Economy, Energy and Tourism Committee

6th Report, 2013 (Session 4)

Underemployment in Scotland

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Economy, Energy and Tourism Committee
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Economy, Energy and Tourism Committee

Remit and membership

Remit:

The remit of the Committee is to consider and report on the Scottish economy, enterprise, energy, tourism and renewables and all other matters within the responsibility of the Cabinet Secretary for Finance, Employment and Sustainable Growth apart from those covered by the remit of the Local Government and Regeneration Committee and matters relating to the Cities Strategy falling within the responsibility of the Cabinet Secretary for Health, Wellbeing and Cities Strategy.

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Economy, Energy and Tourism Committee

6th Report, 2013 (Session 4)

Underemployment in Scotland

The Committee reports to the Parliament as follows—

SUMMARY REPORT

UNDEREMPLOYMENT IN SCOTLAND: COMMITTEE CONCLUSIONS

This is a summary of the Committee’s conclusions and recommendations. The text of the full report follows on page 7.

Why has underemployment in Scotland increased?

The impact of the economic downturn
The Committee recognises that the economic downturn and the consequent decline in output has resulted in a reduction in the demand for labour. The Committee concurs that this recession has been different from previous recessions in terms of the lower levels of unemployment experienced. The Committee is of the opinion that underemployment is likely to decline as demand for labour increases within Scotland’s economy, although it cannot predict whether there will be a return to pre-2008 levels. Nevertheless, even at pre-2008 levels, underemployment is a trend that should be monitored and taken into account in the development of employment policies whilst accepting that employment law is not within the control of the Scottish Government.

Recent improvements in economic performance
While the Committee notes the data showing recent improvements in Gross Value Added (GVA) output and headline employment rates, it nevertheless believes that the economic situation still provides a strong reason for monitoring labour market trends, particularly those related to underemployment.

Employment legacy of the economic downturn
The Committee is concerned that there is a risk that some of the trends that have emerged during the economic downturn – such as involuntary part-time work, self-employment where it is a replacement for employment, zero-hours contracts and temporary contracts with recruitment agencies – may become embedded in a way that makes work significantly more insecure, particularly for the young and unskilled.
Unemployment and underemployment
The Committee believes that a discussion of the relative advantages of underemployment in comparison to unemployment falsely polarises the debate. The Committee considers that it is more useful to think of both unemployment and underemployment as being on a continuum defined by a lack of hours spent in work and lost opportunities to maintain or develop skills.

Other labour market trends linked to underemployment
The impact of the lack of demand in the labour market has been manifested in a number of trends. The increases in unemployment and underemployment are clearly central to this but the Committee has become aware of other – related – labour market trends, notably labour hoarding, displacement, an increase in self-employment (particularly part-time self-employment) and an increase in the number of zero-hour contracts. While the evidence for these trends is not robust, it nevertheless suggests that the Scottish labour market is becoming increasingly insecure.

Labour hoarding
The Committee believes that labour hoarding - when employers seek to retain workers despite a downturn in demand in order that they do not have difficulty in finding workers with the same skills when there is eventually a recovery - has served the dual purpose of restricting redundancies and retaining skilled staff. It recognises that this has helped businesses remain sustainable and reduced the number of people made redundant during the economic downturn, although there has been a high personal cost for many of those who have experienced underemployment.

Displacement
The Committee believes that underemployment and unemployment have resulted in a displacement effect that is harmful to all those who are unable to work at a level in keeping with their skills, and ultimately it is the least skilled and the young who are most likely to experience barriers in gaining access to the labour market.

Increase in self-employment
The Committee believes that the data showing an increase in the number of self-employed part-time jobs represents a significant new trend in the labour market. However, there is no concrete evidence to explain the reasons for the increase in Scotland, nor information on the sectors in which the increase is most evident. The Committee believes that there needs to be further analysis by the Scottish Government of the increase in self-employment to help understand whether this is as a result of growing entrepreneurship or other factors.

Use of zero-hours contracts
The Committee is concerned by the reported rise in the use of zero-hours contracts in Scotland and the evidence suggesting their use by public sector contractors. It calls on the Scottish Government to ascertain the degree to which zero-hours contracts are used by the public sector and their contractors and to report back to the Committee. We believe that the public sector and its contractors should not misuse zero hour contracts, and we ask the Scottish Government to confirm how the forthcoming procurement bill will address this.
Who are the underemployed?

The gender dimension of underemployment
22.6 per cent of part-time workers (154,800) are underemployed and 5 per cent of full-time workers (89,600) are underemployed. Underemployment levels are higher in the private sector than the public sector. The overall underemployment rate was 8.7 per cent for male workers (111,900) and 11.3 per cent for female workers (133,000). It is clear to the Committee that there is a distinct gender profile to underemployment. This is related to a number of factors, including the prevalence of female employees in sectors where there are high levels of underemployment and part-time work, the caring responsibilities that women take on, particularly in relation to children, and gender stereotyping, as evidenced by occupational segregation.

Young people and underemployment
Young people are also experiencing particularly high rates of underemployment. In percentage terms, young men aged 16-24 constitute 32 per cent of the total number of male underemployed workers and young women aged 16-24 constitute 25.6 per cent of the total number of female underemployed workers. The Committee is particularly concerned by the higher levels of underemployment experienced by young people. Not only does underemployment inhibit young people’s capacity to be independent, but it has a long-term effect on employment prospects. The underemployment situation has a particular impact on the least-skilled as it becomes harder for them to secure employment of any kind.

Older workers and underemployment
The Committee is of the view that it may be of value for the Scottish Government to present data on employment trends – including underemployment rates – among older workers as data is very limited for this group and there is evidence of changes in employment patterns among this group due to financial pressures and the abolition of the default retirement age.

We would ask that the Scottish Government examines how young people are matched with older workers to enable a better transfer of skills and knowledge.

Protected characteristics and underemployment
The Committee notes the concerns voiced by disability groups and the EHRC. The evidence it received from these groups suggested that those with protected characteristics experienced higher levels of hours-constrained underemployment than the workforce as a whole. It therefore calls on the Scottish Government to use the Annual Population Survey data to ascertain the degree to which this is the case in relation to protected characteristics.

Regional variations in underemployment
The breakdown of underemployment rates shows a significant variation in underemployment rates across Scotland, ranging from 13.6% in Dundee City to 5.1% in Aberdeen City. In general, the levels of underemployment correlate with unemployment levels, reflecting the lack of demand in the labour market. However, the Committee received evidence from Highlands and Islands Enterprise (HIE) suggesting that underemployment levels in the region were higher than the statistics indicate. The Committee notes that, on the basis of the evidence
submitted by HIE, there may be a need to further investigate underemployment at the local authority level. It calls on local authorities to consider carrying out local research into underemployment as part of their employability strategies in order that employability measures can be adapted to respond to the local situation.

**The incidence of underemployment according to sector**
The Committee concludes that there is evidence to suggest that underemployment is more prevalent in certain sectors such as retail and social care, as well as in the tourism industry. These sectors have a higher proportion of low skilled or unskilled jobs as well as greater degrees of flexibility in terms of employment patterns.

**Data and research on underemployment**

**Scottish Government data**
The Committee is of the view that the annual boost to the Labour Force Survey, funded by the Scottish Government, has provided reliable trend data on hours-constrained underemployment. Given the variations in Scotland’s geography and industrial profile, it has also provided valuable data on local labour markets, including the levels of underemployment in Scotland’s 32 local authorities.

**Skills underutilisation trend data**
The Committee believes that its inquiry has highlighted the paucity of data and research on skills underutilisation in Scotland. It believes that aligning skills and qualifications with employment opportunities is a key issue for the future of Scotland’s economy and that it is therefore important to understand the problem of skills underutilisation better. The Committee calls on the Scottish Government to collect trend data on skills utilisation in Scotland.

**Skills underutilisation trend data and protected characteristics**
This trend data should take into account the protected characteristics and caring responsibilities of those that are underemployed. The Committee received evidence from disability and carers organisations suggesting that these groups were more likely to be in employment which underutilised their skills and there is also evidence to suggest that women are more likely to be affected by skills underutilisation than men.

**Skills underutilisation and Scottish participation in OECD programme**
The Committee calls on the Scottish Government to clarify whether it will participate in the Programme for the International Assessment of Adult Competencies launched recently by the OECD. If Scotland is not participating, the Committee requests that the Scottish Government provides the Committee with the reasons behind its decision not to participate.

**The costs of underemployment**

**Productivity**
The Committee believes that a fuller assessment of the impact of underemployment on productivity might help to inform the discussion on productivity levels more generally. The Committee heard and received some evidence on productivity in the context of this inquiry, but believes that it is an area which would benefit from more research.
The personal impact of underemployment
The Committee believes that the case studies it received on the personal impact of underemployment provide stark evidence of the effect that it is having on people’s lives and that these effects are similar to those caused by unemployment. It recognises that individuals have faced a reduction in their incomes as a result of underemployment which has placed them in sometimes untenable financial positions. This evidence demonstrates a strong link between underemployment and poverty.

WHAT CAN BE DONE ABOUT UNDEREMPLOYMENT IN SCOTLAND?: COMMITTEE RECOMMENDATIONS

Scottish Government's economic stimulus measures
The Committee acknowledges the financial commitments made by the Scottish Government in an effort to promote economic stimulus and thereby support demand for labour.

Adaptation of labour market targets
The Committee is of the view that since the point in time when the Scottish Government identified participation rates as key labour market targets, the economic downturn has resulted in number of changes to the labour market, which are documented in this report. These changes have meant that headline participation rates are less useful for measuring the health of the labour market. The Committee therefore calls on the Scottish Government to consider how its labour market targets can be adapted to reflect an ambition to grow the number of hours people are in work, improve the quality of jobs in Scotland and the types of contracts used.

Learning, skills and well-being

Skills alignment
The Committee concurs with the view that improvements in alignment of skills with employment opportunities are vital and that higher education institutions and students should be encouraged to give greater consideration to the future labour market.

Access to education, training and work experience for the underemployed
The Committee calls on the Scottish Government, Skills Development Scotland and the Scottish Funding Council to consider whether opportunities to access education, training and work experience can be improved for those who are underemployed, including those who are graduates. The Committee believes that people who are underemployed are at risk of losing their skills or of not having the opportunity to further develop their skills. This has the potential to have a detrimental impact upon productivity as well as the labour market progression of those concerned.

Employers’ responsibility for training
The Committee agrees with the Cabinet Secretary for Finance, Employment and Sustainable Growth that employers must take increased responsibility for training their employees whilst recognising the financial constraints that employers are under. The Committee is particularly concerned by the recent reduction in staff
training as it may have a medium to long-term impact on workforce skills and productivity. The Committee calls on the Scottish Government to consider how it can work with partners to promote greater employer engagement on training.

**Access of the least-skilled to training**
The Committee recognises the particular problems faced by the least skilled in accessing training and calls on the Scottish Government to ensure that this group is not disproportionately disadvantaged in terms of access to training.

**Childcare provision**
The Committee considers that the Scottish Government’s commitment to increase the legislative provision of childcare will help to promote labour market participation among women, but calls for more research into why child care costs are so high. The Committee recognises that the high costs of childcare in Scotland have an impact on women’s abilities to work either the number of hours that they would like to or at an appropriate skills level due to the lower-skilled character of part-time employment.

**Supportive business environment**

**Promoting the growth of high-value enterprise**
The Committee believes that the inquiry evidence reinforces the importance of focusing on encouraging the growth of high value enterprise which can provide quality employment opportunities. To achieve this it is vital that the Scottish Government and the enterprise agencies maximise the outcomes from their investments and consider whether more can be done to link the provision of investment to the creation of secure and high quality jobs.

**Zero-hours contracts**
The Committee calls on the Scottish Government to consider what scope there is to preclude the misuse of zero-hour contracts by attaching conditions in the procurement process for contracts awarded by public bodies and to confirm how the forthcoming procurement bill can address this.

**Effective government**

**The Scottish Employability Forum**
The Committee calls on the Scottish Employability Forum to consider underemployment in Scotland as part of its work.

