

Response to the UK Parliament's 'Post- pandemic economic growth: UK labour markets' inquiry



Summary

The Royal Society of Edinburgh (RSE), Scotland's National Academy, in conjunction with the Young Academy of Scotland (YAS), welcomes the opportunity to respond to the UK Government's Business, Energy and Industrial Strategy Committee's Inquiry. We are well placed to offer supporting evidence to this consultation drawing on our varied expertise in economic and legal matters. Our working group formed to contribute to this inquiry included experts in public and labour market policy, the Scottish and UK economies and employment law. The comments from the working group have informed the response below.

The Covid-19 pandemic and Brexit have contributed to Scotland's labour and skills shortage. However, some of the skill shortages in Scotland existed before the pandemic and Brexit, with these factors further exacerbating the issue.

There is no simple explanation for labour and skills shortages with the different sectors facing their own unique challenges alongside the impact of the Covid-19 pandemic and Brexit. Factors such as geographical location, graduates lacking in technical skills, and poor working conditions have been cited as barriers to recruitment across certain sectors.

AI has the potential to help alleviate workforce shortages, particularly in low-paid roles. However, this should be done in a way that creates new high-skilled, higher-paid employment for people. This should not be done in a way that replaces people, opportunities for people to re-skill or up-skill. Obtaining meaningful work should be at the heart of this process.

In Scotland, there are two critical issues with employment rights. One: workers' rights are weaker compared to the majority of other developed countries. Two: there are issues related to compliance and enforcement of workers' rights, as evidenced by a recent high-profile case with P&O ferries.

The RSE notes that the Taylor Review represented progress in workers' rights with several of its recommendations. However, the RSE suggests that the Taylor Review is not without flaws, mainly due to its failure to draw fully on the wealth of existing research and analysis. In response, we recommend the high-quality analysis and proposals set out by the Institute for Employment Rights in their 2016 Manifesto for Labour Law as a resource which should be drawn from, in addition to the recommendations of the Taylor Review.

Summary (continued)

Similarly, RSE calls for more information on what has been done to implement the recommendations of the Taylor Review whilst suggesting that the report exhibits a lack of economic costing throughout. In response, the Review requires revision to account for the post-pandemic labour market, including the costs associated with an ageing population and the cost-effectiveness of any policy recommendations.

RSE notes regional disparities in the ageing population through differences in median age between remote, rural, and urban areas across Scotland. The divergence in demographic trends is likely caused by spatial location choices at the point of retirement but also by the challenges of maintaining adequate levels of service provision (in, for example, the social care system) in rural regions, which has a negative impact on economic and social resilience in local communities.

Introduction

1. The Royal Society of Edinburgh (RSE), Scotland's National Academy, in conjunction with the Young Academy of Scotland (YAS), welcomes the opportunity to respond to the UK Government's Business, Energy and Industrial Strategy Committee's Inquiry. We are well placed to offer supporting evidence to this consultation drawing on our varied expertise in economic and legal matters. Our working group formed to contribute to this inquiry included experts in public and labour market policy, the Scottish and UK economies and employment law. The comments from the working group have informed the response below.

2. Our evidence is largely focused on the Scottish labour market. Scotland faces its own unique challenges. Whilst we note that there are challenges that apply to the whole of the UK, the RSE is better placed to answer and provide evidence on the challenges that face Scotland. However, there are reserved areas of law that have an impact on Scotland as well as the rest of the UK, such as employment law. Therefore, our answers to those sections referring to the law apply to the UK as a whole.

The state of play in the UK labour market post-Brexit and the impact of the Covid-19 pandemic on recruitment, skills shortages and the growth of the labour market

- *Do we have enough workers with the right skills in the right places?*
- *What impact has the UK's departure from the EU had on the flow of workers into and out of the UK? Are there particular sectors or skill sets that are most impacted?*
- *Which sectors are experiencing the most acute shortages of workers since the pandemic? Have there been structural changes in the labour market post-Covid?*

3. There have been reports that suggest that the pandemic and Brexit have contributed to a labour and skills shortage across Scotland. Indeed, two-fifths of Scottish employers have reported having 'hard-to-fill' vacancies, with small businesses reporting heightened vulnerability to skill shortages, and larger companies facing labour shortages.¹ Some of the skill shortages (particularly technical skills) in Scotland existed before the pandemic and Brexit, albeit these factors appear to have exacerbated the situation in some industries.

The impact on sectors and reasons for shortage according to industry.

