CVDR/S6/22/23/1

COVID-19 Recovery Committee

23rd Meeting, 2022 (Session 6), Thursday 3 November 2022

Road to recovery: impact of the pandemic on the Scottish labour market inquiry

Introduction

1. This inquiry will focus on the long-term sick component of economically inactive people, as well as people who have taken early retirement. The Committee would like to understand what impact, if any, COVID-19 has had on these drivers of economic inactivity with a view to making recommendations for the recovery period to the Scottish Government.

2. This is the first evidence session of the inquiry, in which the Committee will examine the pre- and post-COVID-19 trends in economic inactivity attributed to people with long-term illness or who have taken early retirement. The Committee will take evidence from the following panel of witnesses—

    - Dr Hannah Randolph, Economic and Policy Analyst, Fraser of Allander Institute
    - Professor Steve Fothergill, Centre for Regional Economic and Social Research, Sheffield Hallam University and National Director, Industrial Communities Alliance
    - Tony Wilson, Director, Institute for Employment Studies
    - David Freeman, Head of Labour Market and Households, Office for National Statistics
    - Louise Murphy, Economist, Resolution Foundation

Scrutiny by other committees

3. The Covid-19 Recovery Committee's statement on priorities includes a commitment to focus on key policy issues where the Committee can add value to the work of other parliamentary committees, including opportunities to work jointly with other committees to maximise impact, whilst avoiding duplication of scrutiny.

4. The Finance and Public Administration Committee has considered overall labour market performance with a focus on the impact on tax receipts. It has not considered underlying factors, such as long-term illness, in detail. The Economy and Fair Work Committee has considered labour market participation in its supply chain inquiry, with a focus on the impact of post-Brexit migration policy.

5. This Committee's inquiry intends to add value by examining long-term illness and early retirement in the Scottish labour market, which have not been explored by other committee inquiries to date.

Background

6. The Scottish Parliament's Information Centre (SPICe) has produced a briefing on the Scottish labour market, which is provided in Paper 3.

Written evidence

7. The Committee issued a call for views, which closed on 9 September 2022 and received 42 responses. A summary of responses is provided in Paper 2. The Committee's call for views asked the following questions —

   - What are the key factors driving the increase in labour market inactivity?
   - Has long-COVID been a factor in current levels of labour market inactivity? If so, is this likely to be a permanent feature of the labour market?
   - What has been the labour market impact of the pandemic on people with pre-existing health conditions?
   - What factors have influenced some people to take early retirement?
   - Thinking about labour market participation, have certain groups of society and parts of the country been impacted more than others?
   - Have there been sectoral differences from economic inactivity – for example, have Health and Hospitality sectors been more exposed than, for example, Finance?
   - What policies might encourage people to re-enter the labour market?

8. The **Annexe** includes written evidence provided by the following witnesses:

   - Fraser of Allander Institute
   - Professor Steve Fothergill and Professor Christina Beatty, Centre for Regional Economic and Social Research, Sheffield Hallam University
   - Office for National Statistics

Next steps

9. The Committee will continue to take evidence on the inquiry at its meeting on 10 November.

Committee Clerks
October 2022

ANNEXE

Fraser of Allander Institute: written submission

View on the labour market effects of Covid-19: response to the call for evidence from the Fraser of Allander Institute

The Fraser of Allander Institute (FAI) at the University of Strathclyde entered Scottish public life in 1975. In the 45+ years since, it has become established as a leading independent economic research institute focused on the Scottish economy.

Our response to this call for evidence draws on analysis from two projects we are currently undertaking. One of these is an analysis of the income and distributional effects of Covid-19 which is funded by the Scottish Government. The other is a project describing key trends in the socio-economic determinants of health inequalities in Scotland, funded by the Health Foundation.

This submission has been prepared by Hannah Randolph and David Eiser at FAI.

What are the key factors driving the increase in labour market inactivity?

At UK level, the onset of the pandemic coincided with an abrupt reversal of the 10-year trend of falling inactivity rates among the working age population.

The issue is shown in Chart X. The working age inactivity rate fell steadily from 23.5% in 2010 to 20.5% in the first quarter of 2020. Once the pandemic hit, the inactivity rate increased abruptly to 21.5%, and shows little signs yet of returning to the pre-pandemic rate.

The post-pandemic rise in inactivity has been attributed to increasing rates of chronic illness (e.g. Burn-Murdoch 2022[1]) and also to early retirement for voluntary reasons (e.g. Boileau and Cribb, 2022[2]). In reality, both factors have been important.

Looking underneath the headline trend reveals slightly different patterns for men and women. The male inactivity rate had been fairly constant in the decade until Q1 2020, but then increased when the pandemic hit. The increase in inactivity can be largely accounted for by increased inactivity amongst those aged 18-24 (reflecting both an increase in unemployment and an increased in educational participation amongst the young), and increased inactivity amongst those aged 50-64 (reflecting increased early retirement).

The female inactivity rate had been declining fairly consistently in the decade until Q1 2020, but the female inactivity rate stopped falling as soon as the pandemic hit. Female inactivity hasn't increased markedly during the pandemic, and the long run reduction in female inactivity has discontinued.

