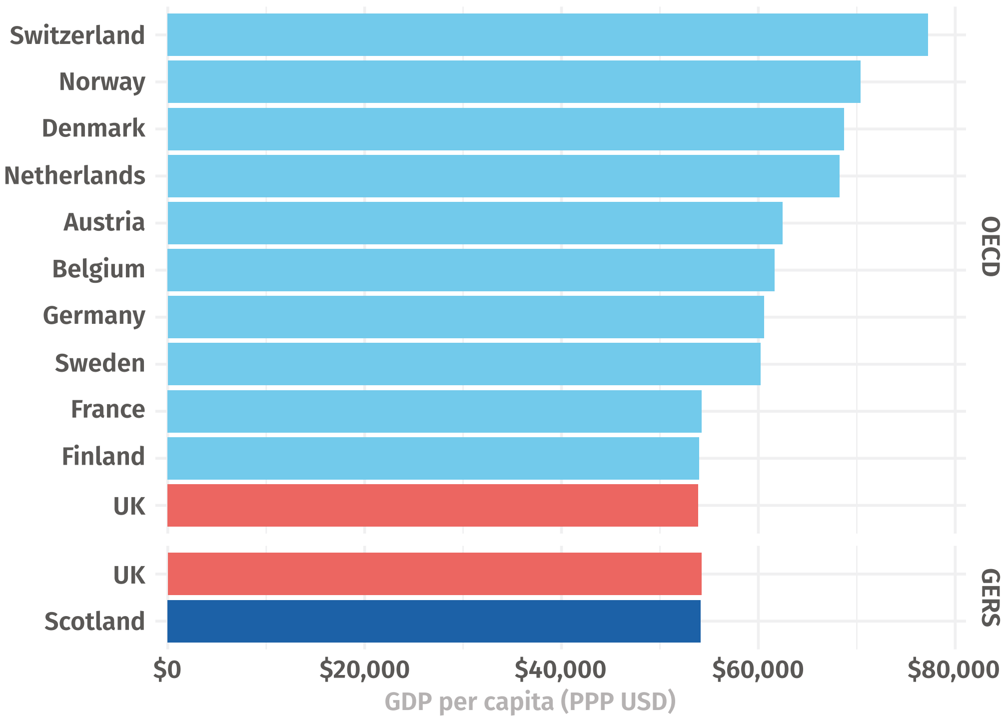


Source: OECD (2025)

FIGURE 2.3

Scotland's per capita GDP is very close to the UK's which is lower than the reference nations

GDP per capita in 2023



Sources: OECD (2025) and Scottish government (2025)
Note: Figures expressed in constant terms using 2020 price base. OECD and GERS data have methodological differences. The scale of these differences can be seen in the values for the UK in the upper and lower panels and should be born in mind when comparing Scotland with other countries.

In international terms, the reference countries also achieve:

- **Higher productivity**: GDP per hour worked (US dollars per hour, PPP converted, current prices, 2023) is higher – often significantly higher – than the UK (73.7) in all the reference countries with the exception of Finland (72.9): Austria (83.6), Belgium (89.8), Switzerland (85.2), Germany (83.3), Denmark (89.6), France (81.5), the Netherlands (82.3), Norway (92.5), Sweden (80.8).[2]
- **Stable macroeconomic performance**: debt as a proportion of GDP tends to be lower in the high social spending/strong economy countries. In 2023, only France and Belgium had debt higher than the UK; Norway, Sweden, Denmark, the Netherlands and Switzerland all had debt less than half the OECD average.[3] Relatively low debt reflects tighter fiscal policy across this group of countries. Despite high social spending, they typically run low deficits or surpluses. In 2023, every country in this group – including France – ran tighter fiscal policy than the UK, with Norway, Denmark and Switzerland all running surpluses. As a consequence, high social spending – and high overall government spending – has not led to high inflation. Indeed, in most of the high social spending countries, inflation has tended to be below the OECD average.[4]

2 See OECD productivity database: https://data-explorer.oecd.org/vis?tm=gdp%20per%20hour%20worked&pg=0&snb=17&df[ds]=dsDisseminateFinalDMZ&df[id]=DSD_PDB%40DF_PDB&df[ag]=OECD.SDD.TPS&df[vs]=2.0&dq=AUT%2BBEL%2BCRI.A.GDPHRS._T.USD_PPP_H.LR.N..PPP&lom=LASTNPERIODS&lo=5&to[TIME_PERIOD]=false (extracted 9 January 2026)

3 See: https://www.oecd.org/en/data/indicators/general-government-debt.html (extracted 3 December 2025)

4 See: https://www.oecd.org/en/data/indicators/inflation-cpi.html

- **Sustained high performance across a range of international indices of competitiveness and innovation**: for instance, all the high social spending countries achieve a ranking in the top 25 nations in the 2024 Global Innovation Index, with six appearing in the top 10. Switzerland and Sweden fill the top two places (WIPO 2024). These countries also perform well in the World Economic Forum Global Competitiveness Index 2020 (latest published), especially on indicators of economic dynamism such as “performance on economic transformation readiness”, digital adoption and ICT skills (World Economic Forum 2020). The same is true for the 2025 world competitiveness ranking (IMD 2025).

It is worth emphasising that the conclusions in this section of the report are important but modest: the evidence clearly shows that countries with high social spending are also home to some of the world’s most dynamic and productive economies. But it would be wrong and irresponsible to draw the conclusion that higher social spending *necessarily* has a positive causal impact on economic growth.

Rather, a more appropriate conclusion is that many countries manage to achieve virtuous cycles of higher social spending and strong economic performance (which allows higher tax revenues to be reinvested in social spending and so on) and do so through a range of mechanisms discussed in the following chapters. The evidence does however refute the proposition – often heard in political discourse – that higher social spending is inevitably bad for growth.

3. WHAT ARE THE MECHANISMS THAT HELP RECONCILE HIGH SOCIAL SPENDING WITH STRONG ECONOMIC PERFORMANCE?

The evidence suggests that countries manage to balance high social spending with strong economic performance through three key mechanisms.

1. **Relatively high spending in areas which directly support both social and economic objectives**: primarily through spending on labour market and family support measures that are complementary to work.
2. **Positive externalities created by high social spending:** such as increased societal support for high levels of internationalisation, the encouragement of entrepreneurial risk-taking and the positive embrace of economic change.
3. **Social partnership**: institutionalised cooperation between business, labour and government which helps build a consensus driven approach to economic development and a more even distribution of its benefits.

The first two mechanisms are discussed in this chapter and social partnership is examined at length in the next chapter.

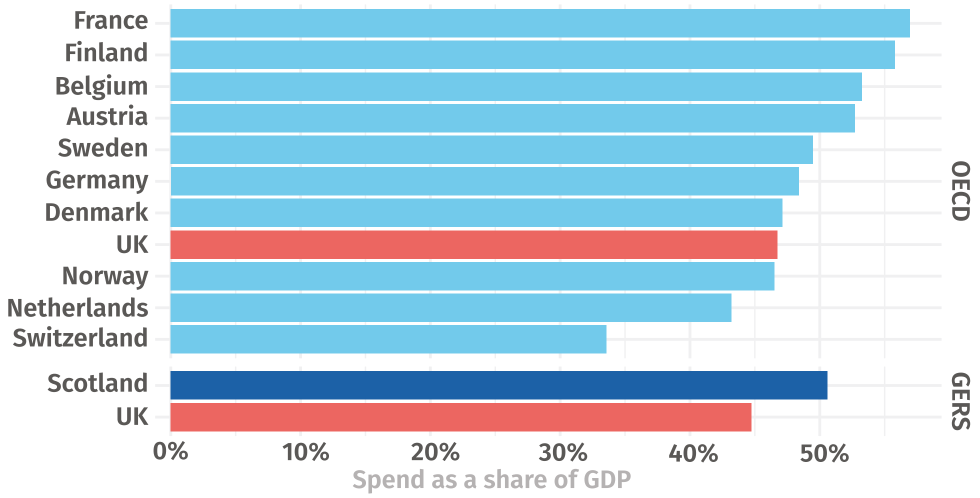
SPENDING

Total public spending

As would be anticipated, total public spending is generally above the OECD average in the high social spending countries.

FIGURE 3.1

Total public spending as a share of GDP is high in Scotland relative to the UK but in the region of high social spending/high GDP countries.
Total public spending as a share of GDP, 2023

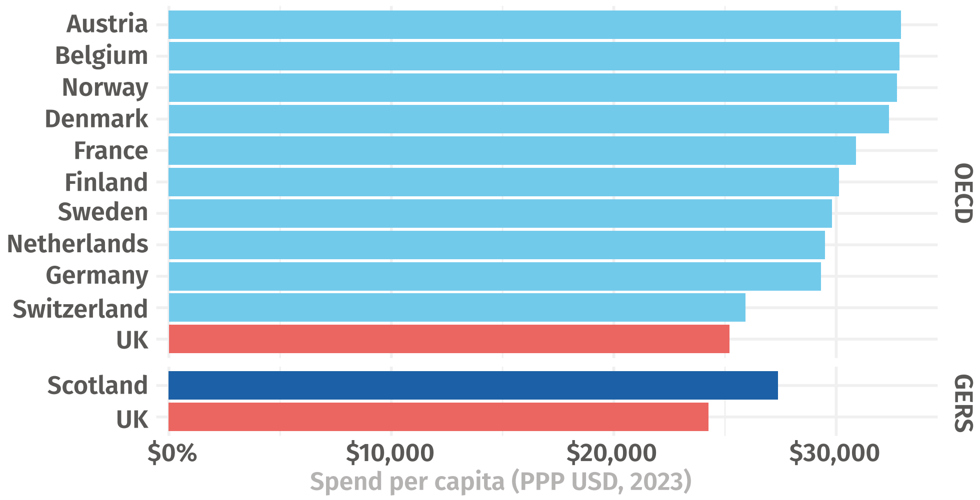


Sources: OECD (2025) and Scottish government (2025)
Note: Data from OECD and GERS have methodological differences. The scale of these differences can be seen in the values for the UK in the upper and lower panels and should be born in mind when comparing Scotland with other countries.

Differences in GDP per capita help explain why spending per person does not precisely track total spending. **Scotland goes from having relatively high total spending as a share of GDP to relatively low spending per person in cash terms**; only Switzerland and the UK spend less per person among this group.

FIGURE 3.2

Public spending in cash terms is low in the UK and Scotland relative to our reference countries
Total general government spending per capita, 2023



Sources: OECD (2025) and Scottish government (2025)
Note: Figures expressed in constant terms using 2020 price base. Data from OECD and GERS have methodological differences. The scale of these differences can be seen in the values for the UK in the upper and lower panels and should be born in mind when comparing Scotland with other countries.

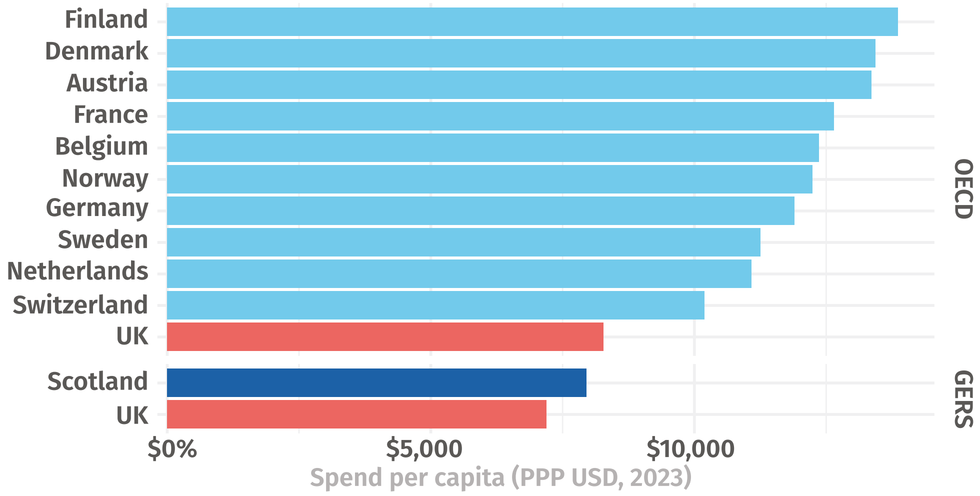
Spending on social protection

Again, there is significant variance among the reference countries in spending on social protection[5] measures as a share of GDP.