**Jobcentre Plus**
The Committee notes that Jobcentre Plus will start to work with those that are in employment but in receipt of Universal Credit to support them in increasing the number of hours worked. Members are concerned about the high degree of uncertainty surrounding how Universal Credit will work in practice. The Committee therefore considers that evaluation and close scrutiny of the number of people supported by Jobcentre Plus into increased hours of work will be necessary.¹

¹ Murdo Fraser dissented from this paragraph.
DEFINING UNDEREMPLOYMENT

1. When it launched this inquiry, the Committee set out to explore both “visible” and “invisible” underemployment; terms that derived from the International Labour Organization definition of underemployment. Over the course of this inquiry, the Committee has come to recognise the complexity of underemployment and the challenges in developing measures to gather data on a phenomenon which incorporates a multiplicity of experience, particularly in as far as it relates to skills underutilisation.

2. There are a number of definitions of underemployment and consequently a number of different measures for gathering evidence on underemployment. For the purposes of this report, the Committee is working on the premise that the concept includes two key characteristics: that of insufficient hours in employment and that of the underutilisation of skills. Some people may wish to work for more hours, others feel that their skills are not fully used in their post and some may wish to work for more hours in a more highly skilled job.

3. The term “underemployment” is used in this report generically to encompass a wide variety of individual experiences on the spectrum between unemployment and full employment and on the spectrum between a deficit in the utilisation of skills and a maximisation in the use of skills. In this report, the term “hours-constrained underemployment” is used specifically to describe those people who would work for more hours if they could, and the term “skills underutilisation” is used to describe those people who would welcome the opportunity to work at a skills level which better matched their training, qualifications or experience.

4. In collecting data and evidence on underemployment, the Committee found that there was considerably more material available on hours-constrained underemployment. However, the varying definitions and measures used for hours-constrained underemployment mean that while there is comparable data for Scotland and the UK, the international data is weaker for the purposes of comparison. Furthermore, while there have been improvements in the quality and quantity of the data collected, particularly in the Scottish Government’s Annual Population Survey, it is still hard to assess the impact of hours-constrained underemployment on some groups within the population. In terms of skills underutilisation, it was clear to the Committee that many people are working below their skills level but accumulating information on this that goes beyond individual case studies or the anecdotal, and bringing it to light, remains a key challenge.

5. In the following section on underemployment in Scotland, this report brings together the data and evidence that the Committee has collected in relation to hours-constrained underemployment and skills underutilisation in Scotland.
UNDEREMPLOYMENT IN SCOTLAND

Hours-constrained underemployment

Data on hours-constrained underemployment

6. The key source of data on hours-constrained underemployment in the UK is the Labour Force Survey produced by the Office for National Statistics (ONS). The Labour Force Survey is a quarterly survey of approximately 42,000 private households in the UK and is intended to be representative of the whole population. For the purpose of the Labour Force Survey, underemployment is defined as—

“[T]hose people in employment who are willing to work more hours, either by working in an additional job, by working more hours in their current job, or by switching to a replacement job. They must also be available to start working longer hours within 2 weeks and their current weekly hours must be below 40 hours if they are between 16 and 18 and below 48 hours if they are over 18.”

7. The Scottish Government funds a yearly boost to the Labour Force Survey to take the sample size in Scotland from approximately 6,800 households to 21,500 households for the Annual Population Survey (APS). This data provides more robust local labour market information for all local authority areas in Scotland and is used for the Scottish Government’s annual local area labour markets statistics publications. In this survey, the following definition of underemployment is used—

“Underemployment includes all employed persons aged 16 and over who during the reference week were willing to work additional hours, meaning that they:

- Wanted another job in addition to their current job(s), or
- Wanted another job with more hours instead of their current job(s), or
- wanted to increase the total number of hours worked in their current job(s).”

8. In evidence to the Committee, the STUC commended the Scottish Government for publishing these statistics, which it considered to be “invaluable to our understanding of the Scottish labour market.” The STUC also identified the statistics as setting “Scotland apart from other parts of the UK where performance on this measure was not revealed” until the ONS published its report on Underemployed Workers in the UK in November 2012.

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4 STUC. Written submission.

5 STUC. Written submission.

9. The Committee is of the view that the annual boost to the Labour Force Survey, funded by the Scottish Government, has provided reliable trend data on hours-constrained underemployment. Given the variations in Scotland’s geography and industrial profile, it has also provided valuable data on local labour markets, including the levels of underemployment in Scotland’s 32 local authorities.

Underemployment levels in Scotland
10. The Scottish Government figures show that since the onset of the recession in 2008, the number of workers in Scotland who are in hours-constrained underemployed has risen by 76,000. The most recent statistics available indicate that 264,000 workers in Scotland were underemployed - representing 10.7% of the workforce - in the period from July to September 2012. Figure 1 below, provided by the Scottish Government, captures the changes in underemployment rates since 2000.

Figure 1 – Underemployment in Scotland 2000-2012

Regional variations in underemployment
11. A comparison of underemployment rates across the UK shows that levels in Scotland are just above the UK average. The bar chart in figure 2 below, provided by the Scottish Government, shows that the average UK underemployment rate between July-September 2005 and July-September 2008 was 7.1% and Scotland’s underemployment rate was 7.4% in Scotland. For the period between July-September 2009 to July-September 2012, the average UK rate was 10.2% and in Scotland it was 10.3%. Thus the Scottish rate has remained marginally higher than the average UK rate.
Regional variations in underemployment in Scotland

12. In terms of the incidence of underemployment across Scotland, the Scottish Government provided the Committee with a breakdown of underemployment rates (shown in figure 3) in local authority areas based on the APS for October 2011-2012. This shows a significant variation in underemployment rates across Scotland, ranging from 13.6% in Dundee City to 5.1% in Aberdeen City. In general, the levels of underemployment correlate with unemployment levels, reflecting the lack of demand in the labour market.
13. In relation to the rural geography of the Highlands and Islands, the Committee received evidence from Highlands and Islands Enterprise (HIE) suggesting that underemployment levels in the region were higher than the APS statistics indicate. HIE recognised that “little evidence exists to quantify the magnitude of underemployment”, but based its comments on “years of experience and a sound understanding of how the regional economy is structured and operates.” HIE stated that “underemployment in the Highlands and Islands is probably significantly more prevalent than the national statistics indicate, especially in fragile areas where much employment is very part-time or casual.”

14. HIE observed that underemployment was not a new phenomenon in the Highlands and Islands and that it had been a feature of the regional economy for many years. HIE explained that “families in many parts of the region have adopted a multi-occupational way of life, which enables the family unit to remain viable and sustains local services employing part-time, seasonal or casual staff who also have other jobs.”

15. The Committee notes that, on the basis of the evidence submitted by Highlands and Islands Enterprise, there may be a need to further investigate
underemployment at the local authority level. It calls on local authorities to consider carrying out local research into underemployment as part of their employability strategies in order that employability measures can be adapted to respond to the local situation.

Sector specificity of underemployment

16. The Committee also heard evidence suggesting that underemployment was sector-specific, with the retail, hospitality and the care sector exhibiting high levels of underemployment due to the fluctuation in demand for employees.

17. Professor David Bell provided the Committee with a graph showing underemployment rates by sector for Scotland and the UK for the period 2010-2012. The highest rates of underemployment are in distribution and the hospitality sector and “other services”.

Figure 4 – Underemployment Rates by Sector: Scotland and UK 2010-12

Source: Professor David Bell

18. Professor Bell suggested that the changes in the industrial profile of Scotland may have contributed to the increase in underemployment—

“Another aspect of the big change since the 1980s … is the shift out of manufacturing into services. Manufacturing tends to have more rigid working arrangements, simply because of the nature of production, but that is not so much the case for services. My feeling is that a lot of people may be involved
in areas such as personal services and retailing, where huge flexibility in working hours is now feasible, and may like to work longer hours.”

19. Community Enterprise in Scotland (CEIS) identified key sectors in which it had noted higher levels of underemployment and linked this to the increasing use of recruitment agencies by employers—

“Retail, healthcare and professional services are the main areas we see significant underemployment. These sectors have a high utilisation of recruitment agencies as ease of hiring, no commitment and maximum flexibility are important for employers where there is uncertainty about future prospects.”

20. HIE also highlighted the prevalence of underemployment in sectors of the regional economy most associated with seasonal activities such as tourism, construction work and manual agricultural work. Scottish Enterprise pointed out that “evidence suggests that the degree of underemployment can vary considerably by sector and, to a lesser extent, by geography, for example it is low in the oil and gas industry and in Aberdeenshire.”

21. In addition, as a later section in this report shows, there has been a 37,000 increase in part-time self-employment in Scotland, a large component of which is in unskilled occupations. This also underpins the link between unskilled or low-skilled jobs and underemployment.

22. The Committee concludes that there is evidence to suggest that underemployment is more prevalent in certain sectors such as retail and social care, as well as in the tourism industry. These sectors have a higher proportion of low skilled or unskilled jobs as well as greater degrees of flexibility in terms of employment patterns.

Groups most at risk of underemployment

23. As part of its inquiry, the Committee was keen to establish more detail on the groups of people who were most at risk of underemployment. Drawing on the APS for the period October 2011 to September 2012, the Scottish Government provided the Committee with underemployment rates for full-time and part-time employees, for self-employed workers and for the public and private sector.

24. Table 1 shows underemployment rates for full-time and part-time workers respectively. These figures provide evidence of higher levels of underemployment among those working part-time, although it is nevertheless interesting to note that there are nearly 90,000 full-time workers in Scotland who reported themselves as willing and able to work more hours. It also shows higher rates of underemployment among the self-employed and those employed in the private sector.

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11 Community Enterprise in Scotland. Written submission.
12 Highlands and Islands Enterprise. Written submission.
13 Scottish Enterprise. Written submission.
Table 1: Underemployment rates full-time and part-time workers October 2011-September 2012

<table>
<thead>
<tr>
<th>Underemployment - full-time workers</th>
<th>Underemployment - part-time workers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underemployed full-time workers</td>
<td>5% (89,600)</td>
</tr>
<tr>
<td>Underemployed full-time public sector workers</td>
<td>5.2% (24,500)</td>
</tr>
<tr>
<td>Underemployed full-time private sector workers</td>
<td>4.9% (64,100)</td>
</tr>
</tbody>
</table>

Source: Scottish Government, Annual Population Survey

Underemployment: the gender dimension

25. The breakdown of underemployment rates according to gender shows that female workers are more likely to be underemployed than male workers. The overall underemployment rate for male workers was 8.7% (111,900) and 11.3% (133,000) for female workers. In addition, young people aged 16-24 are more likely to be underemployed. The table below sets out the underemployment rates and total numbers underemployed for male and female workers according to age.

Table 2 - Hours-constrained underemployment October 2011-September 2012

<table>
<thead>
<tr>
<th>Age group</th>
<th>Male workers</th>
<th>Female workers</th>
</tr>
</thead>
<tbody>
<tr>
<td>16-24</td>
<td>22% (35,900)</td>
<td>22.5% (34,100)</td>
</tr>
<tr>
<td>25-34</td>
<td>9.3% (27,000)</td>
<td>10.7% (26,800)</td>
</tr>
<tr>
<td>35-49</td>
<td>6.5% (29,000)</td>
<td>10.8% (47,300)</td>
</tr>
<tr>
<td>50-64</td>
<td>5.2% (18,100)</td>
<td>7.7% (24,200)</td>
</tr>
<tr>
<td>16-64</td>
<td>8.7% (111,900)</td>
<td>11.3% (133,000)</td>
</tr>
</tbody>
</table>

Source: Scottish Government, Annual Population Survey
26. Women in Scotland’s Economy (WISE) research centre highlighted the impact of the difficulties that women faced in balancing paid work, particularly given the high cost of childcare. It presented evidence showing that “Scotland has the 2nd most expensive childcare in Europe with 25 hours of nursery care costing more than half the average part time wage.” 14 WISE pointed out that it could be argued that the “true extent of women’s involuntary underemployment is therefore underestimated e.g. if childcare was more flexible and/or more affordable, women may in fact wish to increase their hours of work.” 15

27. Women’s Enterprise Scotland also noted the continuing high levels of occupational segregation in Scotland. It stated that “when young people get into apprenticeships, segregation still means that more than 98 per cent of engineering, plumbing and construction apprentices are young men, whereas hairdressing, childcare and social care apprenticeships tend to be taken up by young women.” 16 This would suggest that there is a concentration of women in certain sectors where there are higher levels of underemployment.

