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ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 9 January 2013

Session 4

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ECONOMY, ENERGY AND TOURISM COMMITTEE
1st Meeting 2013, Session 4

CONVENER

*Murdo Fraser (Mid Scotland and Fife) (Con)

DEPUTY CONVENER

*Dennis Robertson (Aberdeenshire West) (SNP)

COMMITTEE MEMBERS

*Marco Biagi (Edinburgh Central) (SNP)
*Chic Brodie (South Scotland) (SNP)
*Rhoda Grant (Highlands and Islands) (Lab)
*Alison Johnstone (Lothian) (Green)
*Mike MacKenzie (Highlands and Islands) (SNP)
*Margaret McDougall (West Scotland) (Lab)
*David Torrance (Kirkcaldy) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Professor David Bell (University of Stirling)

CLERK TO THE COMMITTEE

Jane Williams

LOCATION

Committee Room 4

Scottish Parliament

Economy, Energy and Tourism Committee

Wednesday 9 January 2013

[The Convener *opened the meeting at 10:00*]

Underemployment Inquiry

The Convener (Murdo Fraser): Good morning, ladies and gentlemen, and welcome to the first meeting in 2013 of the Economy, Energy and Tourism Committee. I hope that you all had a good break, and happy new year to all those I have not seen individually.

I remind everybody to turn off their mobile phones and other electronic devices.

Item 1 on our agenda is the commencement of our inquiry into underemployment in Scotland. I am delighted that we have with us Professor David Bell of the University of Stirling, who is no stranger to the committee and is, according to *The Scotsman* anyway, the leading expert on this important area of work. I know that he has written extensively on the subject. We are grateful to you, David, for coming along. Before we get into questions, would you like to say something by way of introduction?

Professor David Bell (University of Stirling): Sure. I set out some thoughts in the paper that I submitted to the committee last week. The basic argument is that Scotland, and the United Kingdom as a whole, have experienced a substantial drop in output since the beginning of 2008. That is particularly clear from figure 1 in my paper. However, compared with past recessions, the level of unemployment is well below what we experienced in the mid-1980s, for example, or even the early 1990s. There is therefore a bit of a query as to why unemployment has not risen as much as many commentators expected. One of the explanations is that the total number of hours worked are being divided among more people than was the case in the past. There has been a shift from full-time to part-time work and quite a considerable increase in the number of people who say that they would like to work longer hours. In the terminology that we use, they are hours constrained.

I did not allude to this very much in my text, but 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. The economy is demand constrained and there is not sufficient demand for hours of work to keep everyone employed or, if you like, to allow us to return to the low rates of unemployment that we enjoyed during the middle of the past decade.

A number of things have happened because of this underemployment. One of the issues that I particularly picked up on is around self-employed part-time people, who are not necessarily young, although the underemployed in general may be young. I think 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 had hoped. Since there is no full-time employment available to them, they have gone into self-employment and they work, on average, relatively few hours per week. There are now around 80,000 self-employed part-time people in Scotland and about 1 million in the UK. This is quite a new phenomenon and different from the situation in most other countries, which experienced smaller falls in output as a result of the recession than the UK did. However, many of them now have higher rates of unemployment.

The Convener: Thank you. I will start off with a couple of questions before bringing members in. You presented statistics in your paper about the levels of underemployment. Clearly, some people will be underemployed because they want to be and it suits them to work part-time. How do we know that people who are underemployed are actively seeking to work longer hours? How do we get that information?

Professor Bell: I think that all the information that I presented is from the labour force survey. I collect all the individual responses to the survey, and I have a file that has about 2 million responses for the period 2000 to 2012.

The Convener: Have you read them all?

Professor Bell: No, and of course they are anonymised, so I do not know who the individuals are.

One of the questions that is asked in the survey is whether the person would like to work more hours and, if so, how many more. I agree that a lot of people work part-time by choice and it makes sense on all kinds of grounds that people might want to exercise that choice. The question asking whether someone wants to work more hours highlights the people who are probably working part-time and would prefer to work more hours. I therefore think that we can distinguish the part-timers who are happy to be part-time from those who are part-time but would like to work more hours. I have not gone into the statistics on this, but the survey respondents are asked how many

more hours they would like to work and some say that they would like to work just a couple of hours more, while some say that they want to work a lot more hours.

The Convener: That is helpful. You said earlier that underemployment is sometimes positive because it is better than the alternative of unemployment. We hear anecdotally of companies that have smaller order books as a result of the economic downturn and, rather than go through the process of making people redundant, have gone to their workforce and asked whether they would collectively agree to work shorter hours, which therefore retains the skills base. Have you come across that phenomenon?

Professor Bell: Yes. I think that that has happened during this recession more than it did in the past, partly because there is greater flexibility on both sides—management and workers—than there used to be. Retaining workers is called labour hoarding, which means that employers hang on to their best workers even though their order book has fallen, because they expect that in the future their order book will rise again and they do not want to go through the cost of having to train or hire their skilled workers again. That argument works to a point but, from what we read, employers do not have terribly bright expectations of the future. I think that the hoarding argument for skilled workers is starting to pale a bit. However, the general flexibility of employers trying to find their way around the problem and workers working with them to do that probably carries some weight.