FIGURE 3.3

While social protection spending is higher in Scotland than the UK, other successful countries spend more

Social protection spending per capita, 2023



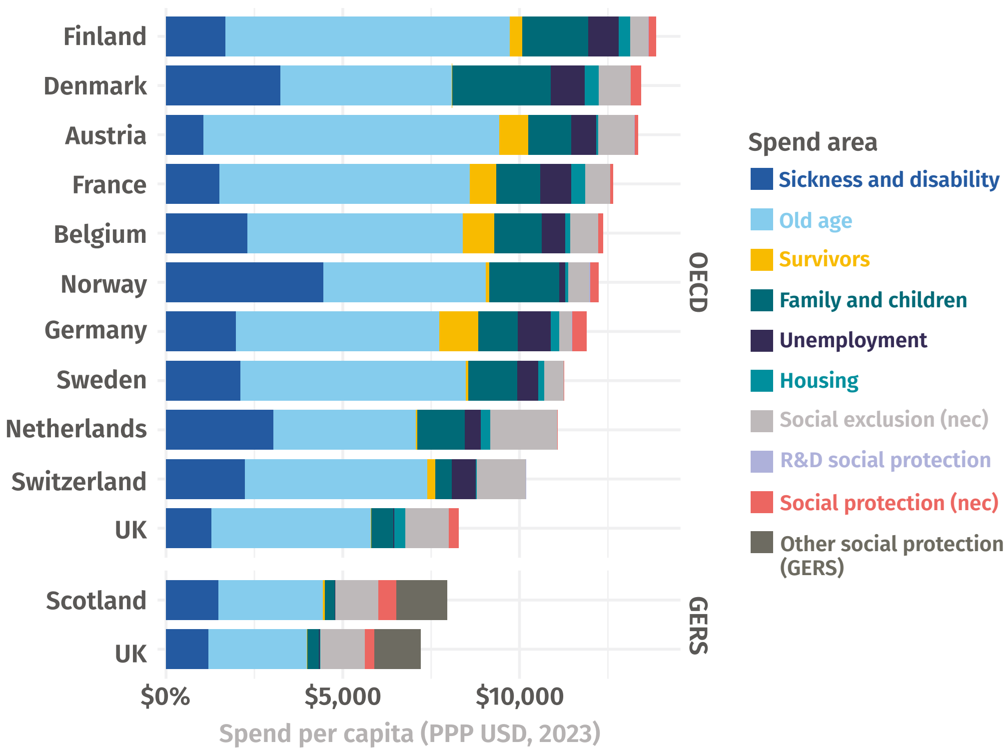
Sources: OECD (2025) and Scottish government (2025)
Note: Data from OECD and GERS have methodological differences. The scale of these differences can be seen in the values for the UK in the upper and lower panels and should be born in mind when comparing Scotland with other countries.

There is even more variance in the composition of social spending than there is in total spending. Scotland (and the UK) have particularly low spending on "unemployment" and "family and children" measures as both a share of GDP and per capita. Spend on "sickness and disability" is also low in per capita terms when compared to the higher spending nations.

5 See methodological notes for definition of social protection spending.

FIGURE 3.4

Sickness and disability is the second largest area of social protection spending in all but one of the countries analysed, and is relatively low in the UK and in Scotland
Breakdown of social protection spending per person, 2023



Sources: OECD (2025) and Scottish government (2025)
Note: Data from OECD and GERS have methodological differences. The scale of these differences can be seen in the values for the UK in the upper and lower panels and should be born in mind when comparing Scotland with other countries.

SUMMARY OF SCOTLAND'S POSITION

Relative to the high social spending countries identified earlier, Scotland has:

- higher overall public spending as a share of GDP than the UK but a level broadly comparable to most high social spending countries
- low overall public spending per person, reflecting relatively poor performance on GDP per capita
- generally lower overall spending on social protection measured as both a share of GDP and per person.

The following section considers different components of social spending with an emphasis on labour market and family support measures. Relatively high spending in these areas is a key distinguishing feature of many of the high social spending countries discussed in this report.

LABOUR MARKET POLICIES

Labour market models vary significantly among higher spending nations. As we will see in more detail in the next chapter, the "social partnership" Nordic nations are characterised by high trade union density, broad collective bargaining coverage and some of the highest rates of spending on labour market measures in the world. Others share some of these characteristics but have much lower trade union density and collective bargaining coverage.

Higher spending on **labour market measures** (including training, supported employment, job search, job subsidy as well as high unemployment benefits) is reflected in labour market outcomes.

- **High employment rates** – although rates vary, with some high spending nations performing below the OECD average – some of the highest employment rates in the world are achieved by high social spending countries. In 2024, the working age employment rate was: 60.4 per cent in the UK; 66.2 per cent in the Netherlands; 64.6 per cent in Switzerland; 62.9 per cent in Norway; 61.7 per cent in Sweden; 61.2 per cent in Denmark; 59.6 per cent in Germany; 55.6 per cent in Finland; 52.4 per cent in France; and 52 per cent in Belgium. The OECD average was 58.0 per cent.[6]
- **High female employment** – again, rates vary but high social spending countries tend to have very high rates of female labour force participation (percentage of women aged 15+ in labour force). In 2024, the rate for the OECD was 53 per cent and in the UK 57 per cent. The Netherlands achieved a rate of 63 per cent, Sweden and Switzerland 62 per cent and Denmark 60 per cent.[7]
- **A more compressed income distribution** – the reference nations tend to have a relatively low incidence of both high and low pay. In 2023, only the Netherlands had an incidence of high pay above the OECD average. Denmark was the only OECD nation to have a lower incidence of high than low pay.[8]
- **High levels of labour market transitions** – more rapid transitions between labour market states (from unemployment into work, from job to job) tend to increase both wages and productivity. High social spending nations achieve some of the highest rates of transitions among all OECD nations with Sweden, Denmark and Finland accounting for the top three places (OECD 2021). **This labour market dynamism is a key factor explaining the economic and social success of these nations**, given that “labour mobility and reallocation is a process through which better job opportunities are created and seized. A growing body of evidence documents that job mobility is associated with earning gains, particularly at the beginning of workers’ careers, giving rise to job ladder effects. Moreover, research based on linked employer-employee data suggests that job mobility can play an important role in reducing wage inequality as it dampens the transmission of between-firm productivity gaps to wage gaps” (OECD 2021).

SPENDING ON LABOUR MARKET POLICIES

This section draws on the OECD’s social expenditure (SOCX) database which provides more robust and detailed assessment of social spending than more general government expenditure databases. SOCX includes nuances such as mandatory private spending, and more specific social programme categories than the COFOG system.

Directly comparing spending on labour market policies in Scotland with those in other nations is extremely challenging – given that Scotland isn’t a separate unit of account in the various analyses produced by international institutions and that both devolved and reserved budgets contribute across a range of portfolios. Therefore, in this section, the UK is used as the main unit of comparison.

6 See: https://www.oecd.org/en/data/indicators/employment-rate.html (extracted 2 December 2025).
7 See: https://data.worldbank.org/indicator/SL.TLF.CACT.FE.ZS
8 See: https://www.oecd.org/en/data/indicators/incidence-of-low-and-high-pay.html

The UK has some of the lowest spending on labour market policies. When it comes to direct financial support for unemployed people and the active labour market policies (ALMP) intended to help them return to work, the high social spending countries tend to spend significantly more.

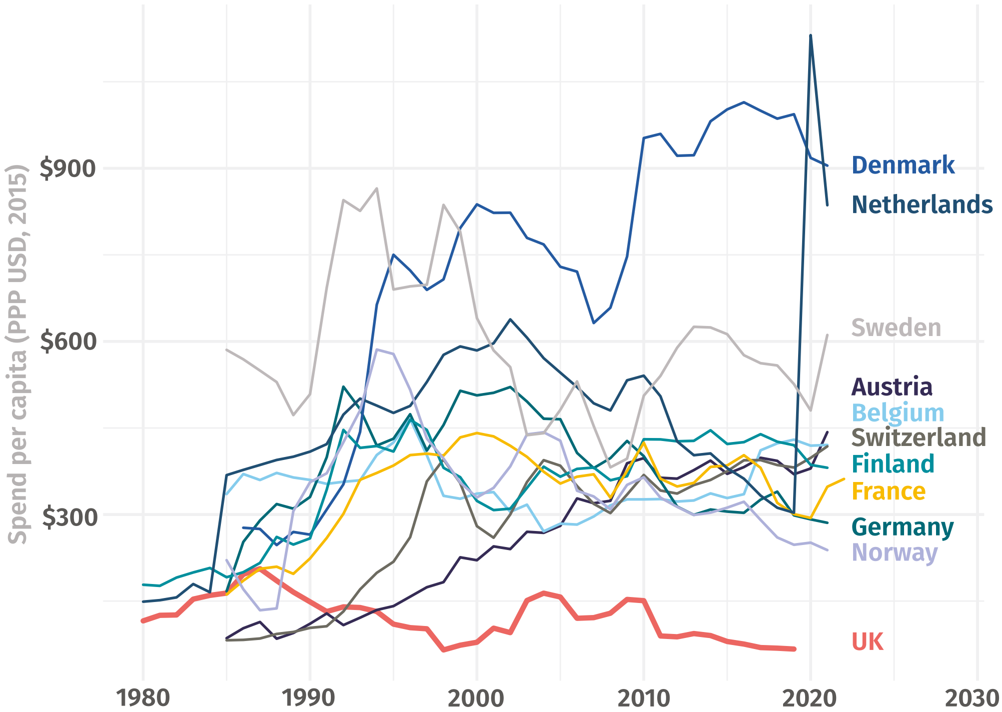
Frustratingly, the UK stopped providing detailed data to the OECD and Eurostat in 2011 and therefore the latest data is significantly out of date.[9] However, the UK's deficit on ALMP spending is very longstanding and remained low even when the Blair government significantly increased spending on the "new deal" ALMP policies after 1997. The UK has never invested significantly in areas such as supported employment and rehabilitation, direct job creation, training and employment incentives.