4. The shortage of labour has been felt in many sectors, with particular concerns about its impact on agriculture, and the health and social care, leisure, and hospitality sectors. Some of these concerns predate the pandemic, with post Brexit labour shortages resulting in detriment to these industries. However, there is a complex picture across these various industries in regard to the reasons for labour shortages:

- **Agriculture:** as reported by Scotland Food and Drink, 15% of the food and drink production industry workforce in Scotland are EU nationals. Regional variations exist whereby some local seafood industries have as much as 58% reliance on migrant workers. Tougher immigration policy and uncertainty following Brexit have been cited as key drivers of labour shortages in this sector.² These shortages are compounded by concerns about the weakening of sterling negatively impacting seasonal workers 'take-home' or 'send-home' wages, which must be acting as a disincentive to those in eastern Europe and elsewhere considering travelling to the UK for work.³ Furthermore, the Covid-19 pandemic has resulted in a significant drop in migration from Romania and Bulgaria (where the majority of seasonal agricultural workers are usually recruited), with a large fall in seasonal pay-rolled employment from these nations by 2021.⁴

¹ CIPD (2022) *Gaps and opportunities: Employer views on skills policy in Scotland* [online] Available at: https://www.cipd.co.uk/Images/gaps-and-opportunities-employer-views-on-skills-policy-in-scotland-1_tcm18-109265.pdf.

² Scotland Food and Drink (No date) *Submission to the Environment, Food and Rural Affairs Committee: Labour shortages in the food and farming sector* [online] Available at: <https://committees.parliament.uk/writtenevidence/39973/html/>.

³ Scottish Government (2018) *Farm workers in Scottish agriculture: case studies* [online] Available at: <https://www.gov.scot/publications/farm-workers-scottish-agriculture-case-studies-international-seasonal-migrant-labour/pages/2/>.

⁴ Office for National Statistics (2022) *Changes in pay rolled employments held by non-UK nationals during the coronavirus (Covid-19) pandemic and EU Exit periods* [online] Available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/internationalmigration/articles/changesinpayrolledemploymentsheldbynonuknationalsduringthecoronaviruscovid19pandemicandeuexitperiods/2022-03-01#agriculture-forestry-and-fishing>.

- **Social care:** long-term workforce shortages, coupled with poor conditions, low pay, anti-social working hours and increasing pressure of workloads are cited as reasons that vacancies in this sector are perceived as less easy to fill. The Covid-19 pandemic has exacerbated these issues, with 88% of social care providers expressing difficulty in recruitment and retention of staff.⁵
 - **Hospitality:** acute labour shortages have been cited in hospitality, with many businesses having difficulty recruiting appropriate candidates. The Covid-19 pandemic, along with limited migrant labour, have been cited as the main reason for this shortage.⁶ In addition, pressure from shortages of labour across the food and drink production industry is also having a negative impact on this sector.⁷
6. Consideration also needs to be given to the implications of remote working on talent acquisition. With more professionals working from home, more global opportunities for higher level jobs may present themselves. People with the right skills may be recruited from abroad, albeit still working largely at home, effectively leaving the UK talent pool and increasing the pressure on domestic employers to remain competitive.
7. In emerging areas of skills gaps, such as the transition to low carbon and in the digital economy (particularly data), the RSE contends that more needs to be done to develop new skills or re-skill those working in industries where practices are becoming outdated.⁹

Regional variations

Skills shortage

5. The shortage of skills has been predominantly felt by employers who recruit at a graduate level, with 55% per cent of employers surveyed reporting issues finding people with the right skills to fill vacancies in Scotland. There has been a persistent shortage in 'technical' skills. The skills shortages have been attributed more to the need to 'rebalance' the education system, than to the impact of Covid -19.⁸

8. The RSE also notes some complex regional and sectoral specific factors at work. In Chapter 3 of its May 2022 Scottish Economic and Fiscal Forecasts, the Scottish Fiscal Commission noted that employment and earnings in the north-east of Scotland related to North Sea oil and gas extraction have been in long-term decline since 2013 and a source of drag on the Scottish economy.¹⁰ However, the disruption in supplies following the invasion of Ukraine and the higher priority given to energy security could lead to a temporary pick up in activity and the demand for labour with consequent implications for earnings in this sector and region. Indeed, the South of Scotland and the Highlands and Islands are more dependent than other regions on agriculture, tourism and hospitality; and hence appear more likely to feel adverse effects across their economies from skill/labour shortages.

⁵ Audit Scotland (2022) *Social care briefing* [online]

Available at: https://www.audit-scotland.gov.uk/uploads/docs/report/2022/briefing_220127_social_care.pdf.