The Convener: Thank you. My final question before I bring in members is about international comparisons. One of the things that comes out of your paper is that UK underemployment is substantially higher than the European Union average. Do you understand why that is the case? Why is the UK different in that regard?

Professor Bell: One way that I would put it is that we have to think about the labour market in two ways: there is the external labour market in which people move into and out of firms; and there is the internal labour market within a firm.

I have already described how employers and employees may agree to change the pattern of work and pay within the firm. That has perhaps happened quite a lot in the UK and has led to a certain level of underemployment. Other countries—I think, for example, of Spain—have not had the flexibility to do that. In Spain, there was a huge number of so-called temporary employees, particularly in the construction industry, which I think made more than 1 million people unemployed when the housing boom came to an end. There was no mechanism whereby people working in the construction industry might be given a few hours of work per week, so all the workers were laid off. The UK and Scotland have made more use of that kind of internal labour market flexibility, which leads to what we call underemployment, and less of the external labour market kind, whereby people are just laid off and go on to unemployment.

I think—I am trying to recall—that the fall in output in Spain was, until recently, comparable with the fall in output in the UK, but Spain has suffered a hugely bigger rise in unemployment than the UK and Scotland have.

The Convener: Thank you. I welcome Mary Scanlon, who has joined us this morning.

Dennis Robertson (Aberdeenshire West) (SNP): Good morning, Professor Bell, and thank you very much for the briefing paper. I will stay with the flexibility aspect. In my previous job, when young women went off on maternity leave, they often chose to come back part-time to fit in with their childcare arrangements. That flexibility is fairly new in the employment market. Is there any evidence to suggest that, once people come back on a part-time basis—say, for 10 hours fewer than they worked originally—and have sorted out their childcare arrangements, they may want to increase their hours after a couple of years? Does the available evidence suggest that a significant number of people have difficulty in doing that?

Professor Bell: I do not have the statistics on that. All that I would say is that women returners find it harder to get back on to the same trajectory that they were on prior to having children. There is probably quite a large number of people in that category, but I do not have statistics on that.

Dennis Robertson: Do employers perhaps make suitable adjustments when the employee initially goes off and requests to come back on part-time hours but, having adjusted to accommodate that, companies or agencies find it very difficult to adjust again?

Professor Bell: That may be true. A lot depends on how long the employee has been off, what arrangements the company has made in the meantime to replace the labour that the employee previously supplied and how many part-time hours the returning employee is able to provide. The issue is complex. I would say only that the evidence shows that many people find it quite difficult—it is probably less difficult in the public sector—to get back on to the same trajectory that they were on previously.

Dennis Robertson: I will move on to a different subject, which relates to the skills of the workforce. We hear quite often from the energy and construction sectors that they find it difficult to recruit people into those sectors because of the skills required. Is enough being done by the colleges and universities to address that? The

energy academy means that those issues are perhaps starting to be addressed. Might that have a significant impact on underemployment levels?

Professor Bell: For several years now, there has been quite a change in university funding for what are called the STEM—science, technology, engineering and maths—subjects. On the employers' side, part of the issue is about making those jobs attractive to graduates. In particular, there is a need to get at individuals when they are young, which is when they make critical choices that affect their path into university, through university and then into whatever career they want to undertake. For example, I have tried to promote mathematics in schools. Over the past couple of decades at least, mathematics has suffered from a very bad press but it is absolutely essential if we are to become a vibrant economy and return to the growth levels that we experienced in the past. Efforts are being made, but I do not know whether they are all joined up or whether enough is being done early enough to influence young people. It seems to me that the choices that young people make prior to going to college or university are very important.

10:15

Dennis Robertson: Are such efforts now sector led rather than education led?

Professor Bell: The sector has a very big role to play. I know that some companies are working quite hard on the issue, but there is a way to go. Science, maths and engineering do not have a very good press. Over the past decade, I have had a lot of graduates and undergraduates who were pretty smart people, but they aspired to go into the city.

Dennis Robertson: Finally, are we doing enough to address gender inequality? If that was done sufficiently, that might have quite a significant impact on underemployment levels.

Professor Bell: I know that the Royal Society of Edinburgh, for example, has been doing work on women in engineering—one of my colleagues did some work on that. I am a little worried that the efforts are bitty and do not quite make the overall impact that is necessary to attract young people, particularly women, in sufficient numbers into those areas that are essential to our returning to a more acceptable growth path.

Dennis Robertson: Did you say bitty?

Professor Bell: Yes.

Dennis Robertson: How can we join up those efforts so that they are not bitty?

Professor Bell: I do not know whether one looks for champions to progress such issues or whether one ensures that, from ministerial level, everything is being done that can be done. Those are important issues for Government, I think.