No new programmes have been introduced in the intervening period that would have shifted the UK's relative spending on ALMP and nor has Scotland's spend changed significantly over this period. Comparing Scottish government budget lines across different years is challenging as activities move across and within portfolios, but in 2024/25, spending on employability in Scotland was forecast to be £100.2 million (Scottish Government 2024) which is approximately 0.047 per cent of Scotland's onshore GDP.[10]

FIGURE 3.5

The UK has long spent much less on active labour market programmes than our comparator countries

Total public spending on active labour market programmes, constant prices



Source: OECD (2025)

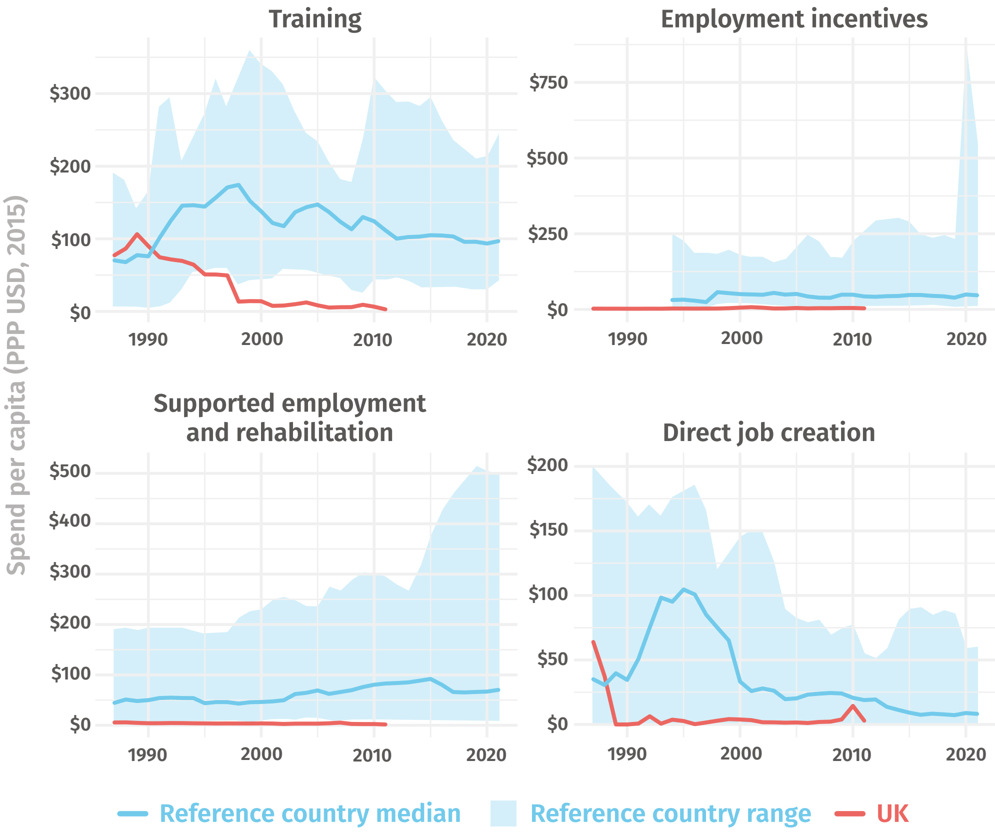
9 See: https://www.gov.scot/publications/gdp-quarterly-national-accounts-2024-q4/pages/gdp-in-nominal-terms/?utm_source=chatgpt.com

10 See OECD Employment Outlook 2020, the latest year available: https://www.oecd.org/en/publications/oecd-employment-outlook-2020_1686c758-en/full-report/component-8.html#chapter-d1e23660

FIGURE 3.6

While data on specific ALMP components ended in 2011, spend in the UK was very low compared with reference countries

Total public spending on specific elements of active labour market programmes, constant prices



Source: OECD SOCX database

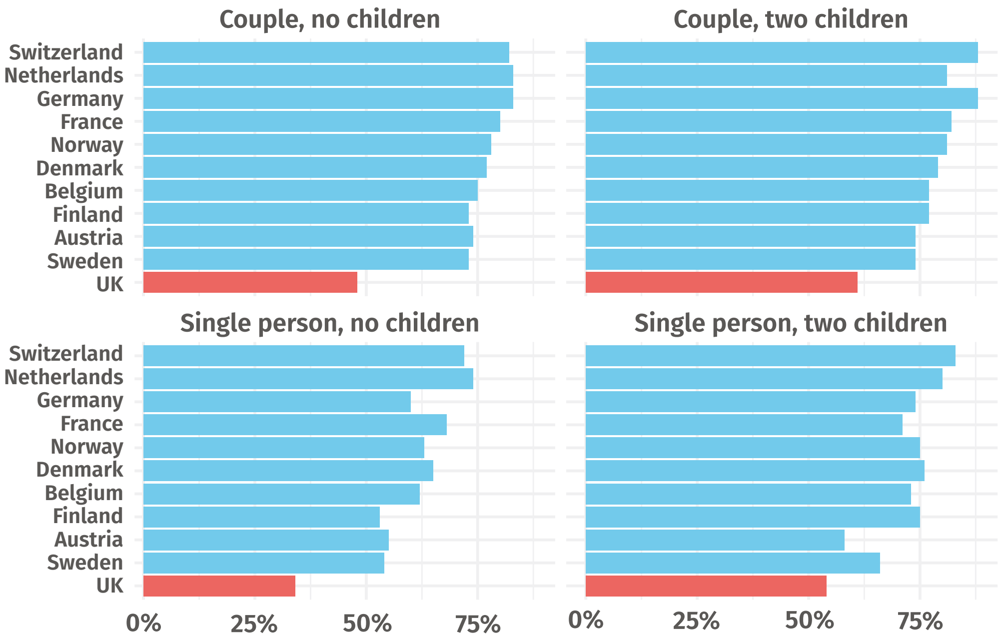
REPLACEMENT RATES

Despite much political discourse assuming the opposite is true, unemployment benefits are very low in the UK – indeed, among all OECD nations, across some durations and family types, payments are lower only in the US.

FIGURE 3.7

Unemployment in the UK results in a much larger reduction in income than in other countries

Social security replacement rates for a household unemployed for two months with main earner's previous income at 100 per cent average earnings, and partner's at 67 per cent where applicable

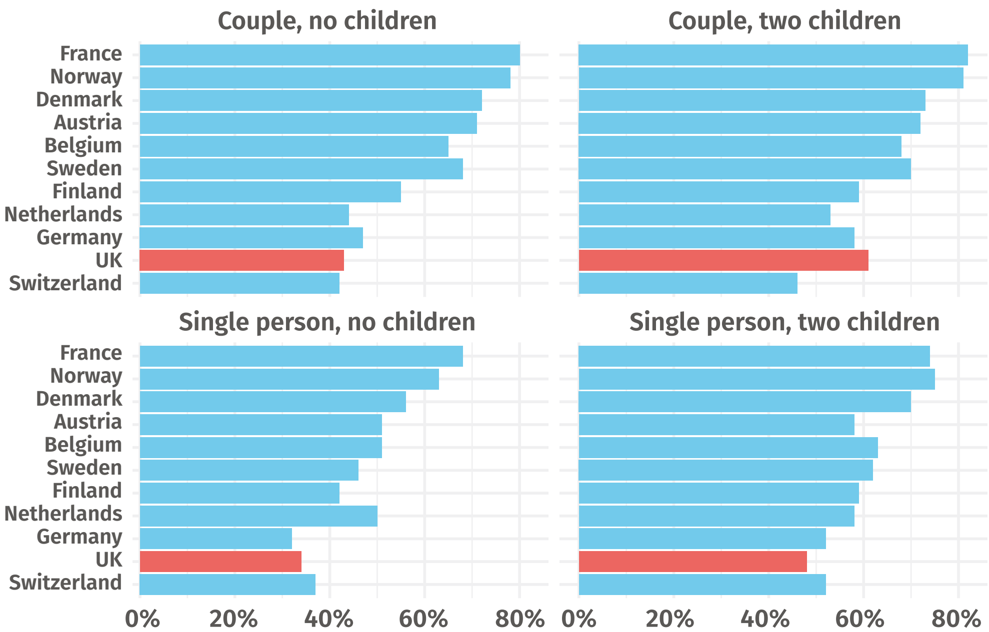


Source: OECD (2025)

FIGURE 3.8

After a long period of unemployment, other countries' social security becomes less generous, but the UK's is still among the lowest

Social security replacement rates for a household unemployed for 24 months with main earner's previous income at 100 per cent average earnings, and partner's at 67 per cent where applicable



Source: OECD (2025)

Low replacement rates (the percentage of income maintained after job loss) are not just a problem in terms of living standards; they also prevent the labour market from adjusting more efficiently. The UK's very low replacement rates (and the relatively punitive sanctions regime attached to out-of-work payments) provide very strong incentives for unemployed people to take the first job offered to them, even if it is a poor match for their skills and experience. This can be expected to exert long-run detrimental effects on both living standards and productivity. People earn less than they should and risk becoming stuck in jobs with lower wages and less prospects than their skills and experience might merit, and productivity suffers as neither worker nor employer are benefitting from an efficient matching of skills with job.

WOMEN AND THE ECONOMY

> *"Since the launch of the index, Nordic countries like Iceland and Sweden have consistently topped the rankings, thank to their generous childcare policies and proactive government initiatives promoting pay equity and parental support"*
> PWC Women in Work Index 2025

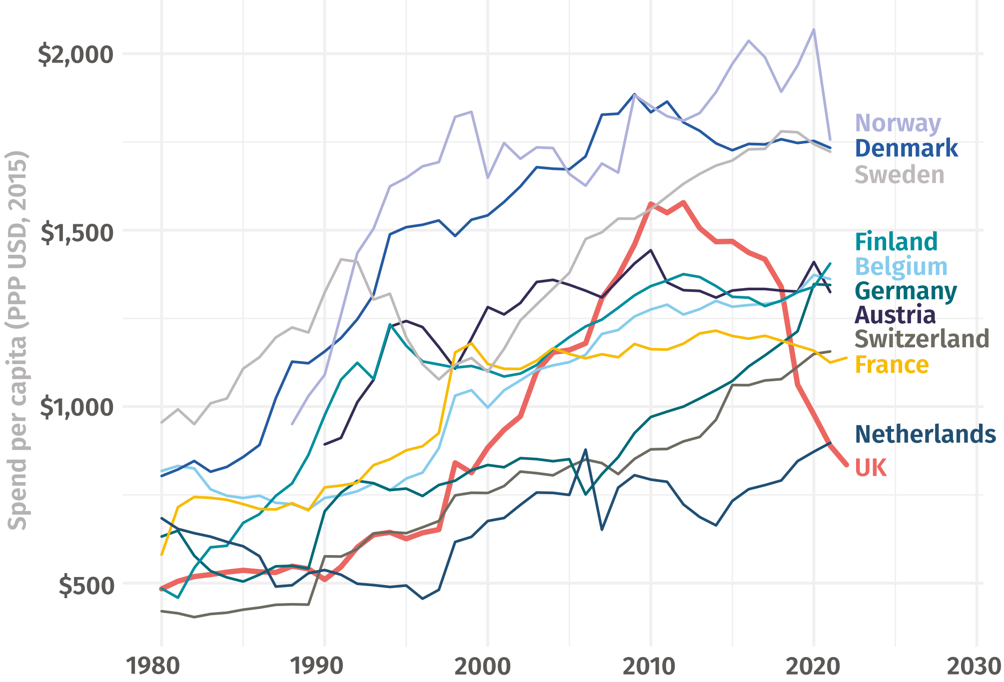
Countries with higher family spending (mainly child benefits; childcare, subsidised or free at the point of use; state subsidised parental leave) have achieved some of the highest rates of female participation in the developed world. These have often been complemented by other policies such as board quotas that help to achieve a greater level of gender equality in the workplace.

The period of sustained austerity since 2010 saw family related social spending fall significantly in the UK relative to high social spending nations.