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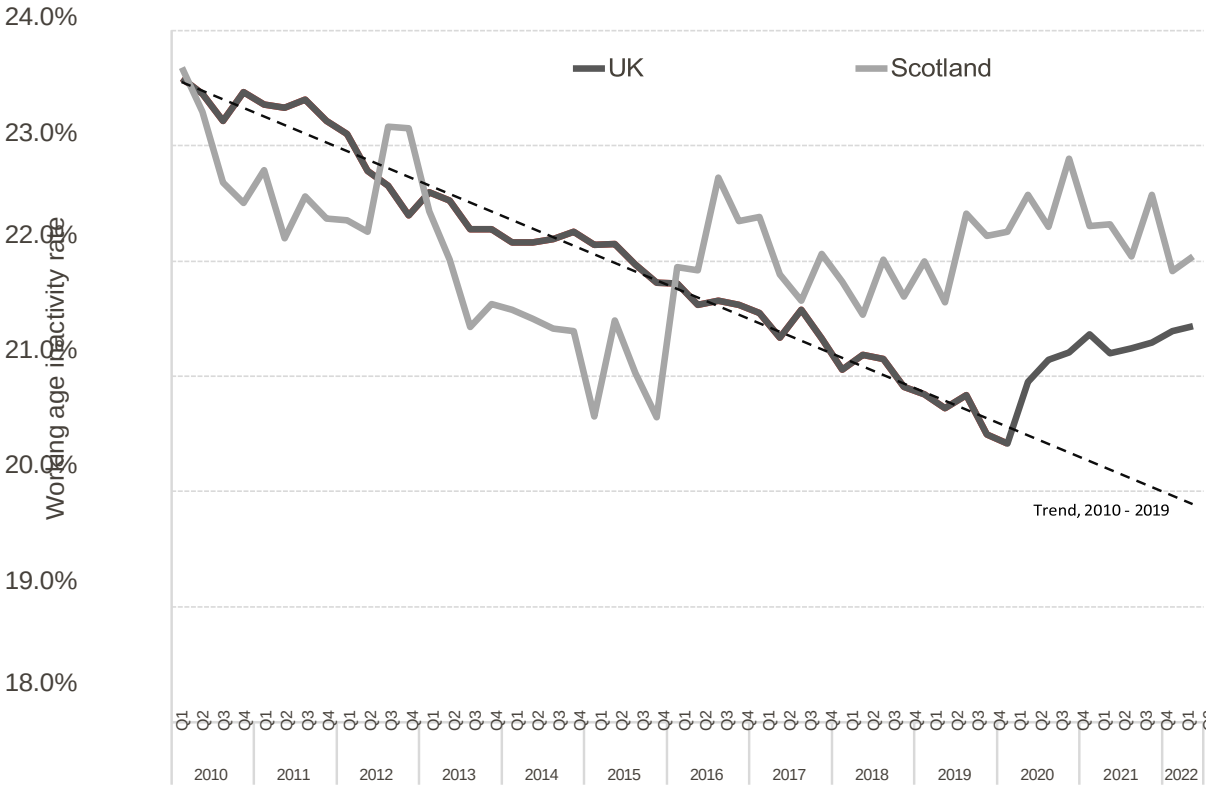
[1] Chronic illness makes UK workforce sickest in developed world https://www.ft.com/content/c333a6d8-0a56-488c-aeb8-eeb1c05a34d2.

[2] The rise in economic inactivity among people in their 50s and 60s https://ifs.org.uk/publications/rise- economic-inactivity-among-people-their-50s-and-60s.

For Scotland, the inactivity trends of the past few years have been slightly different. In particular, Scotland's inactivity rate ceased falling in about 2015, several years before the pandemic. By late 2019 and Q1 2020, the working age inactivity rate in Scotland was almost two percentage points higher than in the UK as a whole. But the period of the pandemic itself witnessed a less marked change in the working age inactivity rate in Scotland compared to the UK.

There is no single explanation as to why the working age inactivity rate in Scotland increased relative to the UK rate. Since 2015, the inactivity rate in Scotland has grown relative to the UK because of a combination of relative growth in the proportion of the working age who are retired, students and long-term sick. The explanation for the relative rise in inactivity thus cannot be pinned on a particular factor, or a particular demographic group.

Chart 1: UK and Scottish working age inactivity rate, Q1 2010 – Q2 2022



Source: FAI analysis of quarterly labour force survey

It is also worth noting that the proportion of Scots who are inactive because of long-term health problem is somewhat higher than it is in the UK as a whole. In 2020 and 2021, 6.8% of Scottish males were inactive because of a long-term health problem, compared to 4.9% of UK males. In the same period, 5.7% of UK females were inactive because of a long-term health problem, compared to 6.9% of Scottish females.

However, for both males and females, these differences in the prevalence of long-term health conditions as a determinant of inactivity are long-standing. The relative increase in inactivity in Scotland since 2015 can only partially be accounted for by a relative increase in the proportion of Scots citing a long-term health condition as a reason for their inactive status.

Has long COVID been a factor in current levels of labour market inactivity? If so, is this likely to be a permanent feature of the labour market?

The ONS estimates that 2 million people living in private households in the UK (3.1% of the population) were experiencing self-reported long COVID in July 2022[3]. Long COVID is defined as symptoms continuing for more than four weeks after the first suspected coronavirus (COVID-19) infection that were not explained by something else.

Long COVID symptoms adversely affected the day-to-day activities of 1.5 million people (73% of those with self-reported long COVID), with 384,000 (19%) reporting that their ability to undertake their day-to-day activities had been "limited a lot".

As a proportion of the UK population, the prevalence of self-reported long COVID was greatest in people aged 35 to 69 years, females, people living in more deprived areas, those working in social care, those aged 16 years or over who were not working and not looking for work, and those with another activity-limiting health condition or disability.

Recent analysis by the IFS examines the impact of long COVID on the UK labour market (Waters and Wernham, 2022[4]). The analysis finds that people suffering from long COVID are more likely to be on sick leave than people who are not suffering from long COVID. However, the authors do not find evidence that having long COVID is associated with permanent job loss, but rather with a greater likelihood of being off sick, potentially for a period of months.

The IFS research was undertaken using data from 2021. Caution needs to be applied in extrapolating the results into 2022 given the changing nature of long COVID. But on the basis of this research, long COVID is not a significant factor in the increase in inactivity since the pandemic (since those on sick leave are still technically in employment rather than being 'inactive').

We are not aware of statistics on long COVID for Scotland specifically. If the prevalence of long COVID were the same in Scotland as in the UK at the moment (3% of the population), and if the impact of long COVID on the labour market were in line with that identified by the IFS for the UK, this would imply just over 6,000 people of working age in Scotland currently on sick leave because of long COVID. Needless to say, this is very much a back-of-fag-packet calculation.

What has been the labour market impact of the pandemic on people with pre-existing health conditions?