Marco Biagi (Edinburgh Central) (SNP): I have two questions that follow on from some of those issues. Your submission points out that

"Analysis of LFS data suggests that the underemployed are more likely to be ... Male".

However, other information suggests that, across the 27 EU countries, 67.1 per cent of the underemployed are female. What is different about the labour market here that has caused that gender difference?

Professor Bell: I was quite surprised by that finding when I made it last week. It seems that there are a lot of young, unqualified males who are seeking work in Scotland. I do not have a very good answer as to why they appear to outnumber the females in Scotland, although it is an interesting question. Perhaps young males have more options around the amount of time that they can devote to work, whereas young women might have caring responsibilities of whatever kind, so the males may say that they are available for more hours and would like more hours. Oddly, I was looking at that issue as I was coming here on the train, but I did not come up with a very good answer. Hower, that is a possible explanation.

The Convener: It is refreshing to have a witness who says that he does not have an answer to a question.

Marco Biagi: And it is pleasing to be the one who asked the question.

You have provided more information on some of the variables in terms of working in the private sector and being less qualified. Is there any further information on breakdown by industry or by size of employer for patterns of underemployment? I did not see such information in the submission or the accompanying paper.

Professor Bell: I did not want to overload the committee with information, but it is quite easy to do that kind of breakdown. I can come back to the committee on that point without any difficulty.

Marco Biagi: Can you give us preliminary comments on it?

Professor Bell: Another aspect of the big change since the 1980s, which I remember reasonably well, 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. However, people in manufacturing will have a shift, which has less flexibility around it.

Another interesting thing that I found, which I refer to in my submission, is the reduction in paid overtime working, which may partly be a reflection of the reduction in the size of the production industries. Paid overtime is more typical of such industries, but it is much less clear whether someone will be paid overtime in the service sector.

Rhoda Grant (Highlands and Islands) (Lab): I want to go back over some of your earlier comments. You referred to other countries having smaller decreases in output but larger increases in unemployment. So that I can get that clear in my head, can you tell me whether the decrease in output refers to worker output? That might mean that workers in other countries are fully employed rather than, as in our country, underemployed. Or does decrease in output refer to the country as a whole?

Professor Bell: I will give you an example. When I talk about decline in output, I mean decline in output for the country as a whole, so it is overall output. If the number of people in the country stays the same and there is a 5 per cent reduction in output for the country as a whole, then there is a 5 per cent per worker reduction in output. However, Ireland, for example, has had a substantial reduction in output and a reaction that has not happened in Scotland at all, which is an increase in emigration. Following the recession, lots of young Irish people left the country. Further, a lot of people from eastern Europe who were in Ireland returned to their country of origin. That means that, if output in Ireland fell by 10 per cent, say, output per worker did not fall by quite as much, because a lot of workers left.

In general, by a decline in output I mean a decline in output for the country as a whole and not per worker as such, but if the number of workers stays fairly stable, it amounts to more or less the same thing.

Rhoda Grant: That leads me to another question. If some countries have higher unemployment than we do because more people are out of work, but lower decreases in output, does that mean that productivity per worker in those countries has risen? If not, how are those countries bucking the trend?

Professor Bell: This is an interesting area, because the implication of what has happened in the UK is that productivity per worker has fallen quite a lot. On the first or second page of my paper I refer to a big debate as to whether that productivity can ever be recovered and whether there is the capacity in the economy to go back to the trend line that I showed in figure 1 of my paper.

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.

The productivity figures for Scotland do not look that good at the moment, but I am not sure that we should be terribly worried about that, because there is possibly the capacity to increase productivity relatively easily.

That was a long-winded answer to the question.

Rhoda Grant: That was really helpful. When we are in a recession we are often told that we should prepare for the upturn. Having built-in productivity capacity in an economy allows it to capitalise on the upturn, so what you said makes sense.

I was interested in the comment in your paper that part-time workers are less likely to be associated with labour hoarding and more likely to be associated with underemployment. Is that because they are more likely to be put out of work? Would that reflect why unemployment figures for women are increasing faster than those for other genders?

Professor Bell: The pattern of part-time work is that there are exceptions; some very highly paid people work part-time, but they are exceptions. By and large, people who work part-time are less skilled and less well paid, and are more frequently women than men.

In this recession—and, indeed, in previous ones—part-timers are just a step removed from the core workforce. We could say that temporary workers are also in that category. What we tend to find happening in a recession is that employers will try to protect their core workers and that those who are a step removed or temporaries are more likely to find themselves on reduced hours or possibly losing their jobs.

That said, there has been an overall increase in part-time working in Scotland during the recession. That may be because employers are finding that their core workforce is smaller than they thought it was and are franchising out bits of the operation in a way that they did not do in the past, which means that they no longer regard such people as

part of their core workforce; they will take on people part-time for such peripheral areas to keep costs down and may take on part-time workers for particular tasks. Of course, employers can thereby keep their overall costs down because the associated pension and national insurance costs are probably less onerous with part-time workers. On the employee's side, that is not good, but for the employer it may be beneficial.