FIGURE 3.9

The UK's social expenditure on families has fallen to the lowest level among comparator countries

Total public spending on family programmes, constant prices

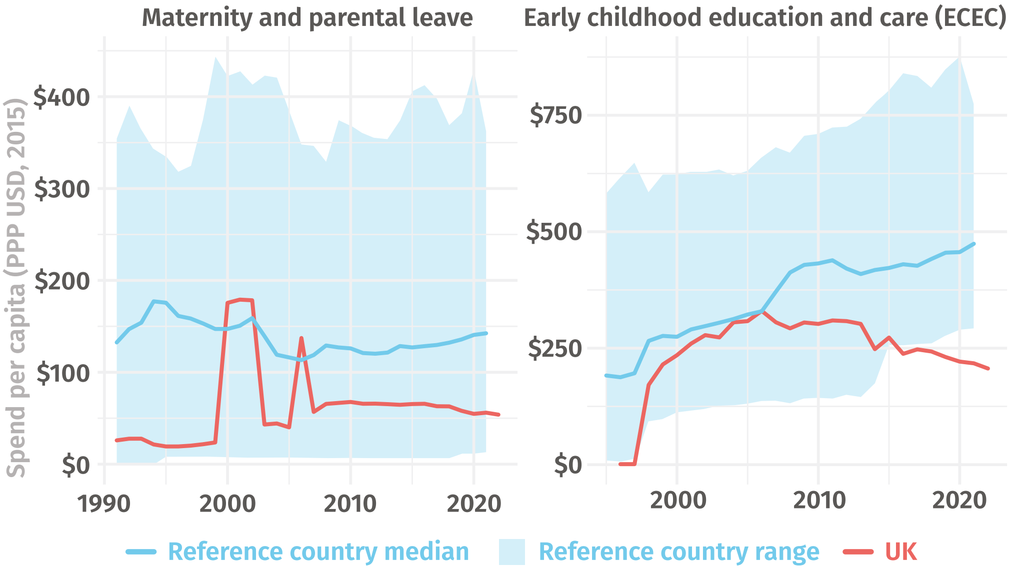


Source: OECD SOCX database

FIGURE 3.10

Two areas where UK public spending is low relative to reference countries are maternity and parental leave, and early childhood education and care

Total public spending on specific elements of family support, constant prices



Source: OECD SOCX database

Some high-level comparisons of family support policies do not provide sufficient information to assess differences between nations. For instance, parental leave policies are often compared in terms of weeks of paid leave without due attention to the relevant replacement rates:

> ***"In Sweden, for example, mothers can take up to 56 weeks of paid leave, paid at an average of 62 per cent of their prior earnings. A group of countries including Chile, Spain, Israel and the Netherlands have shorter periods of paid leave (eg 16 weeks in the Netherlands) but the leave is paid at 100% of prior earnings. By contrast, the US offers no paid maternity leave. In the UK, maternity entitlement is to 39 weeks of paid leave, which is somewhere in the middle of OECD countries, but at a low replacement rate of 30 per cent."***
>
> Andrew et al 2021

The UK suffers not just from low replacement rates but also “the quick withdrawal of benefit payments for low-income households with children can inadvertently contribute towards keeping mothers away from work” (Andrew et al 2021).

It is important to note that the research in this area is contentious: it is often difficult to attribute direct effects to specific policies. The place of women in the labour market and economy is not just a reflection of the policy framework but also broader cultural factors. But recent research has concluded that:

> ***"while a gender-neutral policy environment may not be sufficient to achieve widespread shifts in the ways families organise labour, it may well be necessary. Even with increased appetite for a more egalitarian sharing, parents may find it hard to put this into practice if they are penalised for doing so, especially around the birth of a child when household finances are likely to be particularly tight."***
>
> Andrew et al 2024

ENTREPRENEURIAL RISK-TAKING AND THE MANAGEMENT OF ECONOMIC CHANGE

As noted in the previous chapter, high social spending nations perform well across a range of economic metrics, as well as in international indices of innovation. An approach of “flexible adjustment” is common among smaller European nations: product and labour markets are relatively lightly regulated, but a range of institutions – especially on the labour market side – help manage the distributional impacts (Katzenstein 1985). This approach means that economies can adjust quickly to external challenges and opportunities.

Research – across a range of nations including the United States – has found that social spending, especially on targeted labour market measures, can directly support innovation, dynamism and ultimately productivity through a range of mechanisms including the following.

- **Risk-taking**: researchers have found that “social spending induces behaviour and encourages institutions that increase the level of economic risk in society” and that “the welfare state, through its positive effect on economic stability, encourages risk-taking and thereby economic growth” (Bird 2001). Specific studies have found that unemployment insurance in the United States “increases labor productivity by encouraging workers to seek higher productivity jobs, and by encouraging firms to create those jobs” (Acemoglu and Shimer 2000) and that food stamps encourage entrepreneurship by reducing personal financial risk. Crucially, most of these new entrepreneurs didn’t actually enrol in the food stamp program. It seems that expanding the availability of food stamps increased business formation simply by reducing the personal risk of entrepreneurship (Olds 2016).
- **Innovation**: contrary to the widespread belief that welfare spending can undermine innovative potential, a large body of literature confirms that “welfare can harness a country’s innovative potential and contribute to the country’s long-term growth” (Koo et al 2020, Maliranta et al 2012, Stiglitz 2015, Hajighasemi et al 2022, De Grauwe and Polan 2003). This finding is supported by the ongoing success of high social spending countries in international indices of innovation (WEF 2020, WIPO 2024, IMD 2025). The main mechanisms by which social spending supports innovation are identified as, again, encouragement of risk-taking, more effective mobilisation of human resources and societal stability created by a strong welfare state.

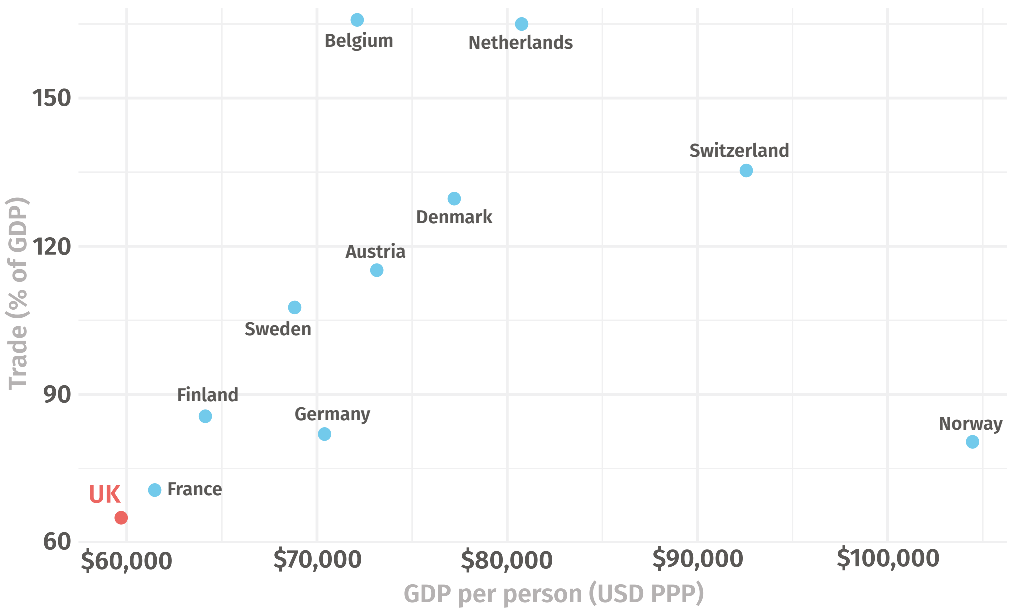
FLEXIBLE ADJUSTMENT AND READINESS FOR ECONOMIC CHANGE

> ***"For the small European states, economic change is a fact of life. They have not chosen it; it is thrust upon them ... They live with change by compensating for it."***
>
> *Small States in World Markets*, Peter Katzenstein (1985)

As recognised in the Scottish government’s trade vision, greater exposure to international trade benefits an economy through higher productivity and higher incomes (Scottish government 2021). Therefore, it should be no surprise that all the countries considered in this report have higher exposure to international trade than the UK. Some of the difference is simply down to size, given that small countries tend to be more internationalised as they lack domestic markets of sufficient scale to both produce what they need and consume what they produce. However, both France and Germany are also more internationalised than the UK.

FIGURE 3.11

Countries with higher social spending and higher GDP also have more international trade than the UK



Sources: World Bank (2025) and OECD (2025)

Scotland has lower levels of internationalisation when compared to a basket of European countries of comparable size (although performance improves significantly if 'exports' to the rest of the UK are taken into account).[11]

Research has also found a robust empirical association between the extent to which an economy is exposed to international trade and the scale of its public spending (canonical papers being Rodrik 1998 and Cameron 1978). The explanation appears to be that "government consumption plays a risk-reducing role in economies exposed to a significant amount of external risk" (Rodrik 1998).

There is some evidence that strong welfare states might also help increase public support for internationalisation and economic change. The surveys that have been undertaken to date reveal relatively high capability to address economic change – including positively embracing greater internationalisation of the economy – across the high social spending countries. For instance:

- **KPMG's Change Readiness Index** (2019) considers the capabilities of enterprises, government and people/civic society to adapt to economic change. Switzerland, Denmark, Sweden, Norway and Germany are all in the top 10 nations, ranking above the UK with the Netherlands and Finland immediately below. The top five nations in terms of civic society's capabilities are Sweden, Denmark, Switzerland, Norway and Finland.
- **IMD's World Competitiveness Ranking** (2025) considers performance across three dimensions: knowledge, technology and future readiness. The high social spending countries perform well overall, with Switzerland, Denmark, the Netherlands and Sweden in the top 10. Finland, Germany and Norway are

11 See *A trading nation: a plan for growing Scotland's exports*: https://www.gov.scot/binaries/content/documents/govscot/publications/strategy-plan/2019/05/scotland-a-trading-nation/documents/firstministerialpresentation/firstministerialpresentation/govscot%3Adocument/Final%2BMinisterial%2BPresentation%2BNEF.pdf

above the UK with France, Austria and Belgium just below. What is especially interesting is the “future readiness” indicator which considers performance across a range of sub-indicators including “adaptive attitudes”, “attitudes to globalisation” and “flexibility and adaptability”. Denmark is the highest ranked country for “future readiness”, with Switzerland and the Netherlands also in the top five. Sweden, Finland, Norway and Germany are ranked higher than the UK and, again, France, Austria and Belgium just below. On the “attitudes to globalisation” indicator, Denmark is again the top ranked nation, with the Netherlands third and Sweden fourth. Only France and Austria rank below the UK.

Evidence clearly demonstrates a strong link between the strength of a country’s social safety net and its exposure to the vagaries of international markets. When a significant proportion of workers are directly affected by global markets, demand for a stronger welfare state tends to increase. A strong welfare state also safeguards the investments in health, education and training needed to compete successfully in global markets, and more solidaristic policies are achievable when social partners broadly agree on how to respond to the challenges of a globalised economy.

4.
WHAT IS THE ROLE OF SOCIAL PARTNERSHIP IN HELPING TO STRENGTHEN THE LINK BETWEEN SOCIAL SPENDING AND ECONOMIC PERFORMANCE?

> ***"Trade unions and employers organisations have existed – and cooperated – in Norway for more than a hundred years. There is a deeply rooted tradition for employee involvement and information/consultation of workers. Over the years, legislation, collective agreements and company-based practices have developed, forming a system of comprehensive workers' rights and privileges. There is now general consensus among employers on the usefulness of the system."***
> **Norwegian Employers Confederation website 2025**[12]

> ***"The union side made itself, and has remained, not only a labour movement partner but a social partner more broadly, with an inescapable presence in the making of policy across the board and irrespective of the colour of shifting governments."***
> *The Story of Scandinavia*, **Stein Ringen (2023)**

As noted earlier, different countries find different ways of balancing high social spending with positive economic outcomes. However, a common if not universal feature of European countries with high social spending is the propensity of business, trade unions and government to work in 'concertation' through a range of formal and informal institutions to achieve consensus-based policy development and implementation. This approach is broadly referred to as "social partnership".

WHAT IS MEANT BY "SOCIAL PARTNERSHIP"?

While it is an imprecise term that can mean different things in different contexts, most European economies reflect at least some elements of social partnership. Other terms have also been used to describe similar cultures and processes such as "democratic corporatism" (Katzenstein 1985) or "social dialogue" (European Commission 2025).