28. It is clear to the Committee that there is a distinct gender profile to underemployment. This is related to a number of factors, including the prevalence of female employees in sectors where there are high levels of underemployment and part-time work, the caring responsibilities that women take on, particularly in relation to children and gender stereotyping, as evidenced by occupational segregation.

Underemployment: young people
29. Since the onset of the recession in 2008, unemployment has risen for all age groups, but the largest increase has been visible among those aged 16-24. Dr Jim McCormick, the Scotland Adviser for the Joseph Rowntree Foundation informed the Committee that “since 2010, the only subsequent rise in unemployment has been among young adults.” 17 In mid-2012, around 90,000 young people aged 16-24 were unemployed, equivalent to a rate of 21% of those economically active. The rate for over-25s was 6%. Both figures were almost identical to the equivalent for England and Wales. Young people are thus experiencing more difficulty in securing employment in the labour market than those aged 25 and above.

30. Young people are also experiencing particularly high rates of underemployment. In percentage terms, young men aged 16-24 constitute 32 per cent of the total number of male underemployed workers and young women aged 16-24 constitute 25.6 per cent of the total number of female underemployed workers.

31. The National Union of Students expressed a concern that high underemployment levels had “left many young people suffering from in-work poverty, with a too-small pay check but without recourse to further support.” 18 A similar point was made by Edinburgh Trade Union Council (ETUC) which highlighted the degree to which young people were engaged in casual working.

14 Women in Scotland’s Economy research centre. Written submission.
15 Women in Scotland’s Economy research centre. Written submission.
16 Women in Scotland’s Economy research centre. Written submission.
17 Dr Jim McCormick, Scotland Adviser, Joseph Rowntree Foundation. Written submission.
18 National Union of Students in Scotland. Written submission.
and observed that this “has significant consequences in not allowing independent living.”

32. The Committee heard from a young underemployed graduate who held two casual jobs, but was trying to secure employment in his field of study. Neither of the jobs that he held provided him with sufficient hours of employment or utilised his skills. In order to gain experience in his profession he had taken a series of unpaid jobs in the hope that it would eventually lead to a paid position. He told the Committee that he still lived at home and had never claimed benefits. His experience appeared to be consistent with that of other graduates who were employed in casual positions while searching for a permanent position in line with their qualifications.

33. Professor Bell explained the difficulties that young people could face if they could not get into the work environment——

“If young unemployed people never get into the work environment … it becomes very difficult for them, so we end up with the scarring effects… If someone goes into the labour market having had a long period of unemployment when they were young, that can affect the rest of their career. In terms of the economy, that affects people’s productivity for the rest of their career, so it is bad for growth.”

34. Women’s Enterprise Scotland also highlighted the “scarring” effect of both unemployment and underemployment on young people who had difficulties in securing employment in the first few years after leaving school, college or university. It observed that those affected by the recession in the 1990s had suffered for 10-15 years in terms of retaining employment and poorer health.

35. CEIS observed that “young adults are affected by under-employment as their lack of experience results in many positions being offered to more experienced, but underemployed candidates.” It notes that the least-skilled young people were most likely to be affected as “a jobs market that is engaging many experienced people to do entry level jobs is blocking access to jobs for young people.”

36. HIE stated that the underemployment in the Highlands and Islands contributed to migration from the area——

“Where job opportunities in local communities are limited or poorly paid, young people have tended to leave their home areas (or the Highlands and Islands as a whole); but those who have stayed have often been underemployed – in relation to their potential earning power through their

19 Edinburgh Trade Union Council. Written submission.
22 Community Enterprise in Scotland. Written submission.
Community Enterprise in Scotland. Written submission.
qualifications, or in relation to their needs where they have families to support."²⁴

37. The Committee is particularly concerned by the higher levels of underemployment experienced by young people. Not only does underemployment inhibit young people’s capacity to be independent, but it has a long-term effect on employment prospects. The underemployment situation has a particular impact on the least-skilled as it becomes harder for them to secure employment of any kind.

Underemployment and older workers
38. While the APS statistics do provide data for those in the 50-64 aged group, those aged 65 and above are not covered. There was some written evidence suggesting that older workers - particularly those who had been made redundant or who had taken early retirement - were encountering difficulty in securing employment. CEIS stated—

“Those that have been made redundant or taken retirement and are having to return to work to boost income until pension is accessible or due to pensions being negatively affected by the economic downturn. Often the work they accept is a poor fit with their skills and experience but they will often out-perform less experienced candidates at interview.”²⁵

39. ETUC identified a growing trend in people over the age of 65 looking for employment—

“Our experience is that underemployment is impacting on older people (over 65) who are seeking jobs. As a result of the recession with benefits and pensions either not keeping up with inflation or being cut … many older people are now seeking jobs to protect their standard of living. … We anticipate that the demand for work from older people will grow over the next few years driven by austerity and recession.”²⁶

40. Conversely, there is also evidence suggesting that many older workers would like to work fewer hours. Professor Bell observed that “when young people respond to the labour force survey, they say that they would like to work more hours” but that for older people it was “much more common for them to say that they would like to work fewer hours.”²⁷

41. The employment rate for older workers in Scotland has increased by 62 per cent from 40,600 in 2004 to 65,000 in 2012. Figure 5 shows the increase for both male and female workers. This is attributable to fewer people retiring at or before 65 due to financial constraints, as well as the abolition of the default retirement age. Professor Bell stated that “there are quite a lot of older people who are perhaps working for more years than they had intended to, perhaps because when they got an estimate of their pension they found that it was not as good as they

²⁴ Highlands and Islands Enterprise. Written submission.
²⁵ Community Enterprise in Scotland. Written submission.
²⁶ Edinburgh Trade Union Council. Written submission.
had hoped.”\textsuperscript{28} There are no statistics for unemployed or underemployed over the age of 65 because they are past the state pension age.

42. In relation to the increase in employment among older workers, Professor Bell suggested that “One of the possible advantages of that is that there is more transfer of experience and skills from people in that older age group to the young, but I am not sure what mechanisms we have in place to ensure that that happens.”\textsuperscript{29}

\textbf{Figure 5 – Numbers of workers aged 65 plus, 2004-12}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure5}
\caption{Numbers of workers aged 65 plus, 2004-12}
\end{figure}

\underline{Source: Annual Population Survey}

43. The Committee is of the view that it may be of value for the Scottish Government to present data on employment trends – including underemployment rates - among older workers as data is very limited for this group and there is evidence of changes in employment patterns among this group due to financial pressures and the abolition of the default retirement age.

44. We would ask that the Scottish Government examines how young people are matched with older workers to enable a better transfer of skills and knowledge.

\textit{Underemployed: other protected groups}

45. There is currently a lack of data on the impact of underemployment on disabled people and ethnic minorities in Scotland. Capability Scotland stated that it was “concerned that disabled people and carers are over-represented amongst Scotland’s underemployed.” It noted that “there is little data on underemployment


specifically” but that “information on employment more generally suggests that disabled people and their carers do not have the same level of choice and control over the kind of jobs they take as non-disabled people.”

46. The Equality and Human Rights Commission (EHRC) observed that “the experience of protected groups in the labour market is still surprisingly under researched.” It considered that the lack of robust indicators on protected groups and the labour market was due primarily to “the failure of public bodies involved in employment and skills policy to collect, collate or analyse their data by protected group.”

47. The Committee notes the concerns voiced by disability groups and the EHRC. The evidence it received from these groups suggested that those with protected characteristics experienced higher levels of hours-constrained underemployment than the workforce as a whole. It therefore calls on the Scottish Government to use the Annual Population Survey data to ascertain the degree to which this is the case in relation to protected characteristics.

Hours-constrained underemployment: international comparisons

48. A comparison of underemployment levels in Scotland and the UK in relation to other countries highlights the differing impact that the international economic downturn has had. In terms of international data, both the European Union and the OECD collect data on hours-constrained underemployment in their respective member states, although they use different definitions. Eurostat defines the underemployed as a part-time worker as a person aged 15-74 working part-time who would like to work additional hours and is available to do so. The OECD definition of underemployment is based on the ILO measures underemployment as “persons in underemployment are all those who worked or had a job during the reference week but were willing and available to work ‘more adequately’.”

49. Dr Jim McCormick provided the Committee with an international comparison of hours-constrained underemployment in selected OECD countries. While Dr McCormick recognised that different types of survey data are used by the countries collecting the data, thus making precise comparisons difficult, he argued

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30 Capability Scotland. Written submission.
33 Eurostat provides the following definition. “This statistical indicator covers persons who, in spite of being employed, do not work full-time and lack a sufficient volume of work, which is somewhat similar to being unemployed. The part-time requirement in the definition is important because the people who work full-time and still want to work more hours have a different profile: in spite of working many hours they have insufficient income; underemployed part-time, on the other hand, highlights situations of insufficient volume of work and underutilised labour among persons already employed.”
that it was nevertheless “reasonable to cluster countries into broad groups with high, middle and lower rates of under-employment and to consider trends over time.”

50. Table 3 shows that hours-constrained underemployment appears to be more persistent in the UK than in other OECD countries (with the exception of Australia) and that other countries with high rates of underemployment have experienced a significant increase in levels following the 2008 recession.

Table 3: Hours-constrained underemployment in selected OECD countries

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td><strong>Higher (Above 6.0%)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Scotland</td>
<td>7.7%</td>
<td>7.5%</td>
<td>7.0%</td>
<td>10.0%</td>
</tr>
<tr>
<td>UK</td>
<td>7.0%</td>
<td>6.5%</td>
<td>7.5%</td>
<td>10.0%</td>
</tr>
<tr>
<td>Spain</td>
<td>1.5%</td>
<td>3.4%</td>
<td>4.0%</td>
<td>7.5%</td>
</tr>
<tr>
<td>Australia</td>
<td>7.3%</td>
<td>7.1%</td>
<td>6.4%</td>
<td>7.4%</td>
</tr>
<tr>
<td>Ireland</td>
<td>1.9%</td>
<td>1.3%</td>
<td>1.0%</td>
<td>6.8%</td>
</tr>
<tr>
<td>Italy</td>
<td>1.8%</td>
<td>4.1%</td>
<td>4.8%</td>
<td>6.8%</td>
</tr>
<tr>
<td><strong>Middle (3.5%-6.0%)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>5.3%</td>
<td>4.7%</td>
<td>4.8%</td>
<td>5.8%</td>
</tr>
<tr>
<td>Canada</td>
<td>5.0%</td>
<td>4.7%</td>
<td>4.2%</td>
<td>5.4%</td>
</tr>
<tr>
<td>New Zealand</td>
<td>5.8%</td>
<td>3.7%</td>
<td>4.0%</td>
<td>4.6%</td>
</tr>
<tr>
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<td>2.8%</td>
<td>3.5%</td>
<td>3.8%</td>
<td>3.8%</td>
</tr>
<tr>
<td><strong>Lower (under 3.5%)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>2.0%</td>
<td>3.8%</td>
<td>4.4%</td>
<td>3.2%</td>
</tr>
<tr>
<td>Sweden</td>
<td>3.0%</td>
<td>3.2%</td>
<td>2.9%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Denmark</td>
<td>2.2%</td>
<td>2.5%</td>
<td>1.7%</td>
<td>2.3%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>0.9%</td>
<td>1.6%</td>
<td>1.1%</td>
<td>2.0%</td>
</tr>
<tr>
<td>USA</td>
<td>0.9%</td>
<td>1.1%</td>
<td>1.1%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>0.8%</td>
<td>1.5%</td>
<td>1.4%</td>
<td>1.7%*</td>
</tr>
<tr>
<td>Norway</td>
<td>1.3%</td>
<td>1.9%</td>
<td>1.0%</td>
<td>1.2%</td>
</tr>
<tr>
<td><strong>Overall</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EU-15</td>
<td>1.9%</td>
<td>3.0%</td>
<td>3.4%</td>
<td>4.2%</td>
</tr>
<tr>
<td>OECD</td>
<td>1.9%</td>
<td>2.2%</td>
<td>2.3%</td>
<td>2.9%</td>
</tr>
</tbody>
</table>

*Switzerland figure for 2010

51. The Scottish Government also provided a comparison of hours-constrained underemployment levels in European countries based on Eurostat data which shows the proportion of underemployed part-time workers. This graph also shows high levels of underemployment in the UK in comparison to other EU member states.