10:30

Rhoda Grant: Another issue with the underemployment figure is that you say that the underproductive are more likely to be young men, but young men—certainly young people—also tend to make up a lot of the unemployment figures. That suggests that two things are going on that affect young people: first, they are not getting jobs in the first place; secondly, when they get a job, they are more likely not to be used to their full potential.

Professor Bell: Yes, I think that, in a sense, the youth unemployment figures understate the problem faced by young people in the labour market. One aspect is the underemployment of young people, which I have talked about in the submission. Young people want to work more than they are currently able to work. When young people respond to the labour force survey, they say that they would like to work more hours. With older people, it is much more common for them to say that they would like to work fewer hours.

Another aspect—which I did not bring out in the paper that I prepared for the committee but which is highlighted in a previous paper that I produced with David Blanchflower—relates to 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. Partly, that is because there are a lot of young people who are already in work who are saying that they would like to work more hours. If an employer gets an upturn in demand, he will hire more hours from the workers who are already there rather than pick up young unemployed people.

Also, the fact that some of the young people who are already in work are overqualified for what they are doing makes it doubly difficult for the unqualified to get any experience. Many employers stipulate experience as one of their key criteria for hiring people. If young unemployed people never get into the work environment because of those barriers, it becomes very difficult for them, so we end up with the scarring effects that David Blanchflower and I, as well as others, have talked about. 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.

The Convener: Two members—Chic Brodie and Marco Biagi—want to come in with supplementary questions.

Chic Brodie (South Scotland) (SNP): Good morning, Professor Bell. I want to follow up the international comparisons. I must say that I am somewhat cynical about any survey that is produced by the Office for National Statistics, given its performance of late. Do you agree that differences in population growth, demography and economic infrastructure among different countries make such comparisons slightly unfair?

Professor Bell: That is a very interesting question, but let me say one thing on the statistics first. The labour force survey—I will not answer for other stuff that the Office for National Statistics produces—is what is called a national statistics publication, which means that it meets certain criteria in relation to how it is put together. The labour force survey is also accepted as the basis for the monthly or quarterly labour market statistics that Eurostat produces, which are the basis of the international comparisons that are the subject of your question.

The labour force survey feeds into the Eurostat survey, and the Eurostat website has all the comparative statistics. For example, youth unemployment in Greece is now above 50 per cent.

Chic Brodie: Are there consistent methods for assessing that across every country?

Professor Bell: Yes, but the point in your initial question was quite right because, although each person who is surveyed is asked whether they are available for work and could start work in the next two weeks, that leaves out the national context. For example, the black economy in Greece is much bigger than it is here, so the 50 per cent figure has to be taken with some element of doubt.

The northern European countries are pretty diligent on the collection of statistics but, again, the context matters. For example, in Germany, the youth unemployment rate is pretty much the same as the adult unemployment rate and is well below the unemployment rate here.

Everyone now wants to have the German system of training young people and bringing them

into the labour market. I am affiliated to an organisation called the IZA, which is the Institute for the Study of Labor in Bonn, and not that long ago the director of the institute, who is German, talked about the issue. He said that every country might like to copy Germany but that the system is actually rooted in mediaeval times—in effect, it is based on what the crafts were—and the way in which apprenticeships and vocational training are delivered. He argued that the issue is not just the process but that all the key stakeholders in German society see it as a key duty of theirs to ensure the smooth transition of young people into the labour market at as a high a level as possible. We are a long, long way from that.

Therefore, your point is right: the statistics are reasonably consistent, but the context is always important.

Chic Brodie: Having run eight companies across Europe, I know that the infrastructures are different, so the methods might be consistent but the basis of the data collection is very different.

I have another question that is based on the figures reported in *The Scotsman*:

"In the three months ending November, 29 per cent of firms increased turnover, 32 per cent stayed the same and 39 per cent experienced a decrease."

You make a valid point regarding overtime working, which I think had become endemic—one of the biggest challenges that my fellow managers and I faced was changing the rationale behind people working so much overtime. However, I am surprised by your comment that, in those circumstances, productivity has fallen. Normally, when overtime is reduced, productivity tends to go up. What is the rationale behind your belief that productivity levels in Scotland are falling?

Professor Bell: There will always be exceptions, and there are some very efficient firms in Scotland, but 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. That seems to imply that productivity per worker must be falling. As I said, that does not mean that there is not the capacity to increase that again quite sharply, and nor does it mean that productivity per hour is falling.

Chic Brodie: That is the point that I was trying to make.

Professor Bell: Productivity per hour may have fallen very little, if at all. The issue is quite complex.

Chic Brodie: Given that we are in a recession and there is a decline in activity, I suggest that productivity per hour is a much more rational measure.

On the number of unemployed, have we any statistics to indicate how many people have more than one part-time job?

Professor Bell: Yes. I have not presented the data—again, if I make a list of things to provide to you, I will include this issue—but the labour force survey asks people whether they work in a second job, although it does not ask them whether they work in a third or fourth job.