⁶ For more information on shortages with migrant labour, see: Houston, D. and Sissons, P. (2022) Shortage of workers threatens UK recovery – here's why and what to do about it. [online] Available at: <https://theconversation.com/shortage-of-workers-threatens-uk-recovery-heres-why-and-what-to-do-about-it-183260>.

⁷ UK Hospitality (2021) *Scottish Affairs Committee evidence session on labour shortages* [online]

Available at: <https://committees.parliament.uk/writtenevidence/40896/pdf/>.

⁸ CIPD (2022) *Gaps and opportunities: Employer views on skills policy in Scotland* [online]

Available at: https://www.cipd.co.uk/Images/gaps-and-opportunities-employer-views-on-skills-policy-in-scotland-1_tcm18-109265.pdf.

⁹ Indeed, the planned re-skilling of staff at the (now closed) Michelin factory in Dundee by the Michelin Action Group provides a model for a re-skilling programme, as highlighted by the Michelin Scotland Innovation Parc Skills Academy. For more information on the academy, see here: <https://www.msipdundee.com/our-parcs/msip-skills-academy/>; Similarly, Skills Development Scotland and the Scottish Government's Climate Emergency Skills Action Plan 2020-2025 represents a positive step towards supporting the transition to net zero, but more should be done to ensure substantive funding is made available to ensure any recommendations can be successfully implemented. To access the Action Plan, see: Skills Development Scotland (2022) *Climate Emergency Skills Action Plan Implementation Plan*. [online] Available at: <https://www.skillsdevelopmentscotland.co.uk/what-we-do/skills-planning/climate-emergency-skills-action-plan-implementation-plan/#:~:text=Published%20in%20December%202020%2C%20the,fair%20and%20inclusive%20to%20all>.

¹⁰ Scottish Fiscal Commission (2022) *Scotland's Economic and Fiscal Forecasts – May 2022* [online]

Available at: <https://www.fiscalcommission.scot/publications/scotlands-economic-and-fiscal-forecasts-may-2022/>.

9. It should also be noted that another key factor in regional variations is often housing shortages. As such, housing policy needs to be aligned to support the local labour markets.

Artificial Intelligence (AI) and technology in the workplace

Is AI improving productivity in the workplace?

10. RSE contends that more data is required to understand whether AI improves productivity. In order to evaluate this, performance would need to be carefully but rigorously monitored. However, there is some controversy around how companies conduct their monitoring of employees' performance. Indeed, concerns have been raised about a decrease in trust between employees and employers.¹¹ As such, it is important to consider ways to collect data that are ethical and transparent, to avoid negative workplace cultures.

11. More broadly, automation could be explored to help to resolve some of the issues that the labour market currently faces. As evidenced in the previous section, there are already labour shortages in sectors such as agriculture, and in the future, this trend is likely to become more pronounced. Consideration should be given as to how AI can alleviate these pressures and replace low-paid, low-skilled jobs via automation, thereby opening up the opportunity for employees (given the required training) to gain higher-skilled, more secure and better paid jobs, resulting from AI at the low skilled level.¹²

How should the Government protect workers and prepare them for this new future?

12. As previously noted, it is important that with any introduction of automated labour the government invests in education and workplace training to ensure that people across the present and prospective labour force have the required skills to move into high-skilled jobs. Any transition from human labour to AI must not be seen as a way of simply replacing workers, but rather a process of restructuring industries and moving more people into more skilled, more secure, and better paid employment. Indeed, with the introduction of AI into low-skilled occupations, there will be less demand for these jobs and a higher demand for skilled jobs. This has the potential to deepen inequality unless more and more people are 'up-skilled' and thereby have the opportunity to develop the skills needed for a future economy.¹³ Clearly preparing the UK workforce for these changes will be of critical importance. To this end, RSE note the 'hollowing out' phenomenon, whereby automation tends to eliminate middle order jobs, forcing workers into either skilled or unskilled work. This in part may explain the occurrence of job mismatch, whereby some workers are over- or under-skilled or over- or under- educated in their current jobs. Automation may not exacerbate unemployment in the long run, but is likely to raise the need for retraining.¹⁴

Further comments

13. The RSE believes that Scotland has the potential to be a centre of technology. Indeed, RSE has been active in the field of enterprise development, through its very successful Enterprise Fellowship scheme; and is actively considering ways that the unique attribute of access to Fellows, members of the Young Academy and Enterprise Fellowship graduates can be used, in partnership with other key players, to further promote more technology-based businesses being created and then expanding in Scotland. But this topic can best be expanded upon in other contexts. RSE calls for clarity on the extent to which recommendations outlined in the UK Innovation Strategy on how to increase the pool of venture capital investment in the UK, particularly from pension funds and the investment industry, have been implemented.