**Figure 6 – Proportion of underemployed part-time workers in the EU in 2011**

Source: Eurostat

52. The data presented in table 3 and figure 6 raises two questions: firstly, the extent to which underemployment will return to pre-recession levels and secondly, what makes the UK and Scotland more susceptible to higher levels of underemployment than other EU or OECD countries?

53. In evidence to the Committee, Dr Paul Sissons of the Work Foundation drew a distinction between the underemployment that had existed prior to the recession and the increase which had been exacerbated by the economic downturn—

“In the UK as a whole, about 3 million people are hours underemployed but, before the recession, that figure was about 2 million, so there is a longer-term issue as well as a recession-related issue. The recession-related issue is linked to demand in the economy.”37

54. The STUC argued that there was a correlation between the type of labour market in the UK and the higher level of underemployment experienced. It also suggested that the focus on unemployment and employment rates had meant that

hours-constrained underemployment levels did not become an issue of concern. Stephen Boyd of the STUC said—

“I can tell the committee that the UK has more low-wage, insecure jobs than any other developed country, apart from the United States. That is a major problem and it brings us back to [the] point that 2 million people were underemployed before the recession hit. The long-standing nature of the problem may reflect the fact that we were all probably much too complacent before the recession and that, when we looked at the headline statistics, we probably thought that the labour market was much tighter than it was.”

55. The CBI offered an alternative interpretation of the underemployment trend data, arguing that it was indicative of a cyclical rather than a structural problem, predicting that “underemployment in Scotland is likely to fall as the Scottish economy returns to growth.” 38 Scottish Chambers of Commerce proffered the view that “to some extent, there will be a cyclical pick-up in participation but, by the same token, society is changing and there will be continuing high levels of voluntary part-time work, for example.” 39

56. CEIS suggested that a return to growth and competition would test the permanence, or otherwise, of new employment patterns. It stated that—

“Some practices may remain embedded in companies that have begun to use zero-hours contracts and different forms of flexible working for the first time. The real test will come when there is increased market demand. Companies will have to change in order to have the staffing to meet that demand, and flexible contracts and part-time working may not be acceptable. That is the point at which, even in our business, we will have to consider what we need to do to secure and retain good-quality staff.” 40

57. John Swinney, the Cabinet Secretary for Finance, Employment and Sustainable Growth indicated that he accepted the analysis that “levels of underemployment, as with levels of unemployment, have risen as a result of the economic downturn and are likely to remain at higher levels than we would like until the economy is back into a period of growth.” 41 He stressed that in this context “strong, sustained economic growth is and must continue to be the Government’s number 1 priority.” 42

58. One explanation put forward in evidence for the higher rates of underemployment in the UK was the UK’s more flexible labour market. Professor Bell commented on the flexibility of the labour market and raised the question as to whether an increase in underemployment was a less negative outcome than an increase in unemployment. He said—

38 CBI Scotland. Written submission.
39 Scottish Chambers of Commerce. Written submission.
“It is because of the flexibility of the labour market in both Scotland and the UK that such change is possible. On the one hand, it is a good thing that people are not unemployed but, on the other hand, they may well be experiencing hardship simply because they are working fewer hours than they would like to.”

59. CBI Scotland articulated the view that “the emergence of underemployment rather than unemployment is a positive and a sign that the new flexible employment relationship is working and people are more likely to stay connected to the labour market.” It detailed the way in which it perceived that flexibility in the labour market had mitigated the possible increase in unemployment levels—

“Both a shift to part-time work and wage restraint will have helped contain labour costs and protect jobs during the recession – and may have aided recent employment growth. In the context of increased pay restraint, unit labour costs rose much less quickly in the aftermath of the 2008 recession than following the 1990s recession. This means it is relatively cheap for firms to hold onto and recruit labour, and retain a competitive position for future economic recovery.”

60. The STUC acknowledged that “the degree of flexibility in the UK economy has enabled companies to retain or hold labour that otherwise they would have dispensed with, as has happened in other nations” but there would be differing views on “whether that is a good or a bad thing and whether we have the balance correct”.

61. The Committee is of the opinion that underemployment is likely to decline as demand for labour increases within Scotland’s economy, although it cannot predict whether there will be a return to pre-2008 levels. Nevertheless, even at pre-2008 levels, underemployment is a trend that should be monitored and taken into account in the development of employment policies (whilst accepting that employment law is not within the control of the Scottish Government).

62. The Committee is concerned that there is a risk that some of the trends that have emerged during the economic downturn – such as involuntary part-time work, self-employment where it is a replacement for employment, zero-hours contracts and temporary contracts with recruitment agencies – may become embedded in a way that makes work significantly more insecure, particularly for the young and unskilled.

63. The Committee believes that a discussion of the relative advantages of underemployment in comparison to unemployment falsely polarises the debate. The Committee considers that it is more useful to think of both unemployment and underemployment as being on a continuum defined by a

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44 CBI Scotland. Written submission.
45 CBI Scotland. Written submission.
lack of hours spent in work and lost opportunities to maintain or develop skills.

Skills underutilisation in Scotland

Available data on skills underutilisation

64. While statistics published by the Scottish Government have provided valuable information on hours-constrained underemployment in Scotland, it has proved harder for the Committee to gather reliable data on skills-underutilisation. When it launched this inquiry, the Committee was keen to investigate what the ILO describes as “invisible” underemployment: that is the phenomenon of workers not utilising their skills fully. The Committee’s inquiry has confirmed the lack of data sources available in this area. As Professor Alan Felstead pointed out in his written submission—

“The evidence base on ‘hours-constrained’ underemployment in Scotland is very strong, but it is decidedly weak on ‘skills underutilization’. This severely hampers a full understanding of the phenomenon and its impact on the Scottish economy.”

65. The UK Employer Skills Survey includes questions for employers about whether they have any staff who are both over-qualified and over-skilled. The Scottish Government provided the Committee with a table setting out the results of this survey for Scotland and the UK. Table 4 suggests that there is a slightly higher rate of skills underutilisation in Scotland than in the rest of the UK.

Table 4 – Employers’ survey – number and percentage of over qualified and over skilled staff in 2011.

<table>
<thead>
<tr>
<th></th>
<th>Number of over-qualified and over-skilled staff</th>
<th>% staff reported as being over qualified and over-skilled</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>4,456,000</td>
<td>16%</td>
</tr>
<tr>
<td>England</td>
<td>3,762,000</td>
<td>16%</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>117,000</td>
<td>15%</td>
</tr>
<tr>
<td>Scotland</td>
<td>411,000</td>
<td>17%</td>
</tr>
<tr>
<td>Wales</td>
<td>165,000</td>
<td>14%</td>
</tr>
</tbody>
</table>

Source: UK Employer Skills Survey

66. Notwithstanding the lack of data, Professor Alan Felstead informed the Committee that there had been more policy work conducted in the field of skills underutilisation in Scotland than in other parts of the UK. He observed that in the

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47 Professor Alan Felstead. Written submission.
context of recent policy debates within the UK that Scotland was “leading the way with the establishment of the Skills Utilisation Leadership Group.”

67. Professor Felstead also referred to his work on the Skills Survey series, which “provides data on what skills workers use at work, the usefulness of their qualifications to get and do the job, and the nature of the job as measured by the time it takes to learn and train.” In 2006, the two enterprise agencies had financed a boost to the survey in Scotland which tripled the sample size and allowed it to be extended to cover the Highlands and Island. Professor Felstead indicated that it had not been possible to track skills utilisation in Scotland as the 2012 survey had not received additional funding to boost the Scottish sample size and that the survey was based on only 207 respondents living in Scotland (the sample size had been 2,000 in 2006).

68. Professor Felstead argued that the key findings to emerge from the 2006 survey were challenging “since they suggested that the Scottish education and training system had been successful in developing the skills and qualifications of the workforce, but that the level of skills demanded by employers had not kept pace with this increased supply.” Notably, he found that in 2006, “37.3% of those in Scotland possessed degree-level qualifications compared to 32.8% of those in the UK.” However, there was a “ten percentage point qualification gap in Scotland compared to a gap of three percentage points in the UK as a whole” due to the lower number of jobs in Scotland requiring a degree on entry. Scotland also had a slightly higher proportion of jobs that did not require qualifications on entry than the UK (31.6% compared to 28.2% in the UK).

69. SCDI pointed out that “even before the economic downturn in 2008, concern was expressed that enhancements to Scotland’s skills base did not have the expected return in Scotland’s economic performance.” It considered that the “underutilisation of skills is therefore a long-term challenge for the economy of Scotland.”

70. Scottish Enterprise described the skills aspect of underemployment as “critical”. It stated that “Scotland has a relatively good record on skills qualifications but this has not translated into enhanced economic performance.” It considered

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48 Professor Alan Felstead. Written submission. The remit of the Skills Utilisation Leadership Group is to:
- help raise awareness of how the best use of skills in the workplace can have wide ranging benefits for employers (private, public and voluntary), employees and the Scottish economy;
- contribute to the development of a programme of research, including where appropriate member organisations commissioning and co-ordinating research; and
- make recommendations to government, public bodies, employers and unions for further action, including where appropriate member organisations pursuing identified actions.


49 Professor Alan Felstead. Written submission.
50 Professor Alan Felstead. Written submission.
51 Professor Alan Felstead. Written submission.
52 Professor Alan Felstead. Written submission.
53 SCDI. Written Submission.
54 SCDI. Written Submission.
55 Scottish Enterprise. Written submission.

that as “business performance and productivity is driven by the effective use of skills” it was therefore crucial to improve the existing skills of the workforce to help “businesses take advantage of future business opportunities.”

71. SCDI highlighted the costs of skills underutilisation for the individual and the economy—

“Those who are skill-underemployed do not achieve the maximum economic benefit from the investment – both personal investment (time, financial) and public investment in their upskilling, and lead to higher unemployment of those with fewer skills. Furthermore, skill-underemployed young people are unable to gain the necessary workplace experience that will allow them to take the place of older workers as they retire. This could create a long-term problem for the economy.”

72. A Citizens Advice Scotland (CAS) online research among graduates in 2012 showed high levels of disillusionment among the 954 graduates who chose to respond, mainly at the lack of graduate-level opportunities within their chosen fields. CAS informed the Committee that “of respondents to the survey, 24.8% declared themselves as underemployed although the definition of underemployment for the purposes of this survey related solely to the underutilisation of skills.” CAS also suggested that “it is likely this figure would have been significantly higher if working hours and temporary contracts had been included as factors.”

73. Similarly, NUS Scotland drew the Committee’s attention to the position of graduates. It observed that “although those with college and university qualifications are less likely to be unemployed, they often find themselves working in jobs that do not match their qualifications.” NUS Scotland also expressed a concern that “underemployment leaves young people demoralised in the same way as unemployment, and can lead to difficulty for graduates in finding future employment due to lack of experience in their field of study.”

74. In evidence to the Committee, the Cabinet Secretary confirmed the importance of the higher and further education sectors being aligned with the Scottish Government’s Economic Strategy. He acknowledged that, “For far too long now, there has been a disconnect between the aspirations of the business community with regard to where growth will come in the economy and our education community’s planning assumptions about where the emphasis should lie.” In particular, he highlighted the growth in the oil and gas and renewables sectors and the “significant skills shortages in engineering.”

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56 Scottish Enterprise. Written submission.
57 SCDI. Written submission
58 Citizens Advice Scotland. Written submission.
60 NUS Scotland. Written submission
75. Professor Felstead also informed the Committee that Scotland would not be participating in a new survey launched by the OECD, called the Programme for the International Assessment of Adult Competencies (PIAAC). The purpose of the survey is to measure the skills and competencies needed for individuals to participate in society and for economies to prosper and to help governments better understand how education and training systems can nurture these skills. The first results of this survey will be published in 2013.

Who experiences skills underutilisation?