Where people work in a second job, we actually know a lot about it. I have not touched on this issue at all, but the survey asks questions like "Is your second job self-employment?" I have a kind of self-employment second job in the sense that I write for the papers occasionally—and occasionally get paid, although not very well, for doing so—for which I work from home and use the computer. The labour force survey asks questions on all those things, so we know how many people work in second jobs and I can provide some statistics on that. I do not think that the situation has changed hugely, but I would not draw a definite conclusion until I had a clear look at the stats.

Chic Brodie: I have one last question. The third sector, comprising the social enterprise sector and the voluntary sector, has grown by 13 per cent since 2008. Has there been a rush into that sector because of a lack of employment in the more stable economy—I am not suggesting that social enterprises are not stable—or are we seeing a fundamental cultural shift in our economy with people becoming much more entrepreneurial?

Professor Bell: There has been a steady increase in the number of self-employed people in Scotland. There is no question but that that has happened: there was a steady increase over the past decade and that has continued into this decade. What has happened—I did not bring this out in my paper, but I am sure about this—is that the number of self-employed people who employ other people has fallen as a share of the self-employed. There are a lot of people who are working on their own behalf, but they are not entrepreneurs in the sense that they are building up companies and employing people themselves. I am not saying that that does not happen, but more typically self-employed people now work for themselves. Of course, that may partly reflect things to do with the tax system and it may reflect the fact that people want to have greater flexibility and control over their lives.

There is a host of reasons for that increase, but Scotland was often criticised in the past for having low levels of self-employment. We do not have the levels of self-employment that exist in the south-east of England, but self-employment has been increasing pretty continuously and has continued to do so since the start of the recession.

Chic Brodie: That point is very interesting. As you rightly say, one of the problems with Scotland's economy has been that we have had a low business start-up rate. It is of the nature of about 35 per 10,000 employees, which is frankly unacceptable. Have you any idea how we might improve that so that either the underemployed are encouraged to start up businesses or we can grow the small business sector much more actively?

10:45

Professor Bell: Speaking as a researcher, I feel that we ought to know a lot more about that. It is an area in which it is quite difficult to get good data. For example, I am about to do a fairly big bit of research on the growth in self-employed part-timers because they are now quite an important group. One would assume that, if they are self-employed and working part-time, they are unlikely to be the kind of people who will hire other people. If they are only working 14 hours a week, how could they do that?

We need to know a bit more about what drives the issue. Places such as the Hunter centre for entrepreneurship are looking at the issue, and Scottish Enterprise and the local authorities have a role here. There has been more emphasis—though not a great deal more—in the education system on looking at the possibility of being self-employed. Of course, if you are young and you start off self-employed, your probability of lasting a year is less than if you already have some experience. There has been some improvement but it is glacial.

The Convener: Marco, do you still want to come in?

Marco Biagi: My question was largely answered, although I would add the numbers on productivity per hour to Professor Bell's list of things to provide to us. It would be interesting to compare those numbers with productivity per worker—that is what I was going to ask about.

Mike MacKenzie (Highlands and Islands) (SNP): The newspaper article did not say, "Professor Bell is outraged at this". Even after a bit of discussion this morning, I get the impression that you are not sure whether your findings are good or bad. On the one hand, they may show a fair, reasonable and rational response to the downturn; on the other hand, some elements may not be so good.

For instance, when you asked people whether they would like to work more hours, were they really answering that question? They might have been answering the question whether they would like to have more money, and pretty much all of us would answer yes to that. There is a vast difference between the retired professor who does a bit of freelance consultancy work and somebody who is on the living wage and only working a few hours a week. Am I wrong in thinking that the data is not quite capturing an accurate picture?

Professor Bell: One important thing that I should have said is that the question about hours—"Would you like to work more hours?"—is finished off by the phrase "at the same rate of pay". They would not be moving on to £1,000 an hour. If they answered yes, we asked them how many such hours they would like. People were not expecting a pay rise. They would get more income but they would have to give up some of their leisure time to do that. They made that judgment. People do it all the time—they choose to work part-time.

The patterns in the group over time have been so strong that we have come to believe that there is some validity in the data. For example, younger people and people in the private sector consistently say that they would like to work more hours.

In a sense, I agree with your statement at the start: underemployment has some positive as well as negative aspects. Ideally, we would like to be in a situation in which the economy is not demand constrained. There is not enough demand in the economy—that is the fundamental problem that underlies the discussion. However, given that we are demand constrained, what is the best kind of situation to have? To be honest, I would prefer our situation to the Spanish situation.

Mike MacKenzie: You are saying that the underlying problem is demand constraint, and I do not think that many people would disagree with that.

I will go back to the graph in figure 1 in your submission, which you say represents a demand gap. I take it that the gap that you have calculated lies between the trajectory of growth if it had continued to go upwards and the actual trajectory. Do you not think that an ever-increasing trajectory of growth at that sort of level was in any case unsustainable and that the graph gives a bit of a false impression?

