

# BETTER THAN BEFORE

## A FAIR WORK RECOVERY

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*This briefing marks the third in a series looking ahead to the Holyrood elections in May. It builds on IPPR Scotland's Better Than Before report, released in September 2020, outlining the key priorities facing the Scottish government over the next few years in recovering from Covid-19 (Gunson and Statham 2020).*

### INTRODUCTION

The Covid-19 public health crisis has dominated our lives for more than a year. In economic terms, however, the crisis is likely to dominate for many years to come. Once the virus is brought under control, Scotland, like countries around the world, will face a long road to rebuilding our economy, public services, and the social infrastructure that is so crucial to our everyday lives. Without question Covid-19 has exposed and exacerbated inequalities that shaped Scotland and the UK before the pandemic struck. It is now well established that the impacts of the Covid-19 crisis – in health and economic terms – have not been spread evenly. And it is increasingly clear that the high levels of inequality that shaped Scotland and the UK going into the pandemic weakened our ability to withstand such a crisis.

As we look to leave the worst of the public health crisis behind us, and set our sights on recovery, there is an opportunity to build a very different economy, that delivers faster progress against aims for a fair and sustainable future.

The key question facing the next Scottish government, and indeed the whole of the new parliament, will be – how do we deliver an economic recovery from Covid-19 that addresses the weaknesses Scotland had going into the crisis?

Even before the global pandemic, this next Scottish parliament was likely to be shaped by pressures to deliver on the cross-party ambitions set by the last. With legally binding targets to substantially reduce child poverty and transition to a

net zero economy already on statute, and priorities around fair work, wellbeing and inclusive growth well-established, this next Scottish parliament term was always going to need to match ambitious aims with ambitious action, to turn world leading targets in a series of policy areas into world leading progress. However, the Covid-19 crisis, and the hoped-for recovery, brings these priorities into even sharper focus.

There is now overwhelming evidence – as outlined in IPPR’s Commission on Economic Justice – that a fairer economy is a stronger economy (IPPR 2018). Far from inequality being a necessary by-product of a growing economy, evidence shows that high levels of inequality weaken economies, and hold back economic performance. As we attempt to rebuild Scotland’s economy from a recession beyond anything we’ve seen in modern peace time, we have the opportunity to deliver an economic recovery and a social renewal built on the foundations of social, economic and climate justice.

In this election campaign, the debate on poverty and inequality has seen new powers over social security take centre stage - with cross-party pledges to double the value of the Scottish child payment, and commitments from the SNP, Labour and the Scottish Greens to work towards a minimum income guarantee. These commitments are incredibly welcome – and indeed respond to calls from IPPR Scotland and colleagues across the anti-poverty sector. But solving poverty and insecurity in Scotland will also require action to build a fundamentally different economy that delivers good work for more people and creates wealth that is broadly shared. Over the long term, the heavy lifting on solving poverty and narrowing inequality in Scotland will have to come from a fundamentally new approach to the economy.

By building a recovery that is hard-wired for justice we can hope to emerge from the Covid-19 crisis far stronger than we went into it.

## A FAIR WORK RECOVERY

There will be considerable pressure on the next Scottish government to create jobs quickly, and to return to ‘normality’ as fast as possible. But rather than an ‘any jobs’ recovery, creating a fair and sustainable recovery will rely on setting our sights on a ‘good jobs’ recovery. Beyond over-simplified targets for the number of jobs created, or the scale of investment promised. To get it right, plans for recovery must focus on what kind of economic activity is supported, in which places, and for whose benefit. At the heart of this lies fair work.

So what does a fair work recovery look like?

It will require improving the quality of jobs across the economy – across pay, hours, and wellbeing at work. It will take stronger action to improve the quality of existing jobs, by tackling low pay and insecure work. It will also require action to lower the barriers to getting into and getting on in work that too many people still face. And, of course, it will require supporting the creation of good new jobs in sustainable industries – alongside routes into these jobs for more people.

## Tackling low pay through recovery

How much workers are paid hourly is hugely important element of fair work. Successive increases to the minimum wage have driven up hourly wages around the bottom of the distribution, but they remain below the level of the real living wage, set by the Living Wage Foundation as deemed necessary to reach a decent standard of living. Our analysis shows that pre-pandemic, around a quarter of employees (over 650,000 workers) in Scotland were effectively earning less than £9.30 an hour, the 2019/20 real living wage rate.

Two-fifths (270,000) of these worked in just two sectors: hospitality and retail – reflecting the relatively large role of these sectors as employers and the high prevalence of low pay within them – but low pay can be found across Scotland’s economy, in both public and private sectors. Part-time workers are far more likely to be paid low hourly rates and this has profound gendered implications for Scotland, where women make up the majority of part-time workers, and the gender pay gap stood at 10.9 per cent in 2020, before the pandemic (Scottish Government 2020a; Scottish Government 2021a).