Since the start of the pandemic there has been an increase in the proportion of the population who say they have a long-term limiting illness. As discussed elsewhere, this does account for a modest proportion of the increase in inactivity.

[3] Source: https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/conditionsanddiseases/bulletins/prevalenceofongoingsymptomsfollowingcoronaviruscovid19infectionintheuk/1september2022

[4] Source: https://ifs.org.uk/publications/long COVID-and-labour-market.

It is more difficult to answer the question about how the pandemic has affected the labour market status of people who had a pre-existing health condition. Answering this question would require longitudinal data capable of 'tracking' particular individuals throughout the pandemic. We are not aware of existing evidence on this question.

What factors have influenced some people to take early retirement?

The decline in labour market participation amongst older groups during the pandemic has been well documented.

There are a number of potential explanations for this trend. It could reflect:

- Deteriorating health conditions associated with Covid and/or long COVID;
- A desire amongst older groups to reduce exposure to the virus;
- Declining demand for labour in the occupations that older groups typically worked in, with older workers then responding by deciding not to look for subsequent work and hence become economically inactive rather than unemployed;
- An increase in the proportion of older people who choose to take early retirement, perhaps in part as a result of seeing their savings or wealth increase during the pandemic.

Research at the UK level (Boileau and Cribb, 2022[5]) investigates the role of these potential explanations for the rise in inactivity amongst those in their 50s and 60s and concludes: 'the rise in economic inactivity among 50- to 69-year-olds does not look to be driven primarily either by poor health or by low labour demand leading to people being unable to find work and becoming discouraged. It looks more consistent with a lifestyle choice to retire in light of changed preferences or priorities, possibly in combination with changes in the nature of work post-pandemic (in particular more remote work) which reduce the appeal of staying in employment.'

On the basis of the data that we have, there are no strong grounds to believe that the story in Scotland will be fundamentally different.

It is also worth noting however that the latest UK-level data indicates that the rise in inactivity of older people observed during the pandemic may be beginning to reverse. This potentially reflects the impact of the emerging 'cost of living crisis'. If so, that would lend further justification to the conclusion that increases in inactivity during the pandemic largely reflected voluntary decisions to exit rather than labour market exit induced by health problems or redundancy.

Thinking about labour market participation, have certain groups of society and parts of the country been impacted more than others?

Labour market activity by sex, age and qualifications

Changes in labour market outcomes from pre- to post-pandemic have differed across

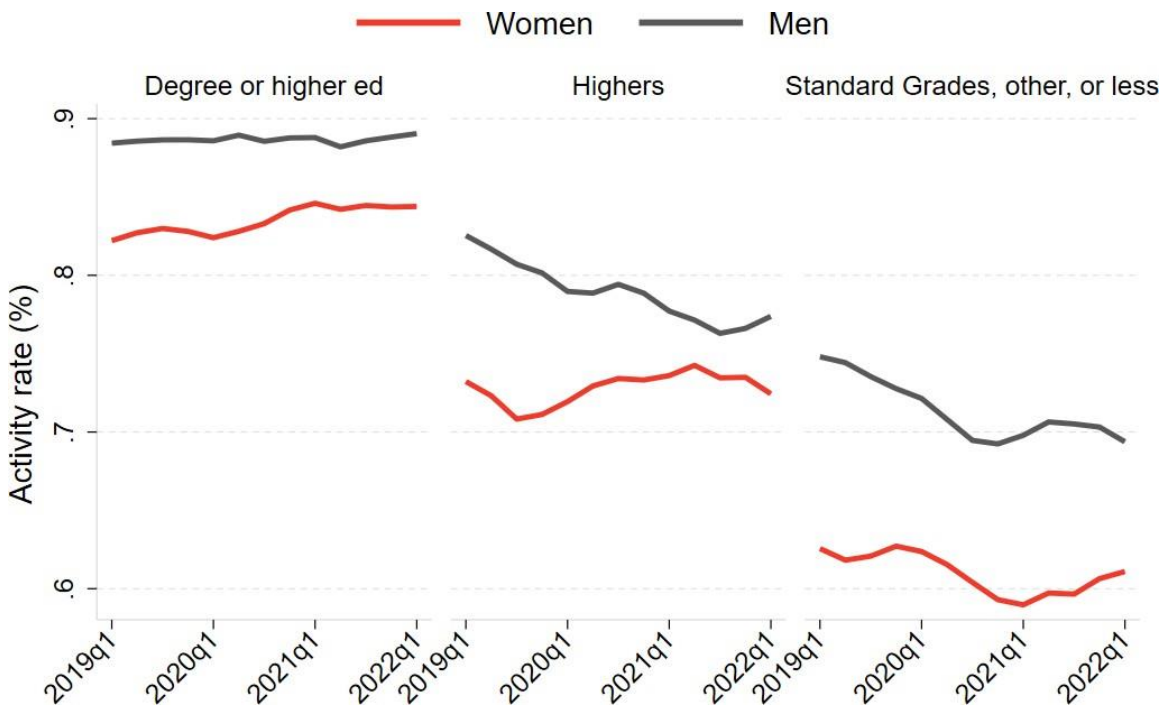
[5] https://ifs.org.uk/publications/rise-economic-inactivity-among-people-their-50s-and-60s.

groups by age and education.

FAI is currently conducting a project for Scottish Government on the income and distributional effects of Covid-19. As part of the project, we have examined trends in inactivity, employment, and unemployment in Scotland before, during, and just following the pandemic (2019 through the first quarter of 2022). The analysis uses quarterly Labour Force Survey (LFS) data, and divides people by gender, broad age group (16-24, 25-49, 50+), and level of highest qualification (degree or higher education, Highers, Standard Level or lower).

While women's employment and activity rates have largely recovered from the pandemic, men's employment and activity has not– particularly for those with less than degree-level qualifications (Chart 2). While the employment and activity rates of men aged under 50 have started to return to pre-pandemic levels, the employment and activity rates of men over 50 continued to decline through the first quarter of 2022.