76. The reasons for skills underutilisation are not entirely linked to a lack of employment opportunities at an appropriate level. While it is not quantifiable, there is some evidence of individuals accepting work below their skills level either by choice or because it was the only way in which they could obtain part-time work which fitted with their caring commitments. The Scottish Government’s evidence made reference to research into women returning to work after having children showing that some women “downgraded” in order to obtain part-time work.

77. The Scottish Women’s Convention highlighted the way in which women felt constrained to take part-time work due to their other commitments—

“While there are those who have made an informed choice to undertake part-time work, there are many who have no other option. Family and caring responsibilities and poor public transport mean that part-time work is often the most feasible means of employment. Low wages available in part-time roles mean it is common for women to take on two or three part-time jobs in order to make ends meet. The cost of childcare in Scotland, combined with little to no availability in the evenings and at weekends, contributes significantly to underemployment.”

78. Capability Scotland drew the Committee’s attention to the position that disabled people and their carers were in in the workforce. It pointed out that “while there is little data on underemployment specifically, information on employment more generally suggests that disabled people and their carers do not have the same level of choice and control over the kind of jobs they take as non-disabled people.” As disabled people are three times more likely to be unemployed than non-disabled people, Capability Scotland concluded that “many are often forced to take jobs which do not fit in with their career aspirations and/or which do not offer as many hours as they would like.”

79. In its written submission to the Committee, Capability Scotland provided case studies of disabled people who had been prevented from finding or accepting a job that suits their skills as a result of the “societal, physical and structural barriers which exist for disabled people.” Similarly, the Scottish Council on Deafness provided case studies of people who were working below their skills level, had

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63 Scottish Women’s Convention. Written submission.
64 Capability Scotland. Written submission.
66 Capability Scotland. Written submission.
reduced their hours or even stopped working as a result of the failure of their employers to support them.  

80. Carers Scotland referred to a study of parents of disabled children and work which “found that 64% of those carers in employment did not seek or turned down promotion or accepted demotion to balance work and caring.” In addition, almost “two thirds had changed or tried to change their work pattern and 56% had reduced or tried to reduce their hours.”

81. The Cabinet Secretary for Finance, Employment and Sustainable Growth attributed the problem of skills underutilisation, in part, to the economic situation—

“It is clear that we have a number of challenges and issues that relate to people who have a higher level of skill than the type of employment that they undertake in our society requires. That is partly about the economic conditions with which we are wrestling and the fact that the economy is not growing as dynamically as we would like it to. The opportunities for expansion and development in the economy are therefore more limited than we would like them to be, and that will obviously have a particular effect on postgraduate and graduate employment.”

82. The Committee believes that its inquiry has highlighted the paucity of data and research on skills underutilisation in Scotland. It believes that aligning skills and qualifications with employment opportunities is a key issue for the future of Scotland's economy and that it is therefore important to understand the problem of skills underutilisation better. The Committee calls on the Scottish Government to collect trend data on skills utilisation in Scotland.

83. This trend data should take into account the protected characteristics and caring responsibilities of those that are underemployed. The Committee received evidence from disability and carers organisations suggesting that these groups were more likely to be in employment which underutilised their skills and there is also evidence to suggest that women are more likely to be affected by skills underutilisation than men.

84. The Committee calls on the Scottish Government to clarify whether it will participate in the Programme for the International Assessment of Adult Competencies launched recently by the OECD. If Scotland is not participating, the Committee requests that the Scottish Government provides the Committee with the reasons behind its decision not to participate.

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67 Scottish Council on Deafness. Written submission.
68 Carers Scotland. Written submission.
69 Carers Scotland. Written submission.
WHY HAS UNDEREMPLOYMENT IN SCOTLAND INCREASED?

The economic context
85. The onset of the recession in 2008 following the financial crisis resulted in an increase in unemployment in Scotland. The “Great Recession” has been used to describe the period of reduced economic activity since 2008 which was initially characterised by a sharp decline in output and has since been followed by a “bumping along the bottom”.\(^{71}\) This economic slowdown has led to a decline in demand for labour.

86. In 2008, economic commentators had anticipated a steep rise in unemployment levels. The Cabinet Secretary for Finance, Employment and Sustainable Growth affirmed that “people generally expected unemployment to have been higher in Scotland since 2008 than has been the case” and that “given the gravity of the economic shock that we experienced, we could have expected unemployment to rise further than it did.”\(^{72}\) The increase in unemployment levels has not been proportionate to those experienced in the recessions of the mid-70s, early-80s or mid-90s. Professor David Bell neatly summed up the uniqueness of the labour market in the UK in the recent recession by saying, “The behaviour of employment, unemployment and working time during the current recession has been different both from past experience and different from other countries that have experienced similar reductions in output.”\(^{73}\)

87. The lack of demand in the Scottish economy for labour is closely related to a decline in output. Professor David Bell informed the Committee that “in the second quarter of 2012, the output of the Scottish economy was 4.4 per cent less than it had been in the final quarter of 2008” while “recent data for the third quarter of 2012 for the UK indicates that its output was 3 per cent below its 2007 peak.”\(^{74}\) Figure 7 below shows UK and Scottish Gross Value Added (GVA) output since 2004.

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\(^{71}\) Professor David Bell. Written submission.


\(^{73}\) Professor David Bell. Written submission.

\(^{74}\) Professor David Bell. Written submission.
The economic downturn and the consequent decline in demand for labour has had a significant impact on the labour market. Figure 8 shows changing unemployment patterns since 2004 and the increase in unemployment levels since the onset of the recession in 2008.

Source: APS and ONS
89. When he gave evidence to the Committee in late February 2013, the Cabinet Secretary for Finance, Employment and Sustainable Growth was optimistic that there had been a change in the economic outlook. He stated—

“The latest data shows that the Scottish economy has returned to growth, with output increasing by 0.6 per cent in the third quarter of 2012. Unemployment has continued to fall in Scotland over the period October to December, with a significant fall in youth unemployment. Combined with the encouraging news on growth in export sales, those figures demonstrate that progress is being made in delivering economic recovery. Essentially, that creates the conditions in which the Government will act to tackle underemployment by delivering higher levels of economic activity and growth in the Scottish economy.”

90. The Committee recognises that the economic downturn and the consequent decline in output has resulted in a reduction in the demand for labour. The Committee concurs that this recession has been different from previous recessions in terms of the lower levels of unemployment experienced. While it notes the data showing recent improvements in GVA output and headline employment rates, it nevertheless believes that the economic situation still provides a strong reason for monitoring labour market trends, particularly those related to underemployment.

91. The impact of the lack of demand in the labour market has been manifested in a number of trends. The increases in unemployment and underemployment are clearly central to this but the Committee has become aware of other related labour market trends, notably labour hoarding, displacement, an increase in self-employment (particularly part-time self-employment) and an increase in the number of zero-hour contracts. While the evidence for these trends is not robust, it nevertheless suggests that the Scottish labour market is becoming increasingly insecure. There is a strong case for more research to be carried out on each of these trends. The next section of this report presents the data that the Committee has collected on these areas.

Labour hoarding

92. Professor Bell explained that at the beginning of the recession there was evidence of “labour hoarding”. This is when employers seek to retain workers despite a downturn in demand in order that they do not have difficulty in finding workers with the same skills when there is eventually a recovery. Statistically, this is reflected in fewer workers working overtime and reductions in the number of overtime hours worked. Professor Bell explained that “there was a 28 per cent reduction in the number of Scottish employees working paid overtime between 2007 and 2012 and a 17 per cent reduction in the average number of paid overtime hours worked.”

93. The pattern of labour hoarding, exemplified by both reductions in overtime and reductions in contracted hours explains the more significant drop in hours than

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76 Professor David Bell. Written submission.
in employment in Scotland. Professor Bell provided the Committee with a graph (figure 9) showing the changes in employment levels, output and hours worked.

Figure 9: Employment, hours and output in Scotland 2008-12

![Graph showing changes in employment, hours and output in Scotland 2008-12](image)

Source: Professor David Bell

94. A number of witnesses highlighted a key difference between the recent economic downturn and previous recessions in the way in which employers have sought to negotiate solutions with employees to reduce hours in order to maintain the sustainability of their businesses. SCDI referred to the ways in which employers had sought to adapt their workforces to the changing economic environment without having to resort to redundancies—

“Employers have been working with their workforces and the unions in a way that has not been seen in previous recessions to try to find ways of avoiding redundancies. For example, they have considered opportunities for everybody collectively to work fewer hours, but to keep more people in employment. That creates underemployment but not as much unemployment”.77

95. Scottish Enterprise described the way in which companies that it supported had adapted to the change in demand—

“From our work with the number of companies that we support, we found—especially at the beginning of the recession—that a small number of companies looked at reducing work hours, taking shifts off and reducing overtime as they saw demand decline. We found that many of those

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companies worked with their workforces on that: there was give and take on both sides, which companies found useful.”

96. Similarly, Scottish Chambers of Commerce (SCC) reported that “some businesses have found shorter-hour and part-time working an appropriate means of maintaining their viability and staff skills.” With the objective of avoiding the situation that some employers faced in previous recessions when they struggled to find suitable qualified employees with a return to growth “many businesses have tried to retain their staff and their skills.” SCC also indicated that some businesses had “cut pay across the board to maintain staff levels in order to fulfil contracts” instead of cutting staff although “as the recession bit, large numbers of members undoubtedly moved towards more flexible working patterns.”

97. The Cabinet Secretary also commented on the approach taken by employers and the degree to which it had averted higher levels of unemployment in Scotland more generally—

“Unemployment is still too high, but I think that its level has been mitigated as a result of a series of good examples of employers and employees collaborating to find a way to sustain employment during difficult times. In some cases, the entire workforce has agreed to take holidays or undergo training during a certain period, so that production could be suspended without there being an impact on the company’s on-going economic position. Such approaches have preserved employment and have required a certain amount of flexibility from staff and trade unions, in a collaborative agreement with employers.”

98. However, Professor Bell thought that labour hoarding was not proving to be sustainable in light of the absence of a sustained return to long-term economic growth. He pointed out that as “employers do not have terribly bright expectations of the future” that “the hoarding argument for skilled workers is starting to pale a bit.”

99. The Committee believes that labour hoarding has served the dual purpose of restricting redundancies and retaining skilled staff. It recognises that this has helped businesses remain sustainable and reduced the number of people made redundant during the economic downturn although - as a later section of this report shows - there has been a high personal cost for many of those who have experienced underemployment.

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82 Col 2534
Displacement

100. One of the consequences of underemployment, and unemployment more generally, is that of displacement. Displacement occurs when more qualified workers accept jobs that would more usually be carried out by less qualified workers. SCDI highlighted the impact of displacement in terms of youth employment, saying “youth unemployment in Scotland has been particularly characterised by low-skilled young people being pushed out of the job market by higher skilled college and university leavers applying for jobs requiring lower skills than they have achieved.”

101. This was corroborated by a survey that Napier University had carried out of its graduates. The Association of Graduate Careers Advisory Services Scotland (AGCAS Scotland) stated—

“We are in the middle of a survey of our former students six months after last year’s graduation. An increasing number of them are saying to us that they are staying in the part-time jobs that they had when they were students, even though they are actively seeking more appropriate employment. That has a knock-on effect …: overqualified people are in the jobs that people who are underemployed or unemployed should be filling.”

102. This was corroborated in evidence by Professor Bell. He referred to the impact of the economic downturn on the occupational ladder—

“When the economy is operating normally, young people go in at a certain level that is appropriate for their skills. When the economy is in recession, those jobs become less readily available, so people go in at lower rungs on the ladder and graduates may end up doing fairly menial jobs. What that means is that the youth unemployment problem may take a very long time to fix.”

103. Community Enterprise in Scotland (CEIS) identified underemployment as having a particular impact on “those with lower skills that cannot access entry level jobs because many entry level jobs have been taken by people who are over qualified for those jobs.”

104. During the course of the inquiry, the Committee also became aware of people taking on unpaid work in order to gain experience. This could be under internships or on project work. For example, an underemployed graduate told the Committee that he had undertaken project work without any remuneration, partly because the only opportunities available in his chosen field were unpaid. He

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84 SCDI. Written Submission.
87 Community Enterprise in Scotland. Written submission.
hoped that the experience and the networking opportunities provided by unpaid work would ultimately help him to secure permanent, paid employment.  