To give a sense of the scale of the challenge and the size of the gap across the economy, we wanted to consider the level of the ‘low pay gap’ in Scotland – the investment required in additional wages to bring all workers up to the real living wage, based on their existing hours.

Table 1 below, shows that to bring the hourly pay of all workers in Scotland up to the real living wage in 2019 would need increased investment in wages of employers by around £1.9 billion per year or just over 1 per cent of Scotland’s GDP, £1.6 billion of which would be paid by the private sector (Scottish Government 2020b). Given this additional income would flow largely towards low-income households - we might expect that this extra cash would be spent rather than saved and so contribute substantially to Scotland’s growth. At the same time, it would boost the living standards of over 650,000 workers and their families, helping to reduce poverty, inequality and financial insecurity. Retail and hospitality workers would see wage increases worth £700 million, while the public sector would pay out approximately £300 million more – concentrated in low paid jobs in education and health and social work.

**Table 1: Additional wages required to bring all workers up to real living wage level in 2019/20, broken down by sector**

|                                 |              |
|---------------------------------|--------------|
| <b>Manufacturing</b>            | £100,000,000 |
| <b>Construction</b>             | £100,000,000 |
| <b>Retail</b>                   | £450,000,000 |
| <b>Transport &amp; Storage</b>  | £50,000,000  |
| <b>Accommodation &amp; Food</b> | £250,000,000 |

|   |                |
|---|----------------|
| <b>Professional, Scientific and Technical</b> | £50,000,000    |
| <b>Admin &amp; Support Services</b>           | £150,000,000   |
| <b>Education</b>                              | £100,000,000   |
| <b>Health and Social Work</b>                 | £250,000,000   |
| <b>Arts, Entertainment and Recreation</b>     | £50,000,000    |
| <b>Other Sectors</b>                          | £250,000,000   |
| <b>Total</b>                                  | £1,900,000,000 |

**Source: IPPR analysis of Annual Population Survey 2019 (ONS 2020)**

**Notes: Rounded to nearest £50m.**

Through the pandemic, it is some of these lower paid sectors that have seen the largest levels of support from public funding. In Scotland, grants paid to business since March 2020 have amounted to over £1.9 billion, plus over £900m in business rates relief (Scottish Government 2021b). This does not include the UK-wide support paid to employers Scotland through the furlough schemes, and through lending and tax holidays.

We have rightly supported employers through the pandemic, we must now see employers do the right thing on fair work and pay through the recovery.

### **Delivering living hours**

As important as pay rates are, to secure a fair work recovery we will also need action on hours and conditions alongside pay.

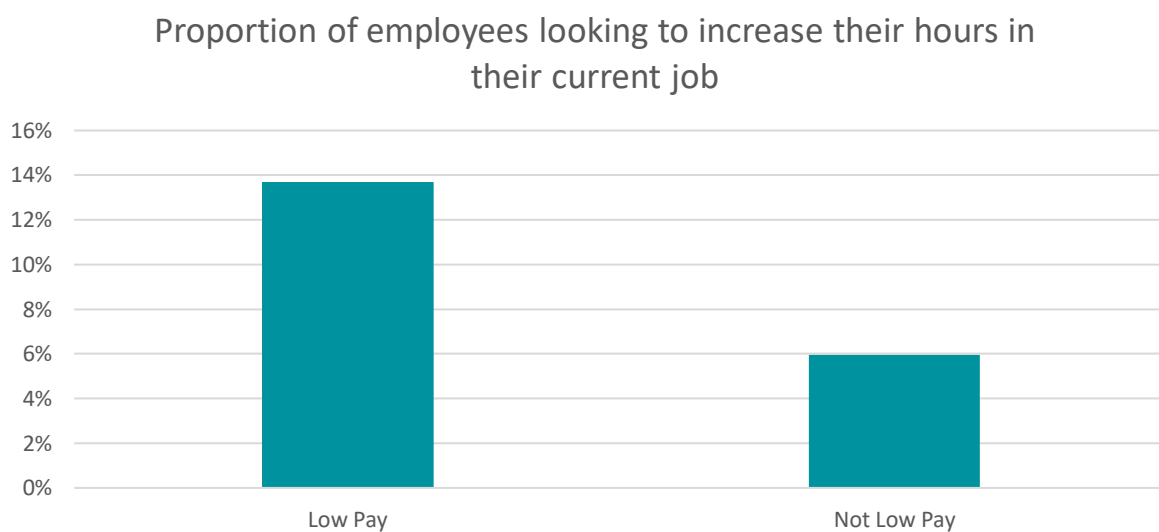
We know that the drivers of low pay extend beyond hourly rates and into the hours people work, and the barriers that prevent people from getting into or getting on in work. These barriers range from a lack of access to training and progression opportunities in low-wage sectors, to the cost of childcare or travel, to labour market discrimination that perpetuates gender and ethnicity pay gaps.