Professor Bell: I agree with you on that point, because one looks at the graph and thinks, "My goodness, we are way short of where we should be." However, the graph has been drawn based on the data during the 1990s and the past decade. The question that we must ask is whether the 1990s and in particular the past decade were based on sustainable economic growth, and I think that the answer is probably no. They were built on credit, and the risk associated with that credit was not properly taken into account. Therefore, the trend line would be somewhat lower than is shown

in the graph. All that I have done is project from the data that we had.

Mike MacKenzie: I am trying to get at whether there is a line somewhere between points that would get us back to a more optimal employment situation. I was struck by what you said earlier about the fact that we are now talking about underemployment, whereas not so many years ago people were routinely working overtime. If people have to routinely work overtime simply to get by—going back to what Chic Brodie said—that is not what we would call an optimal situation.

In a sense, what I am getting at is that there is a calculation to be made in that regard. You talked about the productivity gap, and I dare say that you could do a fairly simple calculation for the number of hours that would be required to bring people to fuller employment and then match that with output. Is it possible to do a calculation and to arrive at a line that seems to be sustainable?

Professor Bell: The answer is that such a calculation would be difficult. I would think of it in this way: you could draw a line, but how would you get that line? What policies would you need to put in place in order to get there?

Mike MacKenzie: That was my next question.

Professor Bell: Let us think about it. There is the so-called lump of labour fallacy, which is that a fixed number of hours of work are available in the economy, and it is just a question of arranging the hours and the people to ensure that everyone is in employment. That fallacy was blown apart by the increase in the number of women working in the Scottish economy during the 1990s in particular. If there had been only a limited number of jobs available, those people would not have managed to find their way into work.

Another important statistic—or finding—relates to labour market flexibility. We can think about Scotland on the one hand and France on the other. France has had a law restricting hours of work to 35 per week, but, to be honest, that has not really done the French economy a whole lot of good. The French are looking at ways of rolling back on that because they are finding it difficult to attract companies into the country and are now losing some of their famous actors to Russia because of the tax rate.

By analysing employment protection legislation, redundancy arrangements and so on, the Organisation for Economic Co-operation and Development has been able to measure labour market flexibility and to make comparisons across OECD countries. Spain, for example, comes out with a very high score: because people in work in Spain very rapidly accrue redundancy rights, it becomes very expensive for employers to lose them and lots of temporary workers are taken on instead. They are the people who are now out of work, and Spain is looking at ways of changing its employment legislation.

The United Kingdom is the third lowest among OECD countries with regard to employment protection legislation, one interpretation of which is that the UK labour market is the third most flexible. The two countries below the UK in that list are Canada and the United States. On the other hand, there are other countries such as Germany that are very successful but have high levels of protection.

It would be nice to think that there is a trend line, but it is beyond me to work out exactly where it lies—and certainly beyond me to work out what policies would get us to that point in a sustainable way.

The Convener: I presume that if you could come up with such a solution you would be in elected office.

Chic Brodie: In every country.

Mike MacKenzie: Finally, do you see any differentiation in this trend between the private and public sectors? One would imagine that it would happen a lot more in private sector employment, but we hear about local authorities and so on employing people on, say, zero-hours contracts. Is the phenomenon spreading to the public sector?

Professor Bell: Definitely. The group of people deemed the core workforce in the public sector might be larger than that in the private sector. Public sector organisations do not franchise out their activity as much, although they do franchise out quite a lot of it. For example, the University of Stirling franchises out its catering to the same firm that the Scottish Parliament uses. That sort of thing is coming in more, but the process is much slower in the public sector than it has been in the private sector.

Mike MacKenzie: I have one final question, convener. Does the phenomenon predate the recession and the credit crunch?

Professor Bell: A lot of this stuff—for example, the increase in self-employment—was going on well before the recession and has blipped up a bit since it. Some of these things were certainly happening, partly as a result of changes to legislation over the past few decades.

The Convener: Three members want to ask what I hope will be fairly brief supplementaries. I am aware that we have been going for an hour now. Professor Bell has done very well, but he must be starting to run out of steam.

Rhoda Grant: In your submission, you say that, although it is not desirable,

"underemployment is ... better ... than unemployment";

you have also said that those who are underemployed are experiencing hardship. What is the knock-on effect of that on the rest of the economy?

11:00

Professor Bell: The labour force survey does not tell me this, but we can reasonably speculate that, if people are just getting by, that leads to higher Government expenditure, for example through tax credits, and lower tax revenue going to the Government. People might drop out if they have so few hours that they end up finding that, because of the costs of childcare, it is more productive—we might say—for their household to look after the children than to be in work. That is certainly a possibility. Such people are probably not making any savings for the future, including for pensions. Clearly, they might be having difficulty just meeting the regular bills with which they are confronted. They will be making decisions at the margin about whether they are better off in work or on benefits.

Dennis Robertson: Is there a growth in the number of people working overtime, albeit just a few hours a week, for no gain but just with the expectation of job retention or job security? Do you believe that employers are taking advantage of that?