¹¹ Christian, A. (June 2022) *Workforce monitoring continues to increase amid remote work, with no signs of slowing. Is surveillance the new norm?* [online] Available at: <https://www.bbc.com/worklife/article/20220621-the-employee-surveillance-that-fuels-worker-distrust>.

¹² Bakhshi, H. and Schneider, P. (2017) *The Future of Skills: Employment in 2030* [online] Available at: <https://www.nesta.org.uk/report/the-future-of-skills-employment-in-2030/>

¹³ Furman, J. and Seamans, R. (2019) *AI and the Economy* [online] Available at: <https://www.journals.uchicago.edu/doi/full/10.1086/699936>.

¹⁴ See for example, Mavromaras, K. and Sloane, P. J. (2015) Mismatch in the Labour Market, *International Encyclopaedia of the Social and Behavioural Sciences*. 3rd Ed, Vol. 15.

Workers' rights and protections

- *How can the Government improve employment rights following Brexit and the Covid-19 pandemic?*
- *How can the right balance be struck between the flexibility the UK economy needs and protections for workers?*

14. RSE notes two key issues in relation to employment status and modern working practices in Scotland: (1) the rights workers have, which are, comparatively, weaker than in the majority of developed countries (2) issues around compliance and enforcement, and the ability of workers to enforce their rights, as highlighted by the employment laws issues arising from the recent decision by P&O Ferries to make ~800 seafarers redundant.¹⁵

15. On worker rights in Scotland, RSE notes the numerous recent consultations on similar issues related to employment status, modern working practices, and employment rights in the United Kingdom, and calls for clarity on what has been done to implement the recommendations from these consultations, and indeed the recommendations of the Taylor Review as a landmark report.¹⁶ A clear statement of the way forward would be of great value in Scotland, as in the rest of the UK.

16. On the enforcement of employment rights, RSE notes that employees have limited access to affordable advice unless they belong to a Union. To this end, a review of funding to improve access to affordable sources of advice, from organisations like the Citizens Advice Bureau, could result in more opportunities for employees to access the support required to enforce their rights.

Employment status and modern working practices five years on from the Taylor Review

- *How are working patterns changing in the UK? To what extent is the gig economy growing and permanent full-time employment contracts in decline?*
- *What should the Government be doing five years on from the Taylor review of modern working practices to address the issues raised in that report?*
- *Are current legal definitions of employment status, in light of recent judicial rulings, still fit for purpose?*
- *The impact of an ageing population on the labour market*

17. RSE notes the important progress that the Taylor Review represented, through for example, its utility in highlighting several practicable proposals, including the introduction of a legal presumption that a worker is a so-called 'limb (b) worker' (workers who generally have a more casual employment relationship and work under a contract for service) with entitlement to some employment rights.¹⁷ However, RSE calls for further information on what has been done to implement these recommendations.

18. RSE accepts that the Taylor Review is not without flaws, largely due to its failure to draw fully on the wealth of existing research and analysis, and to provide concrete proposals regarding worker rights in the UK and how to improve them.¹⁸ To this end, RSE commends the high-quality analysis and proposals set out by the Institute for Employment Rights in their 2016 Manifesto for Labour Law as a resource which should be drawn from, in addition to the recommendations of the Taylor Review.¹⁹

¹⁵ See, for example, Hughes, E. S. (2022) *P&O Ferries: how some companies can afford to break the law*. [online] Available at: <https://theconversation.com/pando-ferries-how-some-companies-can-afford-to-break-the-law-180054>.

¹⁶ UK Government (2017) *Good work: the Taylor review of modern working practices*. [online] Available at: <https://www.gov.uk/government/publications/good-work-the-taylor-review-of-modern-working-practices>.

¹⁷ For more information on this see: Taylor, M., Marsh, G., Nicol, D. and Broadbent, P. (2017) *Good work: The Taylor review of modern working practices*, London: Department for Business, Energy & Industrial Strategy, pp. 1-116.

¹⁸ For a constructive critique of the Taylor Review see: Bales, K., Bogg, A. and Novitz, T. (2018) 'Voice' and 'Choice' in Modern Working Practices: Problems with the Taylor Review, *Industrial Law Journal*, 47(1): 46-75. Available online at: <https://academic.oup.com/ilj/article-abstract/47/1/46/4829347?redirectedFrom=fulltext>.

19. Similarly, RSE notes that employment law is a reserved matter, and consequently most of this work is directed at the UK Parliament and UK law reform. Some bodies, including the Fair Work Convention, have considered how worker rights could be improved within Scotland, either through national or local initiatives.²⁰ The recommendations of such reports should be considered by both the UK and Scottish Governments.