The term encompasses a variety of formal and informal relationships: bipartite (employer and trade union); tripartite (government, employer and trade unions); multipartite (employer, government, trade union and other civic stakeholders – the voluntary sector, for example) or a combination of the three. The tripartite approach is most commonly described as social partnership.

---

12 See labour relations section: https://www.nhomd.no/en/business-in-norway/labour-relations

Social partnership or “social dialogue” is deeply embedded in EU structures and processes: Article 154 of the Treaty on the Functioning of the EU (TFEU) provides for the consultation of social partner organisations at European level on a range of issues concerning employment and social affairs.

The tradition remains strong across a number of nations but has generally weakened since the 1990s, with a decline in both trade union membership and the influence of the social democratic parties trade unions have traditionally supported. There is significant variance in national circumstances, but the tradition of social partnership has endured across a number of nations, especially in the Nordics.

The UK has a weak tradition of social partnership. Tripartite institutions, sectoral bargaining and consensus-driven economic development policy all have a troubled history in the UK (Crafts 2018). Policy since the 1980s has often deliberately undermined consensus-based institutions and some social partnership bodies have been short lived (the UK Commission for Employment and Skills, for example). Therefore, the term has less currency in the UK and when it is invoked it tends to be used to describe cooperative relations between business and labour at the level of the enterprise.

WHAT ARE THE ORIGINS OF SOCIAL PARTNERSHIP?

Social partnership is a defining characteristic of those “small, successful European nations” against which Scotland is often (negatively) compared. The evolution of social partnership is usually explained by two mutually reinforcing factors.

1. **A culture of political consensus and the ability to build alliances across class interests**: the Nordic nations found social partnership involving “peak associations” of labour and business a natural development from the early political alliances built between labour and agrarian interests. These cross-class political alliances were able to achieve tangible results for both constituencies given systems of proportional representation which further embedded a culture of continuous consensus building (Hilson 2008, Katzenstein 1985, Esping-Andersen 1990).

   Esping-Andersen (1990) argues that for the Nordic nations, “It is a historical fact that welfare-state construction has depended on political coalition building. The structure of class coalitions is much more decisive than are the power resources of any single class” and also that Nordic social democracy’s “embrace of parliamentary reformism as its dominant strategy for equality and socialism was premised on two arguments: that workers require social resources, health and education to participate effectively as socialist citizens and that social policy is not only emancipatory but is also a precondition for economic efficiency” (Esping-Andersen 1990).

2. **A response to global competitive and security threats**: key political and industrial developments in Nordic social democracy before the second world war have often been linked to national coalition building in the face of external security threats. One example is Sweden’s Saltsjöbaden Agreement of 1938 between unions and business interests which was, at least in part, a response to both economic depression and the risks posed by the rise of totalitarian regimes in Germany and the USSR. It is now regarded as a key milestone in Sweden’s political and industrial development (Magnusson 2000, Katzenstein 1985).

   After the war, these small countries vulnerable to global markets recognised that there was “a greater inclination to regulate class-distributional conflicts through government and interest concertation when both business and labour are captive to forces beyond domestic control” (Esping-Anderson 1990). Katzenstein (1985) argues that “for small European states, economic change is a fact of life. They have not chosen it; it is thrust upon them”. This encouraged the peak associations of business and labour to “choose a variety of economic and social policies that prevent the costs of change from causing political eruptions. They live with change by compensating for it” (Katzenstein 1985).

Common to both explanations is the understanding that social partnership will help produce better social and economic outcome and that virtuous cycles are created when better outcomes are achieved in both dimensions.

HOW DOES SOCIAL PARTNERSHIP VARY ACROSS NATIONS?

There is considerable variation, with countries having evolved distinct approaches to trade union and employer confederation membership, collective bargaining processes, and workplace codetermination (the formal participation of worker representatives in processes of corporate governance). Key variations can be identified in institutions and the delivery role sometimes undertaken by social partners:

- **Institutions**: social partnership tends to be constructed around the basic institutions of sectoral bargaining, codetermination and national/sectoral policy development. However, in some nations, formal institutions form the basis of national-level partnership. For instance, Finland’s Economic Council,[13] chaired by the prime minister, comprises cabinet ministers plus representatives of the main employer and trade union confederations. The Dutch “polder model” is constructed around the Social and Economic Council[14] and Labour Foundation.[15]
- **Delivery**: with stronger, more representative “peak associations” of labour and business enjoying strong legitimacy, social partnership is underpinned by organisations with capacity to engage comprehensively in policymaking at all levels. In some nations, trade union and employer federations also play a role in delivering services. The “Ghent model”, in which unions play a role in the administration of unemployment benefits (and in which trade union membership affects entitlement to such benefits), persists in the Nordic nations. Sweden’s job security councils – a key mechanism to support positive economic change through quality retraining opportunities – are jointly delivered by employers and unions.

13 See: https://valtioneuvosto.fi/en/economic-council

14 See: https://www.ser.nl/en

15 See: https://www.stvda.nl/en/labour-foundation

TABLE 4.1
Social partnership: economic and social outcomes

	Collective bargaining coverage (%)	Trade union density (%)	Employer association density (%)	GDP per capita ($,PPP)	GDP per hour worked ($, PPP)	Govt. spending as % of GDP	Gini coefficient	Innovation ranking	Spend on labour market measures (% of GDP)
Scotland	37.4	27.0	n/a	$50,286	n/a	50.6 (GERS)	0.32	n/a	n/a
UK	27.0	22.0	47.0	$53,873	79.5	44.7 (GERS) 46.7 (OECD)	0.36	5	0.2
Sweden	87.0	62.3	89.1	$60,208	89.6	49.5	0.29	2	1.2
Denmark	81.6	60.4	68.5	$68,679	99.2	47.1	0.28	10	1.6
Norway	72.0	52.1	83.1	$70,371	132.3	46.5	0.26	21	0.4
Finland	88.8	51.4	75.1	$53,986	83.0	55.8	0.27	7	0.8
Austria	98.0	20.2	100.0	$62,436	94.1	52.7	0.29	17	0.9
Netherlands	72.1	13.8	84.6	$68,233	92.9	43.2	0.29	8	1.5
Belgium	100.0	47.5	81.5	$61,646	100.3	53.3	0.25	24	0.9
Germany	49.0	14.1	65.7	$60,558	93.7	48.4	0.31	9	0.6
France	98.0	8.1	74.4	$54,240	87.3	57	0.3	12	0.8
Ireland	34.0	20.2	71.2	$111,090	153.6	22.7	0.28	19	1.2
Switzerland	51.5	12.7	60.8	$77,234	99.2	33.6	0.32	1	0.6

Adjusted collective bargaining coverage, 2024 or latest year available, OECD/AIAS ICT WSS database[16] (data extracted 21 November 2025)

As the national examples cited above testify, experience has varied. But nevertheless, some of Europe's most enduringly successful economies have social partnership at their core.

The headline statistics summarised in table 4.1, together with the evidence cited in earlier chapters, confirm that social partnership is associated with:

- lower inequality/a more compressed income distribution
- high employment
- relatively high investment and productivity, and strong performance in innovation (although on the latter national performance varies significantly)
- high investment in, and effective delivery of, active labour market policies
- high total tax revenues and concomitantly high public spending.

16 See: https://www.oecd.org/en/data/datasets/oecdaias-ictwss-database.html

Establishing precise cause and effect across all these dimensions is challenging given the range of influences affecting both inputs and outcomes. The positive outcomes achieved by these countries are not solely attributable to social partnership. Yet, as set out below, there is significant evidence that social partnership – and its constituent parts of national level policy concertation, collective bargaining and company level codetermination – has contributed to positive outcomes. It can help to:

- build consensus on economic and social issues
- capture and distil knowledge, intelligence and expertise
- give legitimacy to national economic, social and environmental strategies
- improve economic governance
- successfully manage economic transitions.

The period since the global financial crisis has seen a growing recognition of wider economic and social benefits of collective bargaining, codetermination and social dialogue by international institutions such as the OECD (for example, OECD 2018a and 2018b). The current EU directive on minimum wages seeks to institutionalise aspects of the social partnership economies – especially broad collective bargaining coverage – across the EU.[17]

WHAT ARE THE FACTORS THAT MAKE SOCIAL PARTNERSHIP EFFECTIVE AND ENDURING?

It is possible to determine some general lessons from countries with effective social partnership.

- To function effectively, social partnership requires highly representative, well-resourced social partners with at least some level of directive control over their constituencies. High representativeness confers legitimacy to social partnership arrangements.
- Most enduring systems of social partnership have emerged from a shared founding purpose, thereby gaining initial momentum. Examples include situations of real economic and social crises such as responses to the great depression, security threats, post-war reconstruction and high exposure to the vagaries of international markets.
- As reflected in the national models discussed above, the culture of consensus tends to have deeper political roots – as seen in the historical alliances built between labour and agrarian interests in Scandinavia, for example. Social partnership also tends to thrive – although not exclusively – in political systems with proportional representation which encourage effective coalition building.
- The ability of social partnership to endure rests on the system being able to provide a fair distribution of the benefits of the economic growth it supports. As shown in table 4.1, social partnership nations achieve – to varying degrees – relatively low inequality which results, at least in part, from a more compressed income distribution.

HOW DOES SCOTLAND CURRENTLY COMPARE?

As table 4.1 shows, trade union density and collective bargaining coverage in Scotland is low by European standards. Trade union membership is now heavily concentrated in the public sector (although pockets of membership remain in the private sector, notably in export orientated sectors such as whisky and defence).

17 See: https://employment-social-affairs.ec.europa.eu/policies-and-activities/rights-work/labour-law/working-conditions/adequate-minimum-wages-eu_en

There is no tradition of co-determination in Scotland or the UK.[18] The UK is unusual among wealthier EU nations in that government is solely responsible for regulation of the labour market (OECD 2021).

Employer organisations are atomised and have low density relative to their European peers (Garnero et al 2017). Competition between the various representative bodies has led to an emphasis on "low road" issues focused on cost-minimisation for employers – for example, tax and regulation or as it's commonly referred to, "red tape" (Heseltine 2012).

Given low density levels, unions and employers are poorly resourced compared to their European peers; neither unions nor employers have serious analytical resources at Scottish level. Scotland as part of the UK has a weak tradition of national level policy concertation and the UK's "first-past-the-post" political system works against a wider political culture of consensus building.

But there is a base to build on: the STUC's memorandum of understanding with the Scottish government is over 20 years old, embedding a culture of engagement at least at a bilateral level. Both employers and unions engaged with the Scottish government's safer workplaces initiative during Covid-19. Scottish ministers have often stressed their desire to develop a more European approach to a range of economic and social challenges.

HOW MIGHT SCOTLAND START TO BUILD A STRONGER CULTURE OF SOCIAL PARTNERSHIP?

Social partnership is not a quick fix for Scotland's economic and social challenges. There are no national models that could quickly and effectively be translated into the Scottish context where, as discussed above, the tradition is weak.

However, Scotland does share some broader characteristics with nations where social partnership is deeply embedded. It has a relatively small population size, for instance, which should help ease relationship building between different constituencies. The following measures are also possible in Scotland and would be costless to implement.

- As part of the commitment to become a fair work nation, the Scottish government should work with STUC/unions and business to develop new principles for more effective partnership working.
- The Scottish government – working with its international offices – should undertake a comprehensive study of national models of social partnership to inform recommendations for the development of a new Scottish model.
- Scotland's institutions of economic development are weak and often very short-lived. The Scottish government should consider establishing an economic council similar to the Finnish model, placing it on a statutory basis and ensuring it is sufficiently resourced.
- The Scottish government should also consider potential mechanisms to improve representativeness/resources of social partners like mandating membership (for local chambers, for example) and seed-funding associated research institutions.
- Building on the work of the Scottish Business Purpose Commission, the Scottish government could trial new models of codetermination in Scottish public corporations.