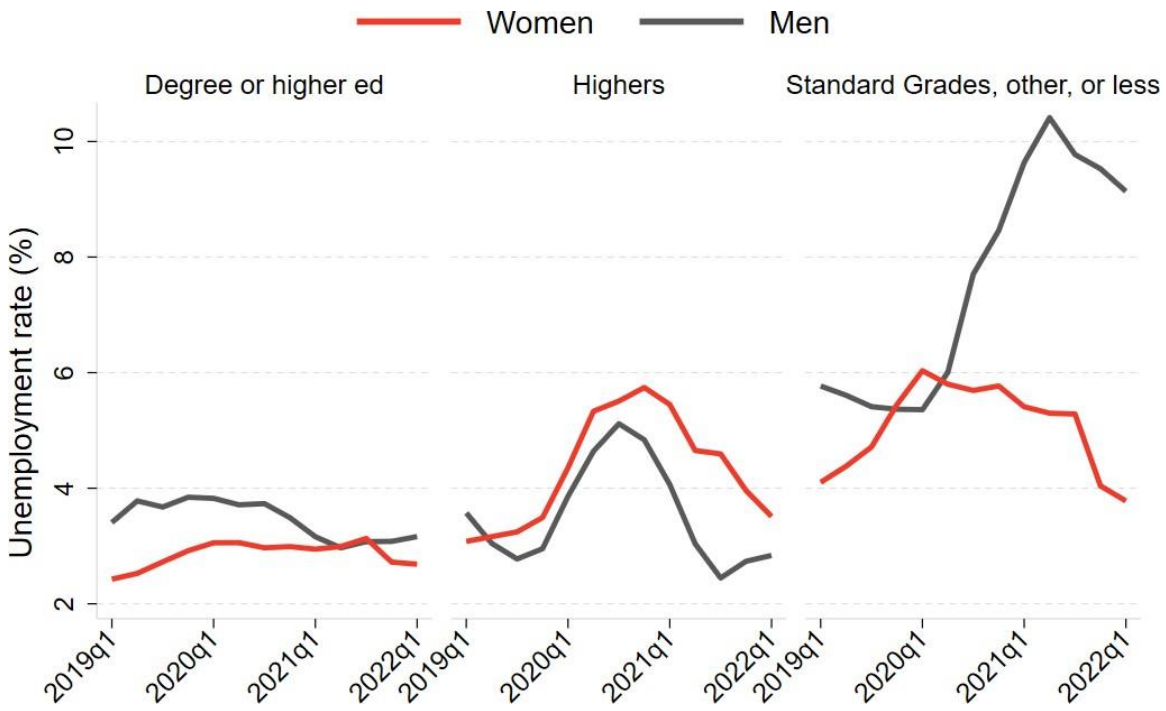
Chart 2: Activity rates by gender and level of highest qualification (2019-2022)



Source: Quarterly Labour Force Survey (ONS)

Despite the persistently high number of vacancies, the unemployment rate for men with Standard Grade education or less rose to over 10% in the first half of 2021 from a low of about 5.5% in the first quarter of 2020 (Chart 3). That rate has begun to fall, but remains above 9%. The rise in unemployment rates is especially marked for men over 50.

Chart 3: Unemployment rates by gender and highest level of qualification (2019-2022)



Source: Quarterly Labour Force Survey (ONS)

Higher unemployment among these groups may also be driven in part by a labour market compositional shift away from skilled trades, processing, sales, and elementary occupations towards managerial, professional, and technical occupations. At the beginning of 2019, 46.1% of employed people worked in skilled trades, processing, services, sales, and elementary occupations; that figure fell to 40.3% in the middle of 2020 and was still only 41.5% by the start of 2022. Considered together, these figures and high unemployment for older and less-educated men may point to skills mismatch between available workers and existing vacancies.

Geographical variation in labour market activity pre and post Covid

There are persistent geographical disparities in labour market indicators. At a broad regional level, inactivity rates have typically been higher in Glasgow and the west of Scotland than elsewhere. But spatial disparities within regions are often more striking.

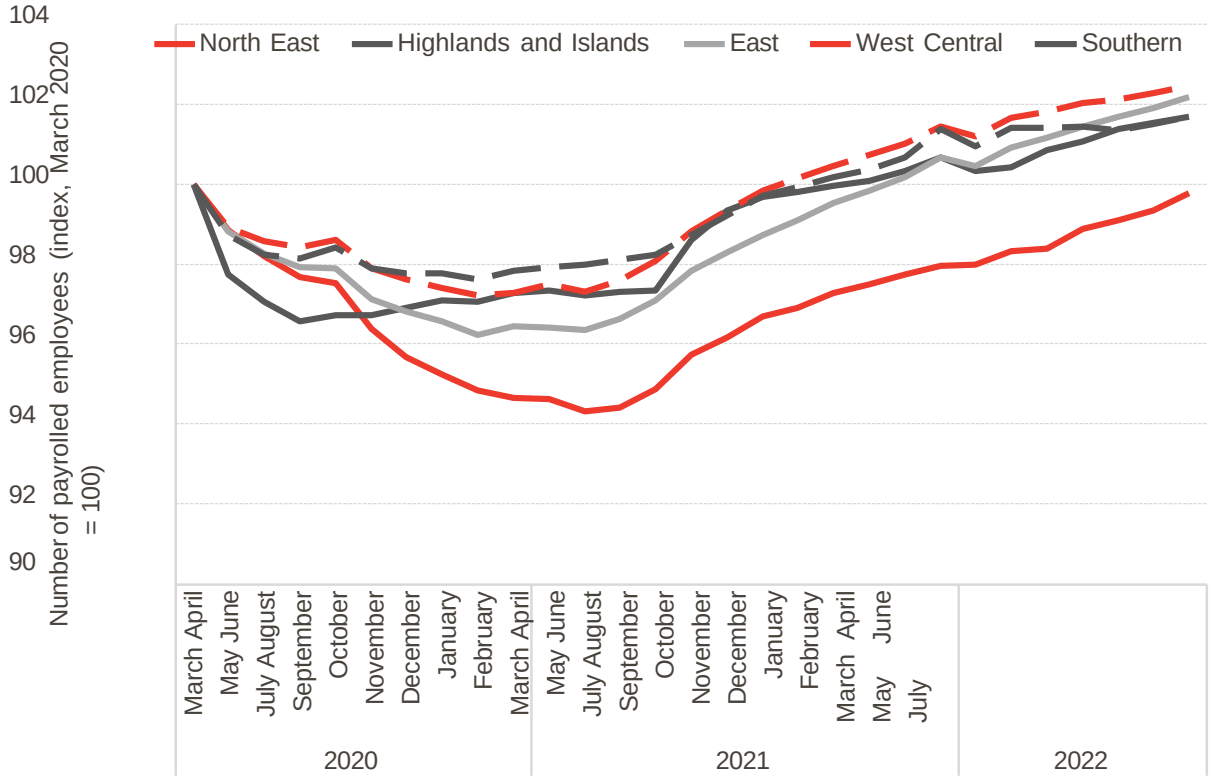
Unfortunately, issues with sample size in the key labour market surveys mean that it can be difficult to identify with certainty the extent to which labour market trends have differed significantly across areas between the pre and post pandemic periods (in local authority data for example there is quite a lot of ‘noise’ in the data, and between any two years, what might look like a significant change is frequently just an artefact of sample variation).