105. The Committee notes the lack of information regarding the incidence of unpaid internships and their impact on opportunities to secure employment at entry level.

106. The Committee believes that underemployment and unemployment have resulted in a displacement effect that is harmful to all those who are unable to work at a level in keeping with their skills, and ultimately it is the least skilled and the young who are most likely to experience barriers in gaining access to the labour market.

Self-employment

107. One of the most distinct trends to emerge from the inquiry is the increase in self-employment levels in Scotland. While the number of full-time self-employed has remained relatively stable, there has been an increase of around 37,000 in the number of part-time self-employed. Professor Bell indicated that “this latter group tend to work an average of around 13 hours per week, well below the overall average weekly hours for part-time workers.”

108. Figure 10 below, provided by Professor Bell, shows the number of employees and self-employed in the Scottish labour market since 2005, tracking the overall decline in employment (the number of full-time jobs lost exceeds the number of part-time jobs gained) and the growth in self-employment, particularly since 2010.

Figure 10 – Employment and self-employment 2005-2012

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89 Professor David Bell. Written submission.
109. This increase in part-time self-employment was also identified by the STUC, which calculated that there had been an increase of 9.7% between 2008 and 2012 in Scotland, a trend similar to that at the UK level. It provided the Committee with data indicating that the trend had been most pronounced in 2011-12, when there had been an increase of 23,000 in the number of self-employed, suggesting that the increase in self-employment was not an initial response to the onset of the recession but rather one that had emerged later.⁹⁰

110. The Committee also noted an increase in the number of self-employed notified vacancies advertised by Jobcentre Plus. ONS Nomis statistics showed that there had been a sizeable increase in the number of self-employed vacancies since 2008. These were clarified with the Department for Work and Pensions, which explained that it had become easier for job opportunities of all types to be advertised with Jobcentre Plus. The DWP observed that while it was “true that self-employed vacancies make up a larger share of all Jobcentre Plus (JCP) vacancies than they did a few years ago, this seems to reflect that such opportunities were previously under-represented and that the rise has brought things more into line with what would be expected, given the wider prevalence of self-employment in the economy.”⁹¹

111. The Scottish Government provided the Committee with figure 11 below showing changes in the level of ‘self-employed’ Jobcentre Plus notified vacancies in Scotland since 2007. This shows that there has been a more pronounced increase over the last two years.

**Figure 11 – Changes in ‘self-employed’ Jobcentre Plus notified vacancies Jan 2007-July 2012**

112. Dr Jim McCormick attributed this trend to people being self-employed whereas previously they had been doing the same jobs but as employees. He

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⁹⁰ STUC. Written submission.
⁹¹ Department for Work and Pensions. Supplementary written evidence.
stated that “virtually all the rise is among people ‘working for themselves’, often now doing similar work to that which they were previously employed by someone else to do and “on average working significantly fewer hours.” Women In Scotland’s Economy (WISE) drew on a UK-wide analysis of self-employment carried out by the Chartered Institute of Personnel and Development (CIPD) to argue—

“…. there is evidence to suggest that the increase in self-employment has been due to weak demand in the labour market and not an increase in entrepreneurialism, i.e. self-employment, for many, has been a choice born out of necessity. Women account for 60% of the net rise in self-employment since the start of the recession. Figures show that almost 89% of all newly self-employed people work less than 30 hours per week and are therefore classed as part-time.”

113. The STUC also drew on the CIPD report to highlight the fact that “the ‘new self-employed’ display quite different characteristics from those in self-employment pre-recession” in terms of gender, hours of work, occupation and sector of employment. The STUC noted that “people performing elementary (i.e. unskilled) occupations account for more than 20 per cent of the net increase, with those in administrative and secretarial and personal services occupations also registering large proportional increases.”

114. Women’s Enterprise Scotland suggested that “underemployment is an even bigger problem for women in rural areas than for women in urban areas” on the basis that there was a “proportionately large number of female self-employed in rural areas compared with urban areas.” It warned that “although we generally promote self-employment as a positive thing with the potential to grow the economy, sometimes it can be quite a negative thing—particularly for women.”

115. The Cabinet Secretary for Finance, Employment and Sustainable Growth recognised that “a vast proportion of the business network in Scotland is made up of self-employed individuals” and that “some of that rise will be a product of the economic difficulties that we have had, the challenges on employment, and people wrestling with the implications of the recession.” He observed that “we would have to explore whether all those business ventures provide economic security and sustainability for individuals” but that he welcomed the trend as “it demonstrates that, in these difficult times, people are turning to enterprise.” When questioned by the Committee on whether he had “any evidence from the statistics that employers might be moving people on to self-employed contracts”, he indicated that he could not point to any evidence on that from the statistics.

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92 Dr Jim McCormick, Scotland Adviser, Joseph Rowntree Foundation. Written submission.
94 Women in Scotland’s Economy research centre. Written submission.
95 STUC. Written submission.
116. The Committee believes that the data showing an increase in the number of self-employed part-time jobs represents a significant new trend in the labour market. However, there is no concrete evidence to explain the reasons for the increase in Scotland, nor information on the sectors in which the increase is most evident. The Committee believes that there needs to be further analysis by the Scottish Government of the increase in self-employment to help understand whether this is as a result of growing entrepreneurship or other factors.

Increase in “zero-hours” contracts

117. “Zero-hours” contracts are contracts under which employees are not contracted to work a fixed amount of hours per week, indeed they have no guarantee of work in any given week. For employers, particularly those in sectors where there is a seasonal or fluctuating demand for labour, a “zero hours” contract provides flexibility, reduces overheads and avoids the need to take on the obligations associated with contracts of employment.

118. The Office for National Statistics’ Labour Force Survey estimated that there were 117,000 people (approx. 0.4% of the population) on zero hours contracts in the UK for the period April-June 2012. The incidence of zero hours contracts is seasonal, with higher numbers on this kind of contract at certain times of the year. Figures on zero hours contracts are not available for Scotland.

119. Zero hours contracts are more prevalent in some sectors than others, notably in the hospitality sector. ETUC referred to the increasing use of zero-hour contracts by those providing services to public bodies, particularly in the care sector. Universities also use zero-hours contracts with a recent survey at Edinburgh University showing that 27% of staff were on such contracts.

120. In evidence, Scottish Enterprise indicated that it was aware of the use of zero-hour contracts, particularly in the tourism and food and drink sectors due to the seasonality of work. Scottish Enterprise also referred to the use of contractors or recruitment agencies by a small number of companies “if they see demand rise but are not sure how long that will be sustainable, some look at using recruitment agencies or contractors.” CEIS confirmed that it was seeing a similar approach in manufacturing and distribution sector—

“As an agency that places people in businesses, our perspective is different. Businesses are coming to us more often and they are aware that their recruitment costs are higher, that they are experiencing greater churn and turnover, and that they are dealing with a workforce who in many cases have

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lower than ideal job satisfaction. The flipside is that the businesses are able to manage costs in line with demand and can be more competitive.”\(^{101}\)

121. ETUC identified a growth in the use of zero-hour contracts in the last ten years, particularly in the voluntary and care sector. It explained that the pressure to reduce costs had led to employers having a core permanent workforce supplemented by agency, casual or zero hour contract workers. ETUC also noted that while zero hour contracts might have a higher hourly rate this was because they might incorporate a holiday pay element and that there was a “lack of sick pay, pension contributions and other benefits”.\(^{102}\) CEIS emphasised the problems that zero-hours contracts had for employees because they could not find additional work and that led to “economic hardship in families, because the family income is not what it could be.”

122. Women’s Enterprise Scotland contended that there was a gendered dimension to the zero hour contracts, noting that it was “seeing more zero-hours contracts for the sort of low-pay service sector jobs that many women have.”\(^{103}\)

123. In evidence to the Committee, the Cabinet Secretary confirmed that the Government did not use zero hour contracts. In subsequent correspondence he explained that—

“It is the responsibility of companies contracted by the Scottish Government to provide public services to put in place appropriate contractual arrangements with their employees. The specific terms and conditions that a contractor agrees with its employees are primarily a matter for the parties concerned.”\(^{104}\)

124. The Committee is concerned by the reported rise in the use of zero-hours contracts in Scotland and the evidence suggesting their use by public sector contractors. It calls on the Scottish Government to ascertain the degree to which zero-hours contracts are used by the public sector and their contractors and to report back to the Committee. We believe that the public sector and its contractors should not misuse zero hour contracts, and we ask the Scottish Government to confirm how the forthcoming procurement bill will address this.

**THE COSTS OF UNDEREMPLOYMENT**

125. There are a number of areas in which underemployment has a cost, both in the macroeconomic and the personal sense. The macroeconomic costs include a reduction in productivity, deskilling and a reduction in spending power. Personal costs are evident in the demoralisation and stress experienced by people who are

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\(^{102}\) Edinburgh Trade Union Council. Written submission.


\(^{104}\) Supplementary written evidence from the Cabinet Secretary for Finance, Employment and Sustainable Growth.
unable to secure a job with sufficient hours or at the appropriate skills level and the lower incomes levels among the underemployed.

**Macroeconomic costs**

126. The "productivity conundrum" – the perplexing situation presented by higher than expected levels of employment but stagnant output - continues to be a subject of discussion among economic commentators in the UK. The situation in Scotland was summed up by Professor Bell who said that "in terms of the overall economy, output has fallen by quite a lot and employment has not fallen by that much, if we just take the total number of people employed."105 The apparent resilience of output per hour in Scotland and the UK is shown in Figure 12.

**Figure 12 – Output per Hour, Scotland and UK 2002-12**

127. Professor Bell illustrated the relative impacts of underemployment and unemployment on productivity by drawing a comparison between the UK and Spain. He explained that—

“The argument is that productivity may have fallen less in Spain, for example, than it has in the UK, because it now has more unemployment than we do—more people there were put on to the jobs market. It is difficult to say whether the current situation is a bad thing or a good thing. People in work who have relatively low productivity just now may only be on half time, so they might be able to double their output without much cost. They will already have the

skills to do for 40 hours what they currently do for 20 hours, which is different from the position in Spain, where employers would have to rehire workers and ensure that they had the necessary skills for the jobs.\(^{106}\)

128. Scottish Enterprise observed that “the effects of underemployment on productivity depend on the measures that we use”, explaining that—

“…some evidence … suggests that the impact on productivity has not been as severe if we look at output per hour worked as opposed to output per worker. That suggests that productivity has not really been affected for firms that have looked to reduce hours—underemployment—as a response to the recession. That has not affected their competitiveness in the wider economy. Companies that are able to use their workforces flexibly have not experienced a major impact on their productivity or competitiveness."\(^{107}\)

129. One aspect of the discussion on productivity which provided clearer evidence of the negative impact of underemployment was that of its long-term impact on skills and the challenges that this could pose to businesses when there was return to growth. As CEIS observed to the Committee, “Underemployment is not really part of an employer’s strategy for growth; it is part of a strategy for survival."\(^{108}\)

SCC identified the challenge for businesses as being able to respond when demand increased—

“Businesses have been trying to manage their productivity and competitiveness over the past few years. However, underemployment represents a potential danger to their ability to maintain productivity, come the upturn of the economy."\(^{109}\)

130. Skills underutilisation poses a particular challenge in that the length of the economic downturn means that a proportion of the workforce may not have had the opportunity to develop their skills through employment in the same way that they might have had in a period of more maintained economic growth.

131. The Committee believes that a fuller assessment of the impact of underemployment on productivity might help to inform the discussion on productivity levels more generally. The Committee heard and received some evidence on productivity in the context of this inquiry, but believes that it is an area which would benefit from more research.

**Personal costs of underemployment**

132. The STUC drew the Committee’s attention to the fact that “real wages have fallen for the last four years” and emphasised the negative effect “of falling wages

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on workers, families and the economy as a whole." Dr McCormick highlighted the "persistent problem of in-work poverty partly due to low pay as well as not enough hours." He also pointed out that low pay had an impact on the demand for tax credits, saying that—

“We all pay the price through tax credits to prop up this end of the jobs market. This might be bearable if most people in this position experienced a short spell of low pay before their earnings rose. But many are stuck in a revolving door, moving in and out of insecure work.”