18 There have been numerous attempts over the decades to legislate for some form of codetermination in the UK, most recently under Theresa May's premiership. A short account of the history is provided by Gavin Kelly for *Prospect* in 2021: https://www.prospectmagazine.co.uk/politics/43634/updated-workers-on-boards-the-forward-march-of-labour-halted-yet-again

Collective bargaining is also a pivotal mechanism by which some countries manage to achieve better economic and social outcomes. It is considered in detail in the next section.

SECTORAL COLLECTIVE BARGAINING

> *"Our main conclusion is that income equality in the Nordic countries is primarily a result of a severe compression of hourly wages, which reduces the returns to labor market skills. This compression appears to be achieved through a wage bargaining system with strong coordination within and between industries."*
>
> *Income Equality in the Nordic Countries: Myths, Facts, and Lessons*, Mogstad et al (2025)

> *"Negotiating this way could be good for employers, too. In Sweden, which has a longstanding system of sectoral collective bargaining, Mattias Dahl of the employer body the Confederation of Swedish Enterprise believes it is better for businesses to negotiate pay and conditions with unions than to be regulated by employment laws. 'We have been able to be more flexible — we can change regulations faster than the law could. We can renegotiate each third year — from a business point of view that's much better,' he says."*
>
> Sarah O'Connor, Financial Times (2023)

Recent Scottish government strategy documents (such as the National Strategy for Economic Transformation) have included commitments to establish effective sectoral bargaining arrangements in low wage sectors, but limited progress has been made to date. This research project has:

- examined the benefits of sectoral bargaining in other contexts
- interviewed a number of participants in the current debate about extending bargaining coverage in Scotland through sectoral agreements.

WHY IS COLLECTIVE BARGAINING IMPORTANT?

Collective bargaining is a process of negotiation between employers and unions aimed at agreements to regulate pay and conditions. The process can be undertaken at firm, sectoral, regional or national levels. Some systems combine national level bargaining with significant flexibility at the local or enterprise level. The legislative position, traditions and cultures around collective bargaining differ markedly across nations, as do the number of workers covered by agreements (Evans 2025).

Wide collective bargaining coverage is a distinguishing characteristic of the Nordic economies, although the highest coverage is in Austria, Belgium and France. The Nordic nations prove that it is possible to reconcile high trade union membership and wide bargaining coverage with globally high rates of innovation and productivity. In Scotland, 36 per cent of workers are covered by a collective agreement, slightly above the OECD average but well below the set of small European nations against which economic and social performance tend to be measured.

The evolution of the OECD's jobs strategies reflects how the intellectual approach to collective bargaining has shifted in recent years: the 1994 strategy is widely regarded as highly influential in accelerating the rush to "labour market flexibility" among many advanced nations. In this context, collective bargaining was regarded as a rigidity which prevented the labour market 'clearing' at high rates of employment. This worldview was still apparent in the 2006 jobs strategy.

However, the latest OECD jobs strategy (OECD 2018a) reflected a profound shift in how many economists and policymakers understand the labour market. It places much greater emphasis on the mechanisms needed to achieve a fairer distribution of outcomes, rather than on inequality-generating "labour market flexibility". This report argued that collective bargaining:

- **helps tackle inequality**: "Collective bargaining institutions and social dialogue can help promote a broad sharing of productivity gains, including with those at the bottom of the job ladder, provide voice to workers and endow employers and employees with a tool for addressing common challenges"
- **can boost productivity**: "Well-functioning collective bargaining institutions, particularly when associated with high coverage, can also be useful. They allow for more differentiation in terms of wages and working conditions than statutory rules, can foster skills development and skills use in the workplace, and allow for the effective dissemination of good working practices"
- **helps manage industrial change**: "One of the most salient features of successful collective bargaining systems may be their ability to adapt gradually to changing economic conditions within their national industrial-relations tradition. This depends crucially on the quality of industrial relations, but also on a government that provides space for collective bargaining and social dialogue, while setting the boundaries"
- **can help keep people in jobs**: "Well-designed collective bargaining systems are also found to promote labour market resilience by facilitating adjustments in wages and working time"
- **can be good for employment – including for vulnerable groups**: "Co-ordinated systems [of collective bargaining] are linked with higher employment and lower unemployment, also for young people, women and low-skilled workers than fully decentralised systems" (OECD 2018b)

Two other benefits of collective bargaining are worth stressing.

- **Skills**: the UK has a longstanding deficit in vocational skills. One explanation, featuring strongly in *Varieties of Capitalism* (Hall and Soskice 2000), is that enterprise-level bargaining encourages the poaching of trained employees, thereby reducing the incentive for employers to train. In sectors subject to collective bargaining, the incentives for poaching are reduced as workers with similar skill levels can anticipate similar wages. Disparities in collective bargaining coverage are often cited as a key explanation for the UK's skills deficit compared with other European nations.
- **Income distribution**: it is significant that there is no national minimum wage in Denmark, Sweden, Finland or Norway; the prevalence of collective bargaining – including sectors such as fast food where it has long been absent or never present in the UK – renders a legal minimum unnecessary. These nations also have a much more compressed pre-tax and transfers income distribution – a fundamental factor in lower overall inequality. Indeed, the system of collective bargaining is now identified as the main mechanism producing low inequality in the Nordic nations (Mogstad et al 2025).

SECTORAL BARGAINING IN SCOTLAND

The Scottish government's commitment to extending sectoral bargaining across the Scottish economy is ostensibly strong (Scottish government 2022). However, making progress on sectoral bargaining, especially in sectors with low trade union density, weak employer co-ordination and no tradition of a collective approach to addressing workplace issues is tremendously challenging – a reality recognised by all key stakeholders.

As part of this research project, IPPR Scotland spoke to trade union, employer and academic stakeholders who have participated in Scottish government initiatives around sectoral bargaining in recent years. A comprehensive summary of these interviews can be found at appendix A2. The main themes emerging are as follows.

- **The context for sectoral bargaining in Scotland is challenging** due to capacity constraints across all stakeholders and cultures and norms around industrial relations that are far from conducive to a more co-ordinated approach. The current devolution settlement, which reserves full control over employment law to the UK parliament, is a real and obvious constraint on action by the Scottish government action (whether or not to devolve employment policy).
- **Employer co-ordination is weak**, especially in sectors “where low pay and precarious work can be most prevalent” (NSET). There is no (or a very weak) tradition of collectively bargaining workplace issues in these sectors. This represents a major difference between Scotland and countries where effective bargaining structures are deeply embedded.
- **Trade unions also have capacity issues, and in some cases, mixed views on sectoral bargaining as an approach**. This is especially the case in social care where there are concerns that a genuinely sectoral approach could lead to a levelling down of terms and conditions. There is deep scepticism that levelling up to the best pay and conditions in the sector will be delivered given the Scottish government’s fiscal challenges.
- **Experience to date in the social care sector points to more general challenges**. Government has been unable to build any momentum, employers lack co-ordination and, given current disparities across the sector, there are concerns that a properly sectoral approach could lead to a levelling down of pay and conditions for workers currently benefitting from collective agreements.
- **Scottish government is ‘committed’ but lacks capacity and is making little progress**. Stakeholders were generally content to accept the Scottish government’s National Strategy for Economic Transformation (NSET) commitment at face value but identified multiple factors inhibiting more rapid progress. This included the lack of knowledge and experience within the Scottish government on industrial relations issues (not just sectoral bargaining), ministerial churn and an inability or unwillingness to challenge stakeholders to engage more positively.

5.
WHAT ARE THE SPECIFIC IMPLICATIONS FOR SCOTLAND FROM THIS RESEARCH?

> *"It has been standard in social thinking to fear that government engineered social justice, however well intentioned, comes with less productivity in the economy. The Scandinavian experiment has put that dismal proposition to the test and found, in another dramatic conclusion, that it has not been borne out. The Scandinavians have invested more, and more successfully, than any other economies in social protection, and have at the same time been among the most successful capitalist democracies in terms of economic productivity and growth."*
> *The Story of Scandinavia*, Stein Ringen (2023)

Conversations about what Scotland can learn from other countries are often polarised between those who argue that easily replicable templates can be found in other countries and those who believe Scotland is inevitably a prisoner of path dependency.

This report tries to steer a path between these positions by pointing out areas where Scotland can shift policy in an effort to start to emulate the relative economic and social successes of other countries.

Relative to the high social spending countries on which this report has been based, Scotland currently has comparable levels of social spending as a proportion of GDP but lower – significantly lower in most cases – levels of GDP per head. We have similar levels of social spending yet worse social outcomes and significantly weaker economic performance.

THE HEADLINE IMPLICATIONS FOR SCOTLAND

- **A strong welfare state is not a barrier to sustained economic success**. It continues to be true that some of the strongest welfare states are to be found in countries with globally high GDP per capita, high productivity and world-leading innovation.
- **A renewed focus on economic performance should be a priority for all stakeholders**. Simply maintaining current levels of social spending will be challenging unless Scotland can improve its economic performance. This will be a difficult message for some, but the international evidence seems quite unambiguous; significantly and sustainably increasing Scotland's social spending per capita will require a concomitant increase in GDP per capita.
- **The Scottish government should lead a renewed drive to build a national consensus on economic development strategy**. This will involve the establishment and proper resourcing of new institutions which should be established in such a way that they outlast political cycles. Encouragingly,

there already seems to be a growing recognition that a consensus-based approach is necessary, with both Scottish Labour's recent report on regional economic development (Muscatelli 2025) and the SNP's Sustainable Growth Commission (2018) making recommendations to this effect.

- **A reassessment of spending priorities is required into areas which both help individuals and families improve their living standards and help drive economic development**. These might include:
  - **labour market measures –** spending on quality training and high unemployment benefits (at least for a one- or two-year period) encourages high levels of dynamism, higher investment in relevant workplace skills and better job-matching. These are potentially big wins for a Scottish economy apparently stuck in a low productivity rut
  - **family friendly policies –** continuing to invest more in family friendly policies such as quality childcare and parental leave could have significant economic benefits in terms of women's participation and equality within the workforce
  - **incapacity/sickness support –** a greater focus on support and rehabilitation (where the evidence suggests it is needed) could have significant longer-term benefits.

Clearly, investing more in these areas will be hugely challenging at this time. This report is not recommending a rapid shift of spend into these areas. Rather, we are asking the Scottish and UK governments to note the wide disparities in spending compared with better performing countries, and to examine ways that, over time, comparable levels of spending might be achieved.

The research also strongly suggests that social spending may achieve better economic outcomes if buttressed by strong social partnership arrangements that help facilitate better labour market policies, as well as provide the basis for a more consensus driven approach to economic development and a fairer distribution of its benefits.

The Scottish government, which has regularly talked up "partnership" at Scottish level, **should explore ways in which new formal institutions might help extend and embed more robust and effective social partnership in Scotland**. In doing so, it can learn from various institutions in the "small European countries" it regularly cites as exemplars for Scotland.