However, more robust data by geography is available through HMRC statistics on the number of employees registered for tax purposes through PAYE. What this shows is that, across most regions of Scotland, PAYE employment was 1-2 per cent higher by July 2022 than it was in March 2020. The north east region of Scotland however exhibited a somewhat different pattern – the number of PAYE employments declined

more substantially during the lockdown period of the pandemic than in other regions, and whilst PAYE employments in the northeast are now back at pre-pandemic levels, the north east has not seen quite the same growth in employment on pre-pandemic levels as has been observed in other regions. Partly in consequence, the inactivity rate in the northeast increased by over three percentage points from pre to post pandemic, a more marked increase than typically seen in other regions.

It is important to point out however that the relatively weaker employment growth in the northeast is unlikely to reflect pandemic-related issues; instead, it reflects is the continuation of a much longer period of weaker employment growth in the northeast compared to other areas of Scotland, dating back to at least 2015.

Chart 4: PAYE employments by region of Scotland, March 2020 – July 20222



Source: Employment and earnings from Pay As You Earn Real Time Information, (HMRC)

Have there been sectoral differences from economic inactivity – for example, have Health and Hospitality sectors been more exposed than, for example, Finance?

Unsurprisingly, there have been sectoral differences in employment trends during the pandemic. Employment in some sectors, notably in retail, manufacturing and construction, is lower than pre-pandemic. Employment in other sectors, notably finance, professional services and public services, is higher than pre-pandemic (Table 1). As we noted above when discussing changes in employment by occupation, these sectoral changes – generally away from sectors requiring manual-type skills towards sectors requiring high-level qualifications – may explain in part the observation that the employment rate for males with lower levels of qualifications remains below the pre-pandemic rate.

These sectoral changes are not necessarily all the result of the pandemic, they are often in part a continuation of a longer-term trend.

This analysis of employment changes by sector is not the same as asking whether there have been sectoral changes in inactivity. Answering this question would require the use of longitudinal data to track where workers who exited a particular sector ended up. For example, of the 39,000 fewer people employed in retail, how many have found jobs in other sectors, and how many have become unemployed or inactive.

At this point we are not aware of any existing research on this particular question. However, for the UK as a whole there is evidence that the number of people moving jobs did increase rapidly in the second half of 2021 as the economy reopened, and that a higher than normal proportion of job movers moved industry, rather than moving job within the same industry.

Table 1: Changes in employment by sector, Scotland, 2019/20 – 2021/22

	Apr 2019-Mar 2021	Apr 2021-Mar 2023	Change in empl.	Change in share of empl
A Agriculture, forestry and fishing	39,200	36,900	-2,300	-0.1%
B Mining and quarrying	61,400	54,500	-6,900	-0.2%
C Manufacturing	202,000	180,500	-21,500	-0.7%
D Electricity, gas, steam and air con supply	22,300	38,400	**16,100**	0.6%
E Water supply; sewerage, waste management	22,500	23,300	800	0.0%
F Construction	185,500	154,200	**-31,300**	-1.1%
G Wholesale and retail trade; repair of vehicles	334,000	294,800	**-39,200**	-1.4%
H Transport and storage	118,200	106,300	-11,900	-0.4%
I Accommodation and food service activities	162,400	149,600	-12,800	-0.4%
J Information and communication	76,700	103,600	**26,900**	1.1%
K Financial and insurance activities	104,900	130,800	**25,900**	1.0%
L Real estate activities	21,300	20,400	-900	0.0%
M Professional, scientific and technical activities	161,100	188,300	**27,200**	1.1%
N Administrative and support service activities	111,100	106,600	-4,500	-0.1%
O Public administration and defence	210,400	235,800	25,400	1.0%
P Education	244,700	256,100	11,400	0.5%
Q Human health and social work activities	403,700	389,700	-14,000	-0.4%
R, S, T, U Other	164,600	151,000	-13,600	-0.5%

Source: FAI analysis of Annual Population Survey, accessed from Nomis. Note: only changes in bold are statistically significant at 5% level.

What policies might encourage people to re-enter the labour market?

People will be encouraged to re-enter the labour market if they see a healthy, buoyant jobs market. The diversity of openings available, and prospects for pay and

career progression, are factors that can influence individuals' decisions on whether to re-enter the labour market. Programmes to support people to retrain or reskill can be important in increasing labour market participation, particularly for those who have been economically inactive for a period of time.

Professor Steve Fothergill and Professor Christina Beatty, Centre for Regional Economic and Social Research, Sheffield Hallam University: written submission

ECONOMIC INACTIVITY, LONG-TERM SICKNESS AND THE PANDEMIC

Owing to the nature of our evidence, which does not fit neatly into responses to the Committee's specific questions, a single comprehensive note is being submitted to the Inquiry.