As we look towards Scotland's recovery from Covid-19, we must take opportunities to hardwire our economy to deliver fair work. Securing a living income for every working person Scotland will require stronger action to encourage every employer to pay the living wage and action to support living hours that people can rely on. We know that raising rates of pay alone, though a powerful tool, is not enough to deliver greater security for those at the sharp end of Scotland's labour market.

We wanted to consider the relationship between hours and pay and to understand which workers in Scotland want more hours than they currently work – known as underemployment.<sup>1</sup>

Figure 1 below shows the level of underemployment by level of pay. Overall, around 1 in 12 workers in Scotland (8 per cent) would like to work more hours in their current job.<sup>2</sup> The figure below shows that among the low paid this level rises to 1 in 7 (14 per cent), with underemployment lower for those not in low pay. It shows that underemployment is much more likely for those in low pay than for others, showing that some of Scotland’s lowest paid workers are not getting the hours they need – as well the pay they need – to meet their needs.

**Figure 1: Low-paid workers are more likely to be under employed**



**Source: IPPR analysis of ONS (2020)**

**Notes: Analysis excludes people who are looking for a new job.**

Equally, among those working fewer hours, underemployment is higher. For those working 16 hours or less – 14 per cent are underemployed compared to just 5 per cent for those working 32 hours or more (IPPR analysis of ONS 2020).

To deliver a fair work recovery, the next Scottish government will need to have as much of a focus on hours as on pay levels, particularly as furlough ends, and we likely see increasing levels of unemployment and underemployment.

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1 Note that we define underemployment for the purposes of this briefing by those who would like to work more hours in their current job. Figures do not include those looking for another or an additional job.

2 This statistic excludes those who are looking for a new job, who aren’t asked this question in the Annual Population Survey. They may be looking for a new job because of insufficient hours or for other reasons.

## Routes into good new jobs

To deliver on the ambitions of the Scottish government's last term and embed a more inclusive economic model, economic recovery plans will have to focus on where good new jobs are created, and who can access routes into those jobs.

Alongside detailed plans to support workers transitioning from jobs in the oil and gas sector into good quality new jobs in renewable energy, the next parliament will need to pay close attention to designing effective interventions for those workers most affected by the disruption of the past year. As well as a sustained focus on young people, early evidence suggests bespoke solutions will be needed to support older workers who have been furloughed get back into work (Cominetti 2021). To mitigate against the risk of deepening existing inequalities further, it is likely that major job creation schemes will need to consider routes in for workers with fewer qualifications and workers with caring responsibilities to access good new jobs – including through financial and childcare support to retrain, and through job design.

## FAIR WORK IN THE NEXT PARLIAMENT

With plans for the next Scottish parliament set to be shaped by promises made in this election campaign, looking at party manifestos is a useful starting point to understand what the next parliament's ambitions on jobs and work might look like. Across the five manifestos for parties elected to the Scottish parliament in 2016 there is plenty of discussion of plans for job creation through recovery.

The SNP manifesto pledges £500m of additional investment to support the creation of new jobs and reskilling for 'the jobs of the future', a £100m Green Jobs Fund. There is also a pledge to double the value of the Parental Employment Support Fund to £15m in the next two years to support parents into 'good, secure jobs' (SNP 2021).

The Scottish Conservatives' manifesto sets out 'full employment' as their number one priority for Scotland's next parliament, supported by a new Enterprise Bill to create economic development agencies in every part of Scotland, and a new £500 skills grant (Scottish Conservatives 2021).

The Scottish Labour manifesto pledges a job for everyone under 25 who is out-of-work, the long-term unemployed, and every disabled person in the public sector. It also promises a £500 Scottish Skills Benefit to be made available to anyone who is unemployed or on furlough, to support retraining, and a further six-month wage subsidy for the UK-wide kickstart scheme (Scottish Labour 2021).

The Scottish Greens propose a green infrastructure programme that would create 100,000 jobs through £7.5 billion of investment over the next five years. They also present plans for 'a new deal for workers', using existing powers to strengthen Fair Work standards through procurement, new national collective

bargaining structures, and a transition to a four-day working week (Scottish Greens 2021).

The Scottish Liberal Democrats have a focus on expanding jobs available in rural areas, a job guarantee for 16-24-year-olds, and new Scottish training bonds worth up to £5,000 to help people change careers (Scottish Liberal Democrats 2021).