20. RSE notes concerns around the possibility of the increased casualisation of work and concomitant gradual reduction in the enforceability of workers' rights through a process of 'deregulation by stealth'. This might lead to rights being left in the statute book, but with the understanding that the majority of workers can't enforce them due to the prominence of low-paid precarious contracts of employment, and their limited ability to take a case to tribunal.

21. RSE notes the regrettable casualisation of work in the health and social care and third sectors, where many organisations rely on zero hours contracts. As a consequence of this reliance, RSE notes the dangers associated with the immediate phasing out of both full time and casualised work, due to a lack of fiscal support from local authorities to compensate against any losses incurred. In response, and noting the likely costs involved, RSE suggests that the implementation of a 'Transition Fund' for Local Authorities across the UK would enable people to move away from chronic reliance on precarious contracts through more substantive fiscal support. Whilst this may be a high-cost option, it would merit assessment against the counterfactual of the cost of bed blocking in the NHS and under supply of suitable care at home.

The impact of an ageing population on the labour market

- *What impact is the ageing population already having on employment rates and labour productivity?*
- *How is the UK's ageing population exacerbating the labour shortage that can already be felt in some sectors, e.g., hospitality, hair and beauty, social care?*
- *How can the Government help maintain the employability of older workers who wish to remain in work? What are the barriers facing older people in the workplace, including pension aged workers, and how should these be addressed?*

22. RSE notes regional disparities in the ageing population through differences in the median age between remote, rural regions and urban areas across Scotland. For example, between 1998 and 2020, in the Argyll and Bute Council Area, the 65-74 age group saw the largest percentage increase (+38.9%), whereas the 25-44 age group saw the largest percentage decrease (-34.0%).²¹ In contrast, in the Glasgow City Council Area the 65-74 age group saw a percentage decrease of -9.0% between 1998 and 2020, while the 25-44 age group saw a percentage increase of +17.9%, and the 45-64 age group increased by +24.8%.²² This divergence in demographic trends is likely caused by spatial location choices at the point of retirement, but also by the challenges of maintaining adequate levels of service provision (in for example, the social care system) in rural regions, which has a negative impact on economic and social resilience in local communities.²³

¹⁹ More information on the IER's Manifesto for Labour Law is available online here: <https://www.ier.org.uk/manifesto/>.

²⁰ See for example: Fair Work Convention (2020) *Fair Work in Scotland Report*. [online] Available at: <https://www.fairworkconvention.scot/fair-work-in-scotland-report/>.

²¹ See National Records of Scotland (2021) *Argyll and Bute Council Area Profile*. [online] Available at: <https://www.nrscotland.gov.uk/files/statistics/council-area-data-sheets/argyll-and-bute-council-profile.html>.

²² See National Records of Scotland (2021) *Glasgow City Council Area Profile*. [online] Available at: <https://www.nrscotland.gov.uk/files/statistics/council-area-data-sheets/glasgow-city-council-profile.html>.

²³ For further information on the policy implications of Scotland's demographic transition see: Fraser of Allander Institute (2019) *Scotland's population transition: its implications for the Scottish economy, Scottish Budget and policy*. [online] Available at: https://strathprints.strath.ac.uk/70918/1/FEC_43_4_2019_RoyG_Scotlands_population.pdf.

23. In response, to more effectively address regional inequalities, RSE contends that there is a need to move beyond a reliance on measures of economic activity in aggregate in favour of policy measures tailored to regional demographics and local economic geographies.

24. RSE notes the impact of ‘pay backloading’, whereby companies pay workers more as they get older relative to their productivity in order to encourage a lifetime attachment. However, in periods of retrenchment there is an incentive to remove older workers due to their relatively costly nature, which in part may reflect a relatively high degree of absenteeism.²⁴

25. RSE notes a lack of economic costing throughout the Taylor Report and call for its revision to account for the post-pandemic labour market, including the costs associated with an ageing population and the cost-effectiveness of any policy recommendations. Indeed, a full update of this report may now be required given how much has changed since it was published.

Additional information

26. Any enquiries about this advice paper should be addressed to Stephanie Webb, Policy Advice Officer, at swebb@theRSE.org.uk and Alfie Gaffney, Policy Advice Officer, at agaffney@theRSE.org.uk.

²⁴Kidd, M. F., Metcalfe, R., and Sloane, P. J. (2011) The Determinants of Hiring Older Workers in Britain Revisited; An Analysis using WERS 2004, *Applied Economics*, 44(4): 527-536.



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