Professor Bell: Young people in particular are desperate to get experience, and I know that some of them, when they weigh up the value of the experience, do not care much what they might be earning. For example, internships are fairly common now, and we already had the phenomenon of unpaid overtime, which I have looked at fairly extensively in the past. That does not happen in the manufacturing or production sector, where people know exactly what they have to do and how long it takes to do it. However, in the service sector, where contracts are a little more nebulous and the length of time it might take people to do something can vary, for understandable reasons, people might end up working longer than they are contracted to work—although there is doubt about how much they are contracted to do—because they feel that they need to do that for advancement or even just to retain their job.

There is no question but that that happened way before the recession. Goldman Sachs is a company in which one hesitates to be first to leave the office—that is always the story, although I do not know whether it is true—but of course people who work there are very well rewarded. Unpaid overtime is much more pervasive. One could argue that it is employers taking advantage of people, but one might also say that it is a way of employees signalling that they are good and the kind of people who ought to be promoted.

Chic Brodie: I want to return to the answer that you gave to my colleague Mike MacKenzie on temporary labour. Have you made any assessment of, or is any research available on, the impact of temporary labour on unpaid employment numbers and productivity, notwithstanding the changes in requirements on agencies as to how they record work?

Professor Bell: That is another point that I can come back to you on. The labour force survey has a detailed question on what type of contract people are on, including temporary contracts. There are zero-hours contracts, there are flexi-time contracts—all kinds of contracts. I have not looked at that point in detail.

I hesitate to say this, but my impression is that there has not been a huge change during the recession in the number of people on temporary contracts in Scotland. I will go back and look at the survey again and then I can tell you about those people on temporary contracts—what industries they are in, what level of pay they get, and so on. I will add that to the list of points to get back to you on.

Chic Brodie: My friends in Her Majesty's Revenue and Customs have asked me to ask you whether you can speculate on the size of the black economy.

Professor Bell: I would just be speculating.

The Convener: Speculation is always welcome.

Professor Bell: I have come across the black economy. There are edges in certain industries, construction being one obvious case where there is still—

The Convener: You are not talking from personal experience there, surely.

Professor Bell: I could not possibly comment.

I do not think that the black economy is huge. It is not on anything like the same scale as the black economy in eastern Europe or in the Mediterranean countries. However, I worry a bit that fairly large-scale defrauding of VAT goes on but HMRC does not have the resources to investigate it properly and ensure that taxpayers are adequately protected.

Alison Johnstone (Lothian) (Green): I will step back a bit to a question that Mike MacKenzie asked earlier. Under figure 8, your paper states that the data suggests that workers

"would like to work more hours at existing pay rates. But it does not directly address this issue by asking workers if they would like to work more hours."

I want to home in on that point. Is it your view that the people who are asking to work more hours are financially driven? Is it about people who do not have any leisure time because they cannot afford it? Is there a societal expectation that we should all work full-time? Is it about status, or is it purely about the need to be able to afford to live properly?

Professor Bell: My feeling is that it is mainly the latter—it is about people's need to live adequately or to fund their lifestyle. The number of workers who would like to work more hours has risen so much during the recession, it must have something to do with the recession—in other words, people do not have the money. If it had been about status, we would not have expected much difference during the recession as compared with the previous few years. My reading of the sudden upturn in the number of people who say that they would like to work longer hours is that it is mainly to do with a feeling of hardship—a feeling that they cannot support the lifestyle that they would like to have.

Alison Johnstone: Is there any information that those people are the people who are in low-paid jobs?

Professor Bell: Again, that is not a difficult thing to find out. Recalling my analysis, I think that the answer is yes, but I will check that.

Alison Johnstone: A couple of members have discussed the impact on women and you mentioned childcare. I recently met a couple in Edinburgh whose childcare costs were more than £800 a month. You can see why people get to the stage where they wonder whether it is worth while.

I recently heard from Brendan Dick, the national manager of BT Scotland, who said that BT attracts 99 per cent of women back after maternity leave compared with a Scottish average of 47 per cent. He said that BT had done that simply by offering flexible working and more opportunities to work at home. I contrast that with your example of Goldman Sachs, in which there is a culture of presenteeism. Brendan Dick said that this is about trust, and it is a real cultural shift. Do you think that it would be worth while to have a bit of focus on that cultural shift as a means of reducing underemployment, certainly among women?

Professor Bell: The extent to which flexibility may be to someone's advantage but not necessarily to the company's advantage depends on the nature of the industry that they work in and on their occupation. Companies are increasingly flexible, but whether they have gone as far as possible because there are potential big gains from flexibility, I am not sure—I do not really have the statistics on that, but your point seems perfectly valid to me. If, in some industries at least, people are now judged more by their output than by the time that is spent on it, employers should be able to figure that out and give employees the best working arrangements they can that are consistent with that.

David Torrance (Kirkcaldy) (SNP): Good morning, Professor Bell. Is the increase in the number of people who are working past retirement age, either full-time or part-time, restricting access to the workplace for the young unemployed?