Basis of this submission

Our research into economic inactivity and long-term sickness extends back over almost thirty years. It includes several substantial projects and has involved extensive data analysis, large-scale surveys and in-depth interviews. Outputs include a book, *Work to Welfare*, and numerous reports and academic articles. The research has mostly covered all parts of the UK but has often generated data right down to the local level, including for local authorities within Scotland.

Our most recent reports are especially relevant to the present Inquiry:

Beyond the Pandemic: older industrial Britain in the wake of the crisis

Published November 2021
This reviews the labour market before, during and immediately following the worst of the pandemic, comparing older industrial areas (including in Scotland) with the main regional cities, London and South East England, and the GB average.

The Real Level of Unemployment 2022: the myth of full employment across Britain
Published May 2022
This examines the large numbers out of the labour market on incapacity- related benefits and provides an alternative set of unemployment figures for every local authority in Britain (including Scotland).

The present submission draws principally on these two reports but also on accumulated knowledge derived from our earlier research.

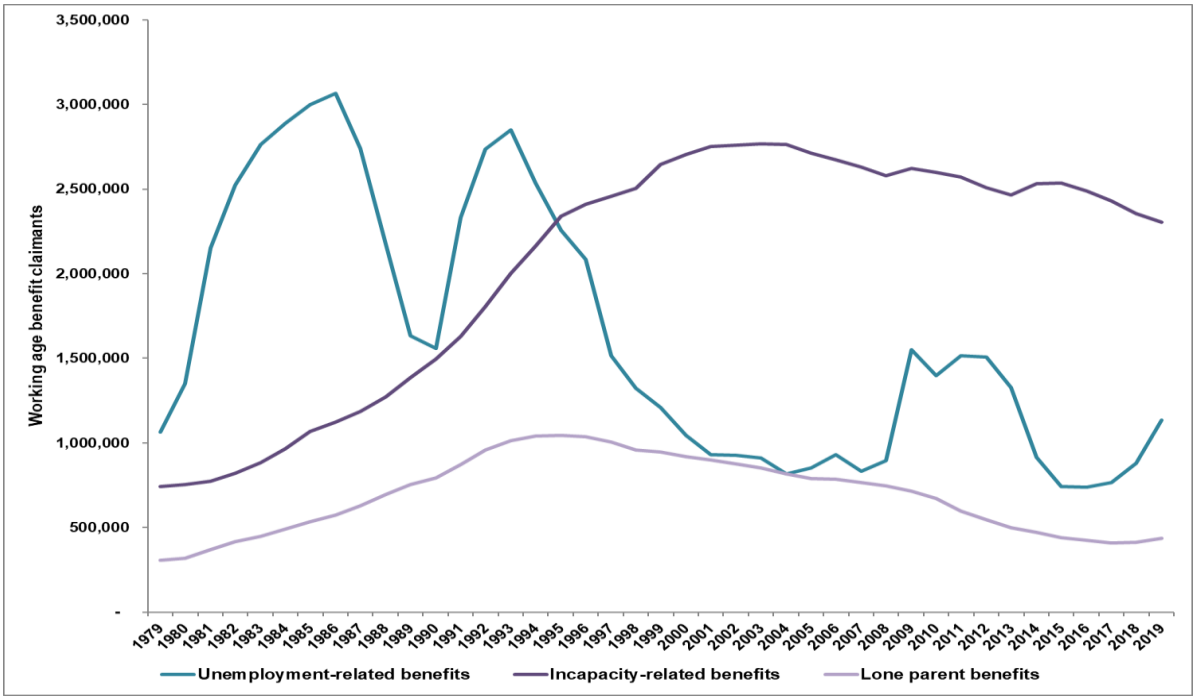
Long-term overview

In the wake of the pandemic there has been something of a rediscovery in the media of the existence of large numbers of working-age people who are economically inactive, long-term sick and excluded from the official unemployment figures. The

suggestion can be that these large numbers have something to do with the pandemic. Indeed, recent figures from the UK government's Labour Force Survey certainly point towards an increase on pre-pandemic levels.

In truth, the large number of working-age long-term sick is a far longer-established phenomenon. Figure 1 shows the numbers on each of the three main families of out-of-work benefits from 1979 to 2019, just prior to the pandemic, across Great Britain as a whole.

Figure 1: Out-of-work working age benefit claimants, GB, 1979-2019



Source: DWP

The numbers claiming unemployment benefits (these days mainly Universal Credit with a requirement to look for work) reached three million in the mid-1980s but have since been far lower. The increase from around 2017, by the way, owes more to changing benefit rules, which widened the requirement to look for work, than to the state of the economy.

The numbers claiming lone parent benefits (Income Support for much of this period but more recently Universal Credit) rose to a peak of around one million in the mid-1990s but have since fallen, not least because eligibility has gradually been restricted.

The striking feature is the rise in the numbers out-of-work on incapacity-related benefits (presently either Employment and Support Allowance or Universal Credit on the grounds of limited capability to work). The numbers rose from around 750,000 at the end of the 1970s to a plateau of around 2.5 million in the early 2000s. They then