REFERENCES

Acemoglu D and Shimer R (2000) 'Productivity Gains From Unemployment Insurance', *European Economic Review*, 44: 1195-1224. https://ideas.repec.org/a/eee/eecrev/v44y2000i7p1195-1224.html

Andrew A, Bandiera O, Costa-Dias M and Landais C (2021) 'Women and men at work', IFS Deaton Review of Inequalities. https://ifs.org.uk/inequality/wp-content/uploads/2021/12/IFS-Inequality-Review-women-and-men-at-work.pdf

Andrew A, Bandiera O, Costa-Dias M and Landais C (2024) 'Women and men at work' *Oxford Open Economics*, 3: i294–i322. https://doi.org/10.1093/ooec/odad034

Bird E (2001) 'Does the welfare state induce risk-taking?', *Journal of Public Economics*, 80(3): 357–383. https://www.sciencedirect.com/science/article/abs/pii/S0047272700001171

Badenoch K (2025) Kemi Badenoch's speech on welfare spending at The Centre for Social Justice, Conservative Party website. https://www.kemibadenoch.org.uk/news/kemi-badenochs-speech-welfare-spending-centre-social-justice

Cameron D (1978) 'The Expansion of the Public Economy: A Comparative Analysis', American Political Science Review, 72(4): 1243–1261. https://econpapers.repec.org/article/cupapsrev/v_3a72_3ay_3a1978_3ai_3a04_3ap_3a1243-1261_5f15.htm

Central Bank of Ireland (2021) 'The Disconnection of GDP from Economic Activity Carried out in Ireland', quarterly bulletin. https://www.centralbank.ie/docs/default-source/publications/quarterly-bulletins/boxes/qb4-2021/box-c-the-disconnection-of-gdp-from-economic-activity-carried-out-in-ireland.pdf?sfvrsn=2

Crafts N (2018) *Forging Ahead, Falling Behind and Fighting Back: British Economic Growth from the Industrial Revolution to the Financial Crisis*, Cambridge University Press

De Grauwe P and Polan M (2003) 'Globalisation and Social Spending', Center for Economic Studies and ifo Institute (CESifo), working paper. https://hdl.handle.net/10419/76414

Esping-Anderson G (1990) *The Three Worlds of Welfare Capitalism*, Polity Press/Blackwell Publishing Ltd

Evans J (2025) *Mission-driven industrial relations: The case for fair pay agreements*, IPPR. https://www.ippr.org/articles/mission-driven-industrial-relations

European Commission (2025) 'Social Dialogue'. https://employment-social-affairs.ec.europa.eu/policies-and-activities/eu-employment-policies/social-dialogue_en

Garnero A, Martin S and Cazes S (2017) 'The state of trade unions, employer organisations, and collective bargaining in OECD countries', Centre for Economic Performance/Vox EU. https://cepr.org/voxeu/columns/state-trade-unions-employer-organisations-and-collective-bargaining-oecd-countries

Hajighasemi A, Oghazi P, Aliyari S and Pashkevivh N (2022) 'The impact of welfare state systems on innovation performance and competitiveness: European country clusters', *Journal of Innovation and Knowledge*, 7(4). https://www.sciencedirect.com/science/article/pii/S2444569X22000725

Hall P (ed) and Soskice D (ed) (2001) *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, Oxford Academic Press

Heseltine M (2012) *No Stone Unturned: In Pursuit of Growth*, Department of Business, Innovation and Skills, UK Government. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/34648/12-1213-no-stone-unturned-in-pursuit-of-growth.pdf

Hilson M (2008) *The Nordic Model: Scandinavia since 1945*, Reakton Books Ltd

International Institute for Management Development [IMD] (2025) 'World Competitiveness Rankings'. https://www.imd.org/centers/wcc/world-competitiveness-center/rankings/world-competitiveness-ranking/rankings/wcr-rankings

Katzenstein P (1985) *Small States in World Markets*, Cornell University Press

KPMG (2019) *KPMG Change Readiness Index 2019*. https://assets.kpmg.com/content/dam/kpmg/xx/pdf/2019/06/change-readiness-index-report-2019.pdf

Koo J, Choi Y J and Park I (2020) 'Innovation and welfare: the marriage of an unlikely couple', *Policy and Society*, 39(2), 189–207. https://doi.org/10.1080/14494035.2019.1641380

Magnusson L (2000) *An Economic History of Sweden*, Routledge

Maliranta M, Vihriälä V and Määttänen N (2012) 'Are the Nordic countries really less innovative than the US?', Centre for Economic Performance/Vox EU. https://cepr.org/voxeu/columns/are-nordic-countries-really-less-innovative-us

Mogstad M, Salvanes K G and Torsvik G (2025) 'Income Equality in the Nordic Countries: Myths, Facts, and Lessons', National Bureau of Economic Research, working paper. https://www.nber.org/papers/w33444

Muscatelli A (2025) *Regional Economic Development in Scotland*, Scottish Labour Party publication. https://scottishlabour.org.uk/wp-content/uploads/2025/11/Independent-Report-on-Regional-Economic-Development-in-Scotland.pdf

O'Connor S (2023) 'Experiments are key for more grown-up industrial relations', *Financial Times*, 12 September 2023. https://www.ft.com/content/dc4f7946-d3bb-4fc1-865e-37ff0c1c83b1

Olds G (2016) 'Food Stamp Entrepreneurs', Harvard Business School, working paper. https://www.hbs.edu/faculty/Pages/item.aspx?num=50692

Organisation for Economic Co-operation and Development [OECD] (2018a) *Good Jobs for All in a Changing World of Work: the OECD jobs strategy*. https://www.oecd.org/content/dam/oecd/en/about/programmes/oecd-job-strategy/long%20booklet_en.pdf

Organisation for Economic Co-operation and Development [OECD] (2018b) *OECD Employment Outlook 2018.* https://www.oecd.org/content/dam/oecd/en/publications/reports/2018/07/oecd-employment-outlook-2018_g1g8f61d/empl_outlook-2018-en.pdf

Organisation for Economic Co-operation and Development [OECD] (2021) *OECD Economics Department Working Papers No. 1692: Labour Market Transitions across OECD countries*. https://www.oecd.org/content/dam/oecd/en/publications/reports/2021/12/labour-market-transitions-across-oecd-countries-stylised-facts_c3feaeee/62c85872-en.pdf

Organisation for Economic Co-operation and Development [OECD] (2025) OECD Data Explorer, extracted December 2025 and January 2026. https://data-explorer.oecd.org

PWC (2025) *Women in Work 2025*. https://www.pwc.co.uk/economic-services/assets/women-in-work-2025.pdf

Ringen S (2023) *The Story of Scandinavia*, Weidenfeld and Nicolson

Rodrik D (1998) 'Why do more open economies have bigger governments?' *Journal of Political Economy*, 106(5) 997–1032. https://www.jstor.org/stable/10.1086/250038

Scottish Government (2021) *Scotland's Vision for Trade.* https://www.gov.scot/binaries/content/documents/govscot/publications/strategy-plan/2021/01/scottish-government-vision-trade/documents/scotlands-vision-trade/scotlands-vision-trade/govscot%3Adocument/scotlands-vision-trade.pdf

Scottish Government (2022) *National Strategy for Economic Transformation.* https://www.gov.scot/publications/scotlands-national-strategy-economic-transformation

Scottish Government (2024) *Scottish Budget 2025-26*. https://www.gov.scot/binaries/content/documents/govscot/publications/corporate-report/2024/12/scottish-budget-2025-2026/documents/scottish-budget-2025-26/scottish-budget-2025-26/govscot%3Adocument/scottish-budget-2025-26.pdf

Scottish Government (2025) *Government Expenditure and Revenue Scotland 2024-25*. https://www.gov.scot/publications/government-expenditure-revenue-scotland-2024-25

Stiglitz J (2015) 'Leaders and followers: Perspectives on the Nordic model and the economics of innovation', *Journal of Public Economics*, 127: 3–16 https://www.sciencedirect.com/science/article/abs/pii/S0047272714001984

Sustainable Growth Commission Final Report (2018) [this report is no longer available online]

Trades Union Congress [TUC] (2015) *Workers' Voice in Corporate Governance: a European perspective*. https://www.tuc.org.uk/sites/default/files/WorkersVoiceinCorporateGovernance.pdf

World Bank (2025) World Bank Databank, extracted January 2026. https://databank.worldbank.org/home.aspx

World Economic Forum [WEF] (2020) *Global Competitiveness Report*. https://www.weforum.org/publications/the-global-competitiveness-report-2020

World Intellectual Property Organisation [WIPO] (2024) *Global Innovation Index*. https://www.wipo.int/web-publications/global-innovation-index-2024/en/gii-2024-results.html

APPENDIX

A1. METHODOLOGY AND DEFINITIONS

For international comparisons, we use data from OECD (2025), drawing on its dataset 'Annual government expenditure by function (COFOG)'. We use general government spending (which includes central, regional and local government as well as social security funds), broken down according to the classification of the functions of government (COFOG).[19]

The top-level classifications are:

1. general public services
2. defence
3. public order and safety
4. economic affairs
5. environmental protection
6. housing and community amenities
7. health
8. recreation, culture and religion
9. education
10. social protection.

Social protection includes both services and cash benefits, and covers spending provided to individual people and households as well as on a collective basis (for example, formation and administration of policy, legislation, standards and research related to social protection). Its COFOG subdivisions are as follows.

- 10.1 Sickness and disability
- 10.2 Old age
- 10.3 Survivors
- 10.4 Family and children
- 10.5 Unemployment
- 10.6 Housing
- 10.7 Social exclusion not elsewhere classified
- 10.8 R&D social protection
- 10.9 Social protection not elsewhere classified.

Note "housing" under social protection covers social housing and means tested support for housing costs. Other housing-related spending, such as administration of the planning system or subsidies to increase the housing stock, is accounted for elsewhere in the COFOG system.

The OECD data includes the UK but does not separate out spending in Scotland. For Scotland comparisons, we use data from the Scottish government's Government Expenditure and Revenue Scotland (GERS). GERS is constructed using different methods to the OECD data and so the two data sets are not directly comparable. However, GERS estimates expenditure in Scotland and the whole of the UK on a consistent methodological basis, meaning we can compare spending in Scotland with that of the rest of the UK. In this report, we present the UK in relation to other

19 See: https://unstats.un.org/unsd/classifications/Econ/Download/In%20Text/M84_complete_english.pdf

countries using OECD data, and then Scotland in relation to the UK using the GERS data set. This allows readers to get a sense of how UK spending compares with other countries, and how expenditure in Scotland compares with the UK. Comparisons between Scotland and other countries using this method should be attentive to differences between OECD and GERS methods, and the scale of their impact can be seen in the differences in estimates of UK expenditure across the two sources. In addition, we use HMT function and subfunction analyses for GERS data and COFOG classifications for OECD, noting the high degree of alignment between the systems.

To analyse GDP per capita, we use GDP estimates from GERS (Scotland and the UK) and from the OECD (the UK and other countries). GERS presents three estimates for Scottish GDP, of which we use the largest (ie including a geographical share of the North Sea). We use the relationship in the OECD-GDP data between nominal national currency terms and real purchasing power parity (PPP) terms to translate public expenditure figures (and GERS GDP figures) into real-terms PPP values. This means we use GDP-based (rather than consumption-based) PPP exchange rates, and OECD's UK figures to convert GERS data. Because OECD and GERS-GDP estimates are not identical for the UK, we present these separately, again allowing comparison between the UK and other countries, and between Scotland and the UK.

A2. SECTORAL BARGAINING IN SCOTLAND: EXPECTATIONS AND VIEWS ON THE DELIVERY OF SCOTTISH GOVERNMENT COMMITMENTS

We conducted interviews with stakeholders who are engaged in the delivery of, and policy debates around, sectoral bargaining in Scotland. Below is a summary of our discussions highlighting the barriers to, and opportunities for, sectoral bargaining in Scotland. In order to facilitate open and frank discussion, the interviews have been anonymised, with participants marked as trade union representatives (TU), employers (E), academics (A) and other stakeholders (other).

A challenging context for sectoral bargaining

Industrial relations in Scotland (and the UK) are viewed as reflecting both the direction of UK public policy since the end of the 1970s and the hollowing out of capacity across all the key stakeholders. Now defined by "clunky volunteerism" where unions can organise but employers are effectively "encouraged to do their own thing" and "any sense of collective organisation was considered to be not on" (A). This ethos has become embedded in UK political economy, bringing a marked decline in the prevalence and effectiveness of collective bargaining, and widespread misunderstanding of its purpose.