Overall, it shows that regardless of the make-up of the next Scottish parliament, and next Scottish government, there are a number of ideas to build on in the manifestos, and a clear priority placed on recovery. However, crucially, the priority of the next Scottish government must be to shape a fair work recovery, to take the opportunity to rebuild Scotland's economy stronger than before, and in a way that addresses the key weaknesses seen on entering the crisis.

## RECOMMENDATIONS FOR THE NEXT SCOTTISH PARLIAMENT

So how can a fair work recovery be delivered?

As outlined above, there are a number of good, high-level, commitments within the parties' manifestos. This offers hope that there will be political attention placed on this crucial issue whoever forms the next Scottish government. However, regardless of the make-up of the next Scottish parliament, we will need to see a significant focus on delivery and implementation. High-level commitments will not be enough.

There are a number of interventions the next Scottish government should make to help to secure a fair work recovery. These include moves to boost productivity in Scotland, alongside a more conditional system of business support, investment and business tax.

### **1. Sector Renewal Deals**

The next Scottish government should look to implement new renewal deals, to deliver social renewal and an economic recovery based on fair work. The first sector deals should focus on those sectors hit hardest through the pandemic, with the aim of driving investment to boost productivity. These deals would offer investment from government, whether in grants, loans or ongoing tax holidays to help sectors to rebuild and get back on their feet, and to drive investment in capital, skills and business practices. But in return, businesses would agree to binding commitments on delivering fair work and a just transition to net zero over time. Renewal deals would be negotiated with social partners (including trade unions and business representatives) with the ability to access funds conditional on implementing key reforms, including agreements on sector-wide minimum wages, minimum hour contracts, and carbon reduction.



## **2. Stronger fair work conditionality across public spending**

In addition to new renewal deals, the next Scottish government should consider how it can markedly strengthen fair work conditionality across government spending. This would build on the last Scottish government's commitment to a fair-work-first approach, meaning access to broader business support, investment, and ability to bid on public sector contracts, together with access to the skills system, was conditional on binding plans to deliver fair work and just transition. We must seek to rebuild an economy hard-wired for justice, learning the lessons of the crisis in the recovery.

## **3. Building fair work into the (devolved) tax system**

Under existing powers, the Scottish parliament has the ability to reform local taxes. One of the clear areas where reform could help to drive a fair work recovery is through the business rates system, and more broadly local taxes on businesses. Business rates have been hugely important in getting grants and financial support to employers through the pandemic, with almost £1 billion of support in Scotland delivered through the system in the form of grants and tax holidays. As we hope to enter recovery, the local tax system could be important in creating new incentives and disincentives to encourage the behaviour change we need to see from employers on fair work. As an example, a 'fair work bonus' offering a discount on business rates bills to employers who meet clear fair work criteria, could reward businesses that do the right thing when it comes to pay, hours and investment for their employees. Combined with a fair work supplement, an additional charge paid by employers who do not meet fair work criteria, this could create desirable incentives and disincentives when it comes to fair work.

Equally, we must look to reform existing tax breaks within the business rates system. These amounted to just under £750m per year in 2019, before the pandemic hit, including just over £250m per year for the small business bonus, paid to businesses with small properties (Scottish Government 2019). Applying fair work conditionality to these tax breaks is incredibly important and should be a key first step in turning high-level ambitions into action.

If further devolution is delivered through the forthcoming fiscal framework negotiations between the UK and Scottish governments, then further opportunities to drive progress may be created, most notably including in relation to national insurance system for employers.

## **4. Wellbeing Economy Act**

The aim of a fair work recovery is to deliver a fundamentally different economic model in Scotland, one built on the foundations of social, economic and climate justice. As the economy rebuilds following the huge damage inflicted by Covid-

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19, there are possibilities for reshaping the economy that would otherwise not be there. To do so we must create new economic institutions in Scotland, to help to drive a focus on long-term aims and an investment-led economy.

A Wellbeing Economy Act could help to create new legal duties to focus policy and spending decisions on the long-term and to focus on fair work and just transition. It could also create new social partnership institutions, with formal power within the economy, to help deliver these changes, allowing government, business and workers to work in partnership to develop fair work and just transition plans, new minimum standards and targets for progress, and to shape the investment and action required to meet them. Overall, this could help to focus Scotland's economic model on the long-term not the short-term, and on delivering against some of the crucial aims around fair work, wellbeing and just transition.

## CONCLUSION

To build a Scotland better than before, we must learn the lessons from the crisis in the recovery, delivering an economy built on the foundations of social, economic and climate justice. To do this, high-level ambitions alone will not be enough. Whoever forms the next Scottish government, the next five years must be about delivery, matching ambitions with action, and warm words with the hard choices needed to deliver the change we need to see.

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