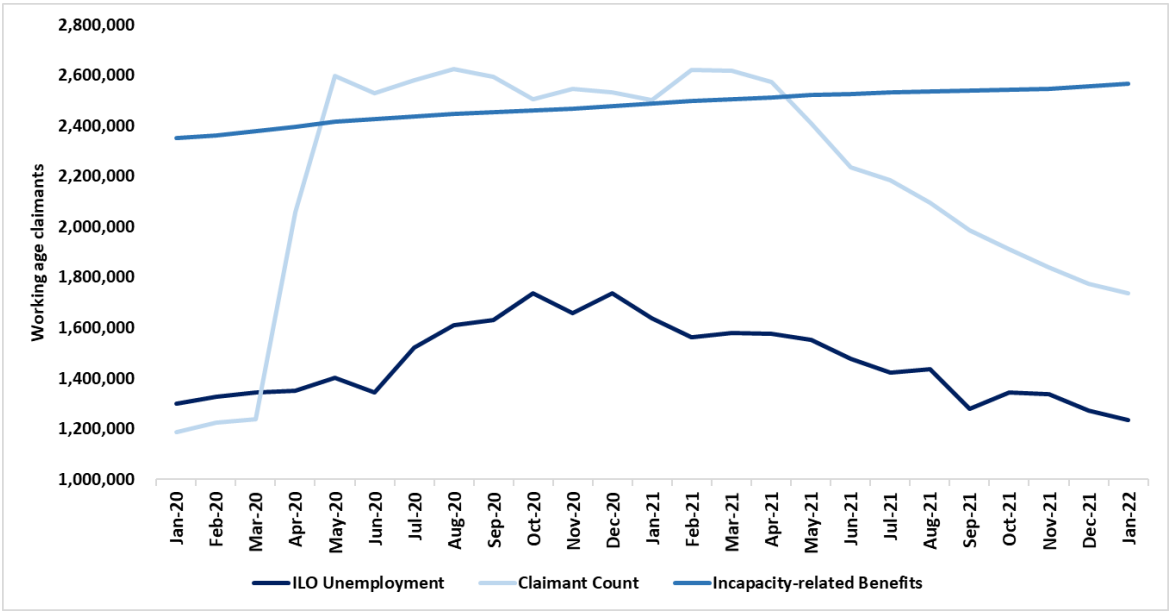
declined a little, but not by much. It is impossible to explain the increase in health terms alone at a time when general standards of health have slowly been improving. There has also been no real-terms increase in the financial value of benefits that might have attracted more claimants, so that too cannot explain the increase. If anything, the opposite was true – benefits were squeezed at the margins – and from the 1990s onwards there have been reforms to try to bring the numbers down.

We have not assembled separate annual numbers for Scotland but we have no reason to suppose that the broad trends in Figure 1 do not apply to Scotland.

Trends during the pandemic

Figure 2 looks at what happened during the pandemic. It shows two official measures of unemployment – the claimant count (the numbers claiming unemployment-related benefits) and the ILO measure derived from the Labour Force Survey, which is the UK government's preferred measure.

Figure 2: Trends in worklessness during the pandemic, GB



Sources: DWP and ONS

In early 2020 the claimant count and ILO unemployment stood at 1.2 and 1.3 million respectively across Britain as a whole. The claimant count shot up to more than 2.5 million whereas ILO unemployment peaked at only 1.7 million. From the spring of 2021 onwards, as the economy reopened, both measures began to fall – the claimant count more steeply than ILO unemployment – but by the start of 2022 the claimant count remained around half a million higher than ILO unemployment.

During the pandemic the numbers out-of-work on incapacity-related benefits did increase, but not to a great extent and from an already high base. Across GB as a

whole the total rose from just below 2.4 million at the start of 2020 to rather more than 2.5 million by the end of 2021.

Again, we have not assembled separate figures for Scotland but we have no reason to believe that the trends will have been very different.

Underlying causes

Because the numbers on incapacity-related benefits have been so high for so long it is difficult attribute more than a small proportion to the impact of the pandemic. Instead, the scale and geography of the numbers, and the timing of the increase in the years following deindustrialisation, point strongly to labour market imbalances and to a substantial element of 'hidden unemployment'.

What happens is that the jobless who suffer from health problems or disabilities generally claim incapacity benefits instead of unemployment benefits. Many people have picked up injuries over the course of their working life and there is the effect on physical capabilities of illness, disease and simply getting older. On top of this, mental health conditions are widespread. In practice, therefore, many of the unemployed with health problems or disabilities qualify for incapacity benefits. This does not imply, of course, that the health problems or disabilities are anything less than real or that the benefit claims are in any way fraudulent.

Most incapacity claimants take a dim view of their job prospects, especially as their period out-of-work extends. They recognise that employers generally prefer the fit and healthy, especially in the places where there is competition for jobs, and even if they have aspirations to return to work they give up looking. They therefore drop out of the ILO measure of unemployment, which includes only active jobseekers.

The scale of hidden unemployment

The hidden unemployed on incapacity benefits are *those who might reasonably be expected to have been in work in a genuinely fully-employed economy*. We have invested substantial effort in quantifying this group. Our methods, which have been refined over the years, involve comparisons with the low incapacity claimant rate in fully-employed parts of southern England and adjustments for underlying difference in health (these days using standardised mortality rates).

Our most recent estimate is that across Great Britain as a whole in early 2022 there were 790,000 hidden unemployed on incapacity benefits. This compares with a headline total of 2.57 million out-of-work on incapacity benefits. In effect, we estimate that the hidden unemployed are a minority of incapacity claimants (around 30 per cent). It is worth emphasising again that there is no suggestion here that the claims are fraudulent or that the health problems are anything less than real.

Table 1: Incapacity claimants, Scottish local authorities, late 2021

	Incapacity benefit claimants	*% of working age*	**Estimated hidden unemployment**	*% of working age*
Inverclyde	6,100	*12.8*	3,200	*6.7*
West Dunbartonshire	6,500	*11.6*	3,200	*5.6*
North Ayrshire	9,300	*11.5*	4,800	*5.9*
Glasgow	48,800	*10.9*	20,400	*4.5*
Clackmannanshire	3,300	*10.2*	1,400	*4.4*
Dundee	10,000	*10.1*	4,300	*4.4*
North Lanarkshire	22,200	*10.1*	9,100	*4.1*
East Ayrshire	7,500	*9.9*	3,100	*4.1*
South Ayrshire	6,100	*9.3*	2,800	*4.2*
Renfrewshire	10,500	*9.1*	4,100	*3.5*
Dumfries & Galloway	7,600	*8.8*	3,300	*3.8*
South Lanarkshire	17,800	*8.8*	7,100	*3.5*
West Lothian	10,100	*8.6*	4,200	*3.6*
Falkirk	8,400	*8.2*	2,700	*2.6*
Fife	18,900	*8.1*	6,900	*3.0*
Angus	5,400	*7.9*	2,100	*3.0*
Argyll & Bute	3,800	*7.6*	1,300	*2.6*
Midlothian	4,300	*7.5*	1,300	*2.2*
Scottish Borders	4,800	*7.2*	1,700	*2.6*
Eileanan Siar	1,100	*7.1*	400	*2.3*