133. The Committee heard compelling evidence from Citizens Advice Scotland about the situations faced by some people who are currently underemployed and the difficulties experienced as a result of the current system of in-work financial support.

134. CAS indicated that as “sudden and imposed underemployment can be a serious problem for bureaux clients across the country” it had experienced clients approaching bureaux “because the suitability of their job has changed due to reductions in working hours.”

135. It provided case studies of people who had experienced a sudden reduction in hours. This example is from a Central Scotland Citizens Advice Bureau and concerns a client whose trade is masonry—

“The client has worked full time (39 hours/week) with the same company for 4 years. The client has been told that with immediate effect his hours are to be reduced to 24 per week because there is not enough work. The client has not been told how long the reduced working hours will last and he is worried about how he will make ends meet. The client earns £23,000 per year (which will reduce to £14,150). The client is one of 5 workers in this situation and believes it would be better to retain some workers and make some redundant but thinks the boss has reduced all of their hours to push them into seeking other employment and avoid making redundancy payments. The client wished to know about his rights.”

136. Another example was provided by CAS from an island Citizens Advice Bureau of a client whose employer has reduced his hours from full time to three days per week—

“The client has been employed full time by his employer for 26 years. The reduction in hours was imposed with no notice or agreement (no change to contract or verbal agreement). The client’s wife works part-time and the...
couple are worried about how they will pay their mortgage on their reduced income. The client wanted to know if his employer was entitled to do this.\textsuperscript{116}

137. On the basis of its case studies, CAS indicated that “In times where job security is not guaranteed, pursuit of employment rights can become secondary to holding on to a job” as “clients do not want to challenge poor employment practices for fear of losing a job all together.”\textsuperscript{117} It concluded that reductions in hours had left many of its clients in difficult living situations. In evidence to the Committee it referred to examples of people becoming in debt as they used credit cards and payday loans to cover their loss of income.

138. CAS also provided evidence of couples who were struggling to increase the hours that they worked to meet the new requirement of working 24 hours jointly to qualify for working tax credit. It argued that the changes in entitlement to child tax credit and working tax credit “were the wrong move at the worst time” and expressed a “concern that these changes could push many people into poverty and debt.”\textsuperscript{118}

139. The STUC observed that the “impact of long-term unemployment on individuals’ future career prospects, erosion of skills, life chances and health is very well understood” and indicated that a growing body of evidence was “…confirming similar impacts on skills, career and health from periods spent in insecure, low-wage employment or periods spent (as is often the case) moving between bad jobs and unemployment.”\textsuperscript{119}

140. In evidence to the Committee, the Department for Work and Pensions explained that the introduction of Universal Credit, with a taper which is set at 35 per cent, would mean that—

“…the more someone works—up to a certain limit—the better off they will be. Not only will they be getting their salary; we will take away only a proportion of their benefit. For every pound that they earn, they will keep 35p of their benefit. At the moment, it is almost like for like: you earn something and we take it away. Under universal credit there is a taper, which stops the cliff edges occurring so that people earn more and take home more.”\textsuperscript{120}

141. The Committee believes that the case studies on the personal impact of underemployment provide stark evidence of the effect that it is having on people’s lives and that these effects are similar to those caused by unemployment. It recognises that individuals have faced a reduction in their incomes as a result of underemployment which has placed them in sometimes untenable financial positions. This evidence demonstrates a strong link between underemployment and poverty.

\textsuperscript{116} Citizens Advice Scotland. Written submission.
\textsuperscript{117} Citizens Advice Scotland. Written submission.
\textsuperscript{118} Citizens Advice Scotland. Written submission.
\textsuperscript{119} STUC. Written submission.
WHAT CAN BE DONE ABOUT UNDEREMPLOYMENT IN SCOTLAND?

The Policy Context

142. The Committee is cognisant of the fact that financial and economic matters, social security and employment are reserved matters in the context of the devolved settlement. It concurs with the evidence it received highlighting the importance of economic growth to promote demand for labour but notes that the key levers of macroeconomic policy rest with the UK Government. The recommendations in this section are therefore focused on the ways in which existing Scottish Government policies can be adapted to take into account the growth of underemployment.

143. The Cabinet Secretary for Finance, Employment and Sustainable Growth informed the Committee that “the issue of underemployment was highlighted in the Government’s economic strategy, which was published in 2011, and recognised as a factor that we had to wrestle with as part of our approach to delivering economic recovery.”121 In response to questioning on whether high underemployment had become a permanent feature of the labour market, the Cabinet Secretary said that “One could take that view only if one believed that there was no prospect or possibility of delivering higher levels of economic growth in Scotland.”122

144. The Cabinet Secretary also emphasised that in the context of its economic strategy, the Scottish Government had—

“[mobilised] resources to support recovery and prioritise our efforts to support the Scottish economy during the toughest times of the recession. We have focused our efforts on boosting public sector capital investment; taking direct action to tackle unemployment, particularly among our young people; and boosting economic confidence by encouraging private sector investment and providing security to Scottish households and businesses.”123

145. The overarching Purpose of the Scottish Government is “to focus Government and public services on creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable growth.”124 It is supported by two targets for participation in the labour market. The first target is “to maintain our position on labour market participation as the top performing country in the UK” and the second is “to close the gap with the top five OECD economies by 2017”.125

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146. The participation rate is calculated as the proportion of people aged 16 to 64 in employment. The Scottish data for measuring the participation rate is sourced from the Annual Population Survey and employment is defined as people who are employees, self-employed, on government training programmes or unpaid family workers.

147. The Committee acknowledges the financial commitments made by the Scottish Government in an effort to promote economic stimulus and thereby support demand for labour.

148. The Committee is of the view that since the point in time when the Scottish Government identified participation rates as key labour market targets, the economic downturn has resulted in number of changes to the labour market that have been documented in this report. These changes have meant that headline participation rates are less useful for measuring the health of the labour market. The Committee therefore calls on the Scottish Government to consider how its labour market targets can be adapted to reflect an ambition to grow the number of hours people are in work, improve the quality of jobs in Scotland and the types of contracts used.

Learning, skills and well-being
149. Scotland Performs identifies three areas in which its policies can promote labour market participation: learning, skills and well-being; supportive business environment; and effective government. The following section identifies how underemployment can be taken into account in these three areas.

150. In the context of this inquiry, the Committee came across examples of mismatches between skills in the labour force and demand for employment: an issue that was also of concern to the Committee in its inquiry on the achievability of the Scottish Government’s renewable energy targets. The Cabinet Secretary told the Committee that the Scottish “education system must be more aligned with equipping individuals for employment than it has been in the past.” The Committee concurs that improvements in alignment of skills with employment opportunities are vital and that higher education institutes and students should be encouraged to give greater consideration to the future labour market.

151. The evidence also raised the issue of the extent to which people who were in hours-constrained underemployment would be able to participate in further learning, training or work experience. CEIS referred to the ways in which underemployment was often characterised by “shift-work, variable hours or on-call work” and the Committee also learnt that workers on zero-hour contracts frequently had little warning of future shifts. This suggested that hours-constrained

126 http://www.scotland.gov.uk/About/Performance/scotPerforms/purposes/participation#a1
128 Community Enterprise in Scotland. Written submission.
underemployment could make it difficult for people to improve their employment opportunities by accessing courses or participating in work experience.

152. In evidence, the Open University emphasised that it was “essential that part-time provision is incentivised alongside full-time, campus-based courses” and noted that the incorporation of the Part-Time Incentive Grant, which until 2011-12 had been provided to Higher Education Institutes on the basis of their part-time numbers, into regional coherence funding had in effect removed “any financial incentive for HEIs to provide part-time courses at a time when more people may be looking for flexible provision to improve their marketability to employers.”

153. The Cabinet Secretary told the Committee that “the Government’s approach has focused on shifting the emphasis towards providing more full-time courses in the college sector, because all the evidence tells us that people must be able to access deeper skills training and experience to equip them for entering the labour market.”

154. NUS Scotland proposed a range of measures in written evidence to promote opportunities for training, education and work experience. In particular, it suggested a postgraduate apprenticeship scheme to “promote greater numbers of jobshare opportunities with graduate employers” which would be combined with “investment in additional part-time postgraduate study opportunities with support for fees and living costs.”

155. The Committee calls on the Scottish Government, Skills Development Scotland and the Scottish Funding Council to consider whether opportunities to access education, training and work experience can be improved for those who are underemployed, including those who are graduates. The Committee believes that people who are underemployed are at risk of losing their skills or of not having the opportunity to further develop their skills. This has the potential to have a detrimental impact upon productivity as well as the labour market progression of those concerned.

156. The Committee also heard that there was an important role for employers in providing training. The Skills Pulse Survey of employers in Scotland published by SCDI in association with Skills Development Scotland and the Training and Employment Research Unit at Glasgow University reported a 20% reduction in staff training as a result of economic circumstances.

157. The UK Commission on Employment and Skills (UKCES) told the Committee how it was working through its commissioners to secure greater employer engagement on skills and to promote collaboration between government and

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129 Open University. Written submission.
130 Open University. Written submission.
132 NUS Scotland. Written submission
business networks and local communities. The Cabinet Secretary also emphasised the importance of employer involvement. He said that “employers have a responsibility to train and support the development of their staff. Some employers invest heavily in that process, but there are opportunities for that work to be strengthened.”

158. The Cabinet Secretary also referred to the support that the Scottish Government provided to businesses in relation to training, explaining that—

“The Government offers flexible training opportunities to support Scottish businesses with 100 or fewer employees to improve their skills-based productivity. About 50 per cent of the training costs—up to a maximum of £500 per employee training session—is available to individual companies, so the Government does its bit, but employers must do their bit too.”

159. The Committee agrees with the Cabinet Secretary that employers must take increased responsibility for training their employees whilst recognising the financial constraints that employers are under. The Committee is particularly concerned by the recent reduction in staff training as it may have a medium to long-term impact on workforce skills and productivity. The Committee calls on the Scottish Government to consider how it can work with partners to promote greater employer engagement on training.

160. Dr Jim McCormick highlighted the fundamental issue of a lack of access to good quality training for unskilled workers. He provided evidence showing that “in the ten years since 2000, just 10% of unskilled workers took part in job-based training in the previous quarter compared with 30% of the workforce as a whole.” He argued that “temporary work on a casual, seasonal or agency basis is strongly associated with low pay and limited training” and that while this might provide access to the labour market, “the failure to invest in future prospects blunts productivity.” The Committee recognises the particular problems faced by the least skilled in accessing training and calls on the Scottish Government to ensure that this group is not disproportionately disadvantaged in terms of access to training.

161. The Committee heard strong evidence concerning the gender dimension of underemployment. It recognises that there are a complex range of issues that contribute to higher rates of underemployment among women but notes that caring responsibilities are a contributing factor. The Committee was particularly struck by the evidence indicating that Scotland had the second highest childcare costs in Europe. It notes Dr McCormick’s suggestion that consideration should be given to subsidies to childcare providers as the current system, which has increased “supply-side subsidies to parents over the past decade”, has resulted in

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136 Dr Jim McCormick, Scotland Adviser, Joseph Rowntree Foundation. Written submission.
137 Dr Jim McCormick, Scotland Adviser, Joseph Rowntree Foundation. Written submission.
the propping up of “an expensive, fragmented and averagely good childcare market.”

162. The Committee considers that the Scottish Government’s commitment to increase the legislative provision of childcare will help to promote labour market participation among women, but calls for more research into why child care costs are so high. The Committee recognises that the high costs of childcare in Scotland have an impact on women’s abilities to work either the number of hours that they would like to or at an appropriate skills level due to the lower-skilled character of part-time employment.

Supportive business environment

163. The extent to which the enterprise agencies and public procurement could promote a business environment which could tackle underemployment was covered in evidence. The STUC commented on the importance of developing high quality employment in Scotland to “grow the number of full-time, quality job opportunities in the Scottish labour market” in order to avert “low road competitive strategies based on cost minimisation and treating their workforce as disposable.”

164. Scottish Enterprise also argued that “the most effective way to address skills underemployment is to support companies in high value, high productive activities and to attract and support high value investment into Scotland that each requires skilled employees.” Scottish Enterprise highlighted its work in helping companies to innovate, export, raise investment and grow their leadership capacity and improve skills use.