> ***"Real lack of understanding about industrial relations in a contemporary and in a historical sense ... for officials, I find it quite difficult that there's such a low level of understanding of any broad collective industrial relations, not just sectoral bargaining."***
>
> A

> ***"I fundamentally disagree with it as a human being and as an HR professional. However, if it's going to work, let's just see because I bet it doesn't achieve what it'll just be imposed on the private sector and the voluntary sector."***
>
> E

There is a general belief that government and employers have paid little attention to the role sectoral bargaining plays in other economies, where (as discussed in chapter 4) such arrangements are accepted as efficient, contributing to positive economic and social outcomes.

"Some notion that...sectoral bargaining was all about union power, but it's not. It's actually about proper coordination of key players and stakeholders in an industry."

A

In practice, sectoral bargaining can serve to raise, discuss and resolve common issues for workers and employers. It should be a mechanism to address and coordinate action on issues such as training and productivity improvements, and workplace change and adaptation as well as setting baseline conditions:

"In terms of a standards and employers investing in people … you have sort of skills standardisation and therefore a benefit to employers to invest in the people and train people up to a certain level. And they know that they won't just want to be poached."

TU

"Common perception that sectoral bargaining is something that workers argue for, but actually some of the massive benefits … have been for employers … having a collective coordination mechanism for employers, as well as workers and unions, has often been really helpful in trying to address future oriented issues or longstanding problems, or getting over particular hurdles."

A

This kind of approach has been actively discouraged by both public policy and broader cultural trends. Interviewees argued that sectoral bargaining should be "very simple … any allusion to complexity or legal difficulty is disingenuous" (TU). In essence, "sectoral bargaining is a minimum standard across the sector" where "sectoral pay setting, preceded by a negotiation process" is understood to be "one of the easiest policies for government to implement", particularly in sectors where the state commands greatest leverage (those who depend on public money like social care, for example (TU)).

Employer co-ordination

Trade union interviewees believed that a significant barrier to sectoral bargaining is the reflexive opposition of employers to trade union involvement in workplace negotiation. Academic interviewees also pointed to employers' lack of experience in collective bargaining processes and inability to co-ordinate sectoral positions on workplace issues.

The hospitality sector was identified as one in which employers lack effective co-ordination through strong representative bodies and any real experience of collective industrial relations. Building capacity and changing cultures was believed to be very challenging:

"I don't know how either of the employer organisations … have enough understanding. Like I don't think they're taking information in a two-way fashion sufficiently to then be part of a bargaining unit. So I think it would be a very, very different role for those employer organisations … most of them feel that speaking to their members about such things is not their place in any way, shape or form and would really be quite shocked at being asked to do so."

Other

One union representative explained how in the creative sector the lack of employer coordination through a properly representative body meant that the public agency Creative Scotland essentially fulfils this role, despite being a funder of the creative sector itself. This effectively undermines attempts to establish meaningful sectoral bargaining.

> ***"When we are around the table with them [employers], they seem to be very ideological ... bargaining at a national level or sectoral level is not on their agenda."***
> TU

A number of interviewees believed lessons on employer co-ordination can be learned from other European nations, where representative bodies have significantly higher density within the employer community and a culture much more open to collective engagement and negotiation.

> ***"European countries ... have much more powerful employer confederations ... [in the UK] they are pretty small ... coverage of them for across the employer community is pretty limited."***
> A

This is not to say continental approaches provide a template for Scotland. Rather, the main lesson is to begin to embed an approach where “people [who] set up businesses, learn to operate businesses, engage with other employers, engage with the public sector, engage with the state (A).

Scottish government is “committed” but making little progress

There is a longstanding commitment through the NSET for the Scottish government to make “fair work agreements” the norm across certain sectors.

> ***"Collective bargaining coverage is within the national performance framework and there have been commitments to look at sector bargaining in care, retail, hospitality and within the creative industries as well."***
> TU

> ***"If the Scottish government wanted this to work and if all the stakeholders in the room wanted it to work, this bargaining unit could be up and running next year and it could be generating pay claims very quickly so you know it’s not impossible. It’s just extremely difficult."***
> Other

However, there is an implementation gap, and it is widely believed that government capacity and institutional knowledge are inadequate to the task of embedding sectoral bargaining across different sectors. One interviewee bemoaned the limited understanding within government around the basics of industrial relations, stating that an effort needs to be made to educate government workers on the matter: “Scottish government needs to put some staff through ... industrial relations 101” (A).

This is true even for sectors over which the Scottish government has leverage such as social care:

> ***"[Scottish government] are open to the idea, but I don’t think there is a good sense of how that becomes a reality in practical terms."***
> Other

The seriousness with which the sectoral bargaining agenda is progressed came under scrutiny from some interviewees. Progress on individual agreements is believed to have stalled due to the whims of individual ministers, who are often only in office for short periods.

> *"I think there's a complete lack of capacity within Scottish government and a lack of leadership … you feel you're getting somewhere a little bit after the previous minister has seemed keen on looking at certain industries."*
> TU

Stakeholders are also concerned that Scottish government officials and ministers take a very narrow view of what constitutes sectoral bargaining, believing that any agreements must be all-encompassing.

> *"[There is a view within government] "if it doesn't cover the entire sector, then it's not sectoral bargaining" and we would be trying to explain to them that actually it is … you can do the thing that's easier … develop it later."*
> Other

Trade unions also have capacity issues and, in some cases, mixed views on sectoral bargaining as an approach

Interviewees acknowledged that trade union capacity to engage effectively in sectoral bargaining is also limited.

> *"Lots of unions are massively under resourced when it comes to being able to allocate the time – it's an investment, particularly when you're setting up new bargaining arrangements."*
> A

There is a view among some union officials and senior lay representatives that sectoral bargaining might potentially undermine their ability to represent members. Unions express support in principle **"but in practise I don't know that they necessarily have the capacity to do that, other unions may feel that they would rather do collective bargaining workplace by workplace, where they've got a closer relationship with the membership"** (A).

This scepticism also appears to resonate with at least sections of trade union membership. Workers who already benefit from collective agreements (such as local authority care workers) fear that sectoral bargaining, rather than setting a baseline from which all workers would benefit, risks undermining current pay and conditions. This is exacerbated by the belief that "levelling up" to the highest sectoral standards is highly unlikely in current constrained fiscal circumstances.

> *"Can you imagine the amount of money to level up all social care workers to local authority standards? There is no inclination or indication the Scottish government are going to put that money in."*
> TU

Social care as a case study in sectoral bargaining

Ongoing discussions involving the Scottish government, COSLA, unions, employers and the Fair Work Convention have been aimed at designing a structure for bargaining arrangements in adult social care. Interviewees spoke of the receptiveness of the social care sector to progressing this agenda, with some level of understanding of how sectoral bargaining would be a positive step.

> *"I think there's been at certain points better and better engagement with care organisations and I guess there's a bit of a joint approach there of them saying, well, we all want to increase the investment in sector … we are losing workers because wages are so low and we'll do bargaining and we'll get more money into the sector."*
> TU

There was also recognition that progressing sectoral bargaining in social care and working towards professionalising the sector, could "take pressure off the NHS", highlighting that sectoral bargaining raises the prospect of significant positive externalities (TU). At the same time, there is an understanding that some of the benefits associated with sectoral bargaining in other countries and industries (such as driving improvements in productivity) will be far more difficult to achieve in a sector like social care given its high labour intensity.

Yet, union representatives were convinced of the transformative impact sectoral bargaining might have on the sector. They stressed the potential to reshape the composition of the care sector away from profit-driven private employers who work to undercut public sector and non-profit providers through lower wages. Sectoral bargaining can begin to reshape the incentives which have led to adult social care become an increasingly financialised service.

> ***"There are now two tiers of pay in care if you work in the public sector or private sector. If you work in the public sector then you have a right to have your care work valued, put through a job evaluation scheme [leading to pay increase]. Nobody in the private care sector has a job evaluation scheme. Why not? Because the government sets the pay rate. How could you possibly have a scheme that sits within that because it looks at one job in isolation and gives you an hourly rate."***
> TU

There was recognition too that a failure to exert the leverage the Scottish government commands over public funds results in a perpetuation of gender inequality: "**We need to address pay levels for care work because all we are doing is feeding that inequality with public money**" (TU).

Sectoral bargaining could also address challenges that are particularly pronounced in the social care sector. Given difficulties with recruitment and Scotland's growing demographic challenge, there has been a growing reliance on overseas workers. The visa system – as currently organised – hands employers power to undercut existing staff on pay and conditions (TU).

Union officials relayed to us how, in their experience, Scottish government lack commitment when engaging on workplace issues in social care. For example, when negotiating terms and conditions, while there was agreement on the need to tackle sick pay, maternity and paternity, the "first sign things were going cold … **meetings slow down, all of a sudden we are discussing the same problems as the last meeting, and not a meeting for another two to three months**" and "[We] realised why the meetings slowed down … the work we had done was suddenly being problematised and slowed down" (TU).

Employers are concerned that the whole agenda lacks seriousness and credibility:

> ***"We'll see what happens with* sectoral bargaining *that's been discussed in social care for years now and getting nowhere. But do you know there's a working group?"***
> E

> ***"We're told that sectoral bargaining works in colleges but colleges are all the same. You know, a wee family run care home in Dornoch is not the same as the, you know, social work department of Glasgow City Council or Enable or whatever. Do you know what I mean?"***
> E

The greatest risk with failing to deliver in social care is that it could undermine the wider sectoral bargaining agenda among stakeholders and the public. In the meantime, in the absence of effective sectoral bargaining, the social care sector is experiencing stagnating pay and conditions.

Practical challenges to extending sectoral bargaining coverage

Interviewees were in agreement about the need to recognise how far Scotland has to go to embed sectoral bargaining as the norm. Progress is, at least to some extent, dependent on the Scottish government encouraging and supporting stakeholders into constructive collaboration.

> *"I think the officials needed to move progress on. So that it's not just about the substantive issue of bargaining. It's about how do you act as government …* **government are often the meta-governors in the room. Their role is to kind of bring everything together that was missing.** *For me, it was just like, can you work out at the end of the meeting whether you've made progress?* **Can you agree that once you've agreed something you don't roll back?** *… Some of it was just like process stuff. Do the process better … Co-design but actually being responsible for it and meeting progress … bank progress. You had to say, right OK, we need this, that's banked. You don't get to come back next week."*
>
> A

Achieving this will require elevating institutional knowledge of collective and sectoral bargaining within and across Scottish government, and ensuring that relevant ministers are briefed and signed up to pursue the agenda within their remit. It will also require sufficient resourcing, where necessary, to facilitate forums and ensure all stakeholders are informed, capable participants in negotiating and establishing sectoral working arrangements.

> *"Try and get the government to commit … Embed that in the architecture of governance so it has a minister or a cabinet secretary. It has money allocated … it appears in policy documents."*
>
> A

Of course, the current devolution settlement – in which employment law remains wholly reserved – is recognised as a major constraint on Scottish government action:

> *"Employment law is of course a reserved issue so there are limits to the extent the Scottish government can drive a culture shift in Scotland around sectoral bargaining."*
>
> A

Institute for Public Policy Research Scotland

GET IN TOUCH

For more information about the Institute for
Public Policy Research, please go to www.ippr.org

You can also e-mail info@ippr.org or find us on X @ippr

Institute for Public Policy Research

Registered Charity no. 800065 (England & Wales),
SC046557 (Scotland), Company no, 2292601 (England & Wales)

The progressive policy think tank