	Incapacity benefit claimants	*% of working age*	**Estimated hidden unemployment**	*% of working age*
Highland	10,100	*7.0*	3,200	*2.3*
East Lothian	4,400	*6.6*	1,400	*2.2*
Perth & Kinross	5,700	*6.3*	1,800	*2.0*
Moray	3,600	*6.2*	800	*1.4*
Stirling	3,700	*6.2*	700	*1.2*
Aberdeen	9,200	*5.9*	900	*0.6*
Edinburgh	20,900	*5.7*	3,800	*1.0*
Orkney Islands	800	*5.7*	200	*1.5*
East Dunbartonshire	3,600	*5.6*	800	*1.3*
Shetland Islands	700	*5.4*	200	*1.3*
East Renfrewshire	3,000	*5.3*	630	*1.1*
Aberdeenshire	7,700	*4.8*	0	*0*
Scotland	**286,000**	***8.2***	102,000	*2.9*

Sources: ONS, DWP and Sheffield Hallam estimates

Estimating hidden unemployment among incapacity claimants is a major exercise that we have only undertaken at intervals so there are no comparable figures for just prior to the pandemic. However, our estimate for 2017 – 760,000 across Britain as a whole – is not radically different from the 2022 figure, suggesting that the recent increase has been modest at best. By comparison, the estimates for 1997, 2002 and 2007 were all in excess of one million, and for 2012 900,000.

The picture in Scotland

Hidden unemployment on incapacity benefits is far from evenly spread across Britain. Our estimates for Scotland are shown in Table 1.

The overall figures for Scotland are striking – 286,000 claimants, accounting for 8.2 per cent of all 16-64 year olds, of whom 102,000 are estimated to be hidden unemployed. This compares with claimant unemployment in Scotland in early 2022 of 122,000. In other words, we estimate that in Scotland there is almost as much hidden unemployment on incapacity benefits as there is visible on unemployment benefits.

The local authority figures in Table 1 are ranked by the incapacity claimant rate in late 2021. This varies from 12.6 per cent of all working age adults in Inverclyde to 4.8 per cent in Aberdeenshire. By way of comparison, the lowest claimant rates in Britain, in a swathe of southern England, are around 3 per cent. In Inverclyde, 6.7 per cent of all working age adults are estimated to be hidden unemployed on incapacity benefits. In Glasgow, with a far larger population, we estimate that 20,000 of the 48,000 incapacity claimants should be regarded as hidden unemployed.

In general, the weaker the local economy, the higher the incapacity claimant rate and the greater extent of hidden unemployment. The claimant rate in Scotland is highest in a number of older industrial areas where job loss has occurred over many years – a pattern mirrored elsewhere in Britain – but in Scotland and elsewhere the local authority figures also reflect an element of residential 'sorting' between richer and poorer areas within the same local labour market. In the Glasgow city region, for example, the more affluent suburban districts of East Dunbartonshire and East Renfrewshire have markedly lower incapacity claimant rates than Glasgow City itself. It is the manual working class in the poorer parts of Scotland, not the professional middle class, who tend to dominate the incapacity numbers.

Beyond the pandemic

So what has changed as a result of the pandemic? The answer is surprisingly little.

In our report on the impact of the pandemic we noted the rollercoaster ride that the UK economy experienced: output fell by more than at any time in the last hundred years and at peak almost a third of all employees were furloughed. The proportion of employees furloughed did not vary much across the country – 34 per cent in Glasgow and 30 per cent in Edinburgh for example, compared to 32 per cent in London and 33 per cent in Manchester. By the autumn of 2021 the number of employees in the UK had returned to and even slightly exceeded pre-pandemic levels and there was no evidence that the closure of the Coronavirus Job Retention Scheme had led to an increase in unemployment.

But what we also noted was that older industrial Britain – which includes large parts of Scotland – lagged behind in terms of prosperity long before the pandemic. Employment rates were below par, unemployment was higher and the overall numbers on out-of-work benefits were much higher in this part of the country. As the immediate economic impact of the pandemic receded, these long-standing local and regional gaps in well-being have re-emerged largely unchanged.

The high number of vacancies currently reported does not alter this assessment. The labour market has indeed recovered from its deep-freeze during the pandemic, and is certainly healthier than once feared, but most vacancies are not 'hard to fill' posts. The high number of vacancies mostly reflects labour turnover: as employees

have started changing jobs again, their job moves are creating vacancies that their former employers then need to fill.

Bringing the numbers down

It will be apparent that we do not share the view that high levels of economic inactivity, and long-term sickness in particular, are a product of the pandemic. Rather, in Scotland and elsewhere in the UK they are much longer-standing issues rooted in structural economic change and job loss. Moreover, economic inactivity and long-term sickness are concentrated far more in some places than others. There are parts of Scotland where they are barely an issue but others where they are central to understanding the local labour market.

Our policy prescriptions therefore address longer-term issues. There are three fundamental elements to a solution.

The first is national economic growth. A healthy rate of growth always brings down the level of unemployment and, because local and regional labour markets are so interconnected, in just about all parts of the UK as well. Here is not the place to enter into a discussion of macroeconomic policy or industrial strategy but the point remains that the national economy is critically important to local and regional unemployment.

The second element is local and regional economic development. This is arguably now the key to lower unemployment and economic inactivity because the slack in the labour market is far from evenly spread around the country. Substantial parts of Britain are already at or close to full employment so growing the UK economy can't be expected to bring down unemployment much further in those places. Growth needs to be steered towards the parts of Scotland where unemployment and economic inactivity are still unacceptably high. There is actually a lot of positive experience, accumulated over many decades, about how to deliver successful policies of this kind.

The third element is support to help individuals engage with the labour market. This is especially important in the context of the hidden unemployed