165. HIE emphasised that tackling the consequences of underemployment in the Highlands and Islands had long been a core aspect of its activities, particularly in more remote and fragile communities. It provide evidence of the ways in which it supported business and social enterprises to grow, how it sought to strengthen communities and fragile areas, the support it provided to develop growth sectors and its commitment to creating the conditions for a competitive and low carbon region.

166. Attracting inward investment is a key role of both enterprise agencies. The Committee visited the Amazon Fulfilment Centre in Fife, which had received Regional Selective Assistance (RSA), Training Plus and Scottish Property Support Scheme funding from Scottish Enterprise. The RSA funding was contingent on the creation of 685 permanent full-time jobs and the safeguarding of 78. The Committee heard from Amazon that it had 643 permanent employees at the Dunfermline Plant.

167. The Committee believes that the inquiry evidence reinforces the importance of focusing on encouraging the growth of high value enterprise which can provide quality employment opportunities. To achieve this it is vital that the Scottish Government and the enterprise agencies maximise the

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139 STUC. Written submission.
140 Scottish Enterprise. Written submission.
outcomes from their investments and consider whether more can be done to link the provision of investment to the creation of secure and high quality jobs.

168. In relation to public procurement, the Committee questioned the Cabinet Secretary on whether commitments could be included in the procurement process to ensure that “zero-hours” contracts are not misused by those in receipt of public funding. The Cabinet Secretary stated that “the Government does not use zero-hours contracts in contracting with its staff, which is a pretty clear signal that the Government does not approve of such contracts.”141 He also indicated that he would be prepared to consider this issue in relation to forthcoming legislation on procurement—

“We would have to consider whether there is scope and legislative competence to extend the requirement that zero-hours contracts cannot be used in procurement contracts. I will be happy to consider that with the committee when our procurement reform bill comes to Parliament in due course, which will enable us to explore some of those questions.”142

169. The Committee calls on the Scottish Government to consider what scope there is to preclude the misuse of zero-hour contracts by attaching conditions in the procurement process for contracts awarded by public bodies and to confirm how the forthcoming procurement bill can address this.

Effective government

170. The Cabinet Secretary told the Committee that he was concerned by the way in which employability “interventions are properly and effectively integrated and compatible and do not duplicate other provision or resources that are available” and delivered “maximum value for money given that different elements are provided by different organisations.”143 In order to streamline interventions, the Scottish Government has recently established the Scottish Employability Forum,144 which involves the UK Government, the Scottish Government and local government as well as having private sector and third sector members. The Cabinet Secretary described the focus as being “to streamline things across the different bodies to ensure that individuals get the person-centred support that they require for their journey into employment and training.”145

171. The Committee notes that the remit of the Scottish Employability Forum is to “support delivery of public sector/government strategies by leading efforts to reduce unemployment and increase employment in Scotland.”146 The Committee

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144 http://www.employabilityinscotland.com/employability/scottish-employability-forum
calls on the Scottish Employability Forum to consider underemployment in Scotland as part of its work.

172. The evidence that the Committee heard on the introduction of the Universal Credit as part of the UK Government’s welfare reform measures underlined the importance of collaborative working. Universal Credit will be rolled out in October 2013 and will provide a single system of means-tested support for working-age people who are both in and out of work. It will include support for housing costs, children and childcare costs and provide additional support for disabled people and carers.

173. The UK Department for Work and Pensions (DWP) explained that “when universal credit takes over tax credits, our claimant base will increase to 11 million—5 million of whom will be in work.”

“It initially we will set out a clear expectation that claimants should be maintaining their current level of income as a baseline, whilst at the same time taking appropriate steps to increase it. We will test a range of approaches in order to build an understanding of what sort of interventions work best with this group. These tests are likely to take a variety of forms, from small scale “pathfinders” that can be put in place relatively quickly, to more formal control trials.”

174. In evidence to the Committee, the DWP acknowledged that it did not yet know how Jobcentre Plus staff will work with in-work claimants. It explained that it would pilot approaches once the Universal Credit was in place and that the DWP had launched a call for ideas on how it could work with in work claimants—

“Very few countries in the world have worked with underemployed claimants who are in part-time work to try to increase their hours and to increase the amount of money that they earn. There is some evidence worldwide about what may and may not work, but it is limited. A couple of weeks ago, our minister launched a call for ideas to bring in new and different ideas about how we might work with that claimant base—we would value your input on that.”

175. The Committee notes that Jobcentre Plus will start to work with those that are in employment but in receipt of Universal Credit to support them in increasing the number of hours worked. Members are concerned about the high degree of uncertainty surrounding how Universal Credit will work in practice. The Committee therefore considers that evaluation and close scrutiny of the number of people supported by Jobcentre Plus into increased hours of work will be necessary.

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148 Department for Work and Pensions. Written submission.
150 Murdo Fraser dissented from this paragraph.
ANNEXE A: EXTRACTS FROM THE MINUTES OF THE ECONOMY, ENERGY AND TOURISM COMMITTEE

33rd Meeting, 2012 (Session 4), Wednesday 12 December 2012

4. Work programme (in private): The Committee considered and agreed its work programme. The Committee agreed to undertake an inquiry into underemployment in Scotland and then agreed a remit, terms of reference and call for evidence for this inquiry. The Committee also agreed to take any reviews of evidence and discussions on draft reports for this inquiry in private at future meetings.

1st Meeting, 2013 (Session 4), Wednesday 9 January 2013

1. Inquiry into Underemployment in Scotland: The Committee took evidence from—
Professor David Bell, University of Stirling.
2. Inquiry into Underemployment in Scotland - witness expenses: The Committee agreed to delegate to the Convener responsibility for arranging for the SPCB to pay, under Rule 12.4.3, any expenses of witnesses in the inquiry.
3. Inquiry into Underemployment in Scotland (in private): The Committee reviewed the evidence heard.

2nd Meeting, 2013 (Session 4), Wednesday 16 January 2013

2. Inquiry into Underemployment in Scotland: The Committee took evidence in a roundtable format from—
Stephen Boyd, Assistant Secretary, STUC;
Dr Paul Sissons, Senior Researcher, The Work Foundation;
Lesley Giles, Deputy Director of Research and Policy, UK Commission for Employment and Skills;
Dr Patrick Watt, Lead Head of Evaluation & Research, Skills Development Scotland;
James Alexander, Senior Policy and Communications Manager, SCDI.
5. Inquiry into Underemployment in Scotland (in private): The Committee reviewed the evidence heard.

3rd Meeting, 2013 (Session 4), Wednesday 23 January 2013

2. Inquiry into Underemployment in Scotland: The Committee took evidence in a roundtable format from—
Emily Thomson, Co-director, Women in Scotland's Economy Research Centre;
Norma Philpott, Chief Executive, Citizens Advice and Rights, Fife;
Lauren Wood, Social Policy Officer, Citizens Advice Scotland;
Robin Parker, President, National Union of Students Scotland;
Dr Jim McCormick, Scotland Adviser, Joseph Rowntree Foundation;
Dave Surtees, Convenor, Association of Graduate Careers Advisory Services;
Des Loughney, Secretary, Edinburgh Trade Union Council.
7. Inquiry into Underemployment in Scotland (in private): The Committee
considered the evidence heard.

4th Meeting, 2013 (Session 4), Wednesday 30 January 2013

2. Inquiry into Underemployment in Scotland: The Committee took evidence from—
Kenny Richmond, Economics Director, Scottish Enterprise;
Gerry Higgins, Chief Executive, Community Enterprise in Scotland;
Jackie Brierton, MD/Policy Director, Women's Enterprise Scotland;
Garry Clark, Head of Policy and Public Affairs, Scottish Chambers of Commerce.
3. Business in the Parliament 2013 (in private): The Committee considered a paper by the clerk and agreed its approach to the event.
4. Inquiry into Underemployment in Scotland (in private): The Committee considered the evidence heard.

5th Meeting, 2013 (Session 4), Wednesday 6 February 2013

1. Inquiry into Underemployment in Scotland: The Committee took evidence from—
Richard Cornish, Work Services Director, Scotland, and Ross James, Head of Labour Market Interventions Strategy, Department for Work and Pensions.
3. Inquiry into Underemployment in Scotland (in private): The Committee considered the evidence heard.

7th Meeting, 2013 (Session 4), Wednesday 27 February 2013

1. Inquiry into Underemployment in Scotland: The Committee took evidence from—
John Swinney, Cabinet Secretary for Finance, Employment and Sustainable Growth, Graeme Roy, Deputy Director, Office of the Chief Economic Adviser and Julie Bilotti, Employability Policy Team, Scottish Government.
4. Inquiry into Underemployment in Scotland (in private): The Committee reviewed the evidence heard.

9th Meeting, 2013 (Session 4), Wednesday 13 March 2013

1. Inquiry into Underemployment in Scotland (in private): The Committee considered a draft report.

11th Meeting, 2013 (Session 4), Wednesday 27 March 2013

3. Inquiry into Underemployment in Scotland (in private): The Committee considered and agreed a draft report and agreed the arrangements for its publication.
ANNEXE B: ORAL AND WRITTEN EVIDENCE

The Committee would like to thank all of those who gave oral evidence or submitted written evidence to this inquiry.

Wednesday 16 January 2013

Official report

Stephen Boyd, Assistant Secretary, STUC;
Dr Paul Sissons, Senior Researcher, The Work Foundation;
Lesley Giles, Deputy Director of Research and Policy, UK Commission for Employment and Skills;
Dr Patrick Watt, Lead Head of Evaluation & Research, Skills Development Scotland;
James Alexander, Senior Policy and Communications Manager, SCDI

STUC

Wednesday 23 January 2013

Official report

Emily Thomson, Co-director, Women in Scotland's Economy Research Centre;
Norma Philpott, Chief Executive, Citizens Advice and Rights, Fife;
Lauren Wood, Social Policy Officer, Citizens Advice Scotland;
Robin Parker, President, National Union of Students Scotland;
Dr Jim McCormick, Scotland Adviser, Joseph Rowntree Foundation;
Dave Surtees, Convenor, Association of Graduate Careers Advisory Services;
Des Loughney, Secretary, Edinburgh Trade Union Council.

Women in Scotland's Economy
National Union of Students Scotland
Joseph Rowntree Foundation
Edinburgh Trade Union Council

Wednesday 30 January 2013

Official report

Kenny Richmond, Economics Director, Scottish Enterprise;
Gerry Higgins, Chief Executive, Community Enterprise in Scotland;
Jackie Brierton, MD/Policy Director, Women's Enterprise Scotland;
Garry Clark, Head of Policy and Public Affairs, Scottish Chambers of Commerce.

Scottish Enterprise
Community Enterprise in Scotland
Scottish Chambers of Commerce

Wednesday 6 February 2013

Official report

Richard Cornish, Work Services Director, Scotland, and Ross James, Head of Labour Market Interventions Strategy, Department for Work and Pensions.

DWP

Written evidence

Wednesday 27 February

Official report

John Swinney, Cabinet Secretary for Finance, Employment and Sustainable Growth, Graeme Roy, Deputy Director, Office of the Chief Economic Adviser, Euan Carmichael, Office of the Chief Economic Adviser, and Julie Bilotti, Employability Policy Team, Scottish Government.

Scottish Government - correction

The Committee received a number of written submissions and these can be viewed online at:

http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/58227.aspx

Andrew Bell, Professor David Capability Scotland Carers Scotland CBI Scotland Community Enterprise in Scotland DWP Edinburgh Trade Union Council Equality and Human Rights Commission Felstead, Alan Highlands and Islands Enterprise Inclusion Scotland NUS Scotland McCormick, Jim, Scotland Adviser, Joseph Rowntree Foundation Open University SCVO SCVO Scottish Chambers of Commerce
Scottish Council on Deafness
Scottish Enterprise
Scottish Government
SSSC
STUC
Scottish Women’s Convention
WISE
Universities Scotland

Supplementary Submissions

Bell, Professor David
DWP
Scottish Government
Members who would like a printed copy of this *Numbered Report* to be forwarded to them should give notice at the Document Supply Centre.