Professor Bell: That is an interesting question. Older people have not had a bad recession.

The Convener: That would be a good headline.

Professor Bell: They have had a bad recession in one important sense, though, because when they retire and try to cash in their pension savings for an annuity the rates on annuities are very low. One reason why people are staying on in work longer is that they are worried about how much pension their existing savings are going to buy them. Employment among older people has been increasing in the past few years, even during the recession, in most countries—-it is true across Europe and is not a Scottish or UK thing. For people aged 50-plus or 55-plus, employment has been increasing. There has not been a huge effect on the labour market, but that is bound to have certain knock-on effects. However, I caution against the lump of labour fallacy that there is a lump of jobs and that increasing the number of older people who are working will, by definition, reduce the set of opportunities for younger people.

There are interesting changes taking place and we are seeing people working longer without a shadow of a doubt. Improved health and the switch to the service sector may be playing a part in that. I speak to people I know who have been in manual jobs since we were at school together, and they have much greater health problems than I have. However, there is a general tendency for older people to work longer. 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.

Dennis Robertson: Can you define what you mean by older people? I am getting worried now.

Professor Bell: The number of people aged 65-plus who are still working in Scotland has increased.

The Convener: You are quite safe, Dennis.

Dennis Robertson: I was getting worried because you mentioned people aged 50.

Professor Bell: Working age is normally split into 16 to 24, which is youth; 25 to 50, which is the

main working age; and 50 and over, which is people who are over the hill, like me.

11:15

Margaret McDougall (West Scotland) (Lab): Good morning, Professor Bell. In comparison with underemployment in previous recessions, how has the growth in underemployment in the current recession contributed to poverty?

Professor Bell: The question is quite difficult. In the 1980s, more than 3 million people in the UK were unemployed and more than 300,000 in Scotland were unemployed. The extent of underemployment was lower then, because we had a less flexible work environment. That was partly because work was more production oriented and partly because of legislation. I do not think that the level of underemployment was the same then. Certainly in the early 1990s, which was also a period of recession—although it was not as bad in Scotland—the level of underemployment was not the same as it is now.

For good or bad, the current situation is probably the most extreme case of underemployment that we have had. As for its impact on poverty, I believe—but I will check—that the people who are affected are largely those who are on low wages and who would like to work more hours. It might be interesting to find out how many of those affected are minimum wage workers, how their weekly wage compares with average weekly benefit levels for comparable people and so on.

It is difficult to compare underemployment in this recession with previous recessions, but I could add some things to what I have said that might help in answering your question.

Margaret McDougall: Will you add the issue to your list?

Professor Bell: Yes.

The Convener: The list is long.

If other members have no more questions, I have a final question to ask—before Professor Bell thinks that he is off the hook. We have had an interesting discussion about whether underemployment is a bad thing in itself and I do not think that we have quite resolved that. However, if we assume that it is a bad thing, what can the Government do about it? What policy changes, if any, should we look at to reduce the incidence of underemployment?

Professor Bell: It is interesting to think about whether tax concessions might make a difference to employers' willingness to hire people for longer periods. Members can correct me if I am wrong, but I think that people must work 15 hours a week to earn tax credits. The downside of increasing that level is that more people would fall below the level.

Other possibilities might be varying national insurance contributions, varying other legislation or giving employers incentives to hire people for at least 30 hours—that is the break-off point for part-time working—or to have a certain proportion of their workforce full-time rather than part-time. If such a line was taken, the unintended consequences would really have to be watched. Lots of intervention is going on in relation to the young unemployed, through Skills Development Scotland and so on. Other than making employees so valuable to employers that they do not want to employ people only for short periods, it is difficult to think of what agencies in Scotland could do currently to up employees' hours. Another aspect would be to try to increase demand.

Marco Biagi: In one of the papers that you wrote with Professor Blanchflower, you said that 2.3 million older people in the UK wanted to work fewer hours. Does that provide the Government with any scope for a policy opportunity?

Professor Bell: That question is interesting and it touches on my feeling that the experience of older people is not being transferred. We do not have a mechanism to transfer their experience well. Finding ways out of employment for older people—I do not want to make myself redundant here—might have a lot to do with pension arrangements, such as people getting half their pension at a certain point. That issue is fraught, because there are lots of regulations and the Treasury does not want people to be seen to be taking advantage of pension regulations. However, the idea that something could be done in relation to older people is interesting.

The Convener: We have had a good kick of the ball. I am grateful to Professor Bell for coming along and answering our questions comprehensively. Underemployment is an interesting area of study. The committee might come back to you in the next few weeks, and you have a list of things on which to come back to us—we look forward to receiving that. On behalf of the committee, I thank you very much.

Under item 2, are members content to delegate to me authority, in accordance with rule 12.4.3 of standing orders, for the payment of any witness expenses that might arise during the inquiry?

Members *indicated agreement.*

11:22

Meeting continued in private until 11:41.

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