

## **The Labour Market and Constitutional Change – Stephen Boyd, STUC**

### **RSE: the Real Economy 20 June 2013**

#### Outline of presentation

1. A key determinant of the success of any national, regional or local economy is the performance of its labour market. The structure of the Scottish labour market is particularly relevant to issues currently at the forefront of the independence debate such as currency, tax and inequality. Therefore, it is somewhat perplexing that the labour market has, until now, been conspicuous by its absence from the debate over Scotland's constitutional future.
2. Employment and trade union law, collective bargaining, national minimum wage, discrimination and disadvantage, job quality, tribunal system, active labour market interventions, conciliation services...none of these issues has been spoken about to any significant degree by either campaign, the Scottish or UK Governments. Pensions is the only labour market issue to breakthrough into mainstream discussion. Skills policy is of course already wholly devolved.
3. The Scottish labour market is generally regarded as having performed well since devolution; sustaining comparatively high levels of employment. It remains highly integrated with rUK and, contrary to the conventional wisdom, is lightly regulated. The UK minimum wage applies.
4. Trade union density and collective bargaining coverage are higher than both the UK as a whole and the OECD average but much lower than Europe's best performing labour markets. Scotland as part of the UK is rare in Europe in the degree to which collective bargaining is decentralised and uncoordinated.
5. The success of the labour market in sustaining high employment masks some deeply embedded problems: longstanding regional imbalances and comparatively high levels of low wage work and underemployment. A key question is the extent to which seemingly cyclical trends (underemployment, falling real wages, self-employment, increasing insecurity e.g. zero hours contracts) will persist through and beyond the recovery. If the aspirations of the Scottish Government and Yes Scotland for a newly independent Scotland are to be realised, these negative labour market trends will have to be effectively addressed.
6. Given the degree of integration between the Scottish and UK labour markets, it's difficult to discern a compelling rationale for significant changes to labour market policy under forms of enhanced devolution and such changes have not been mooted as part of specific proposals to date (e.g. Devo Plus).

7. Although it is entirely possible it may wish to do as little as possible to upset the integrated labour market with the rUK, the Government in a newly independent Scotland may wish to shift towards a model more aligned with the 'small European nations' so often referenced for their better social and economic outcomes. What might this mean?
8. Contrary to popular perception, Nordic labour markets are not heavily regulated (though more so than the UK) and nor do they have national minimum wages. Instead, Nordic labour markets are characterised by high trade union density and wide collective bargaining coverage. Bargaining is coordinated centrally or sectorally. There is massive investment in active labour market programmes. Unemployment insurance is among the most generous in the world.
9. Indicating a shift towards Nordic style 'social partnership', the recent Scottish Government paper, *Scottish Independence: the economic case*, proposed exploring "*mechanisms to formalise the relationship between Government, employer associations and employee associations*".
10. It is surprising how little comment this proposal has generated for it could have a profound impact on the Scottish economy, labour market and the business models of individual firms. If done well, the impact could be positive – socially and economically - but the challenges involved are significant.
11. As the OECD has argued, '*National industrial relations structures and practices are part of the social and political fabric, implying that bargaining structures are not easily changed by government action*'. A set of societal factors exist in the Nordic nations which enable social partnership to flourish. Institutional, cultural and historic factors have led to different if similarly successful arrangements in nations such as Germany, Austria and the Netherlands. These conditions do not currently apply in Scotland.
12. The UK's flexible labour market has widespread political support (although the Coalition's attempts at further significant deregulation have been opposed). Any initiatives to more heavily regulate or facilitate a more central role for collective bargaining in the Scottish labour market (under any constitutional scenario) will face stiff resistance. Firms will argue that operating different employment systems across the UK will introduce expensive new inefficiencies although some will already be operating across many jurisdictions.
13. Given its sensitivity, the reticence of participants in the constitutional debate to engage with labour market policy is understandable. But if issues such as inequality and tax are to be properly addressed, a greater focus on labour market policy is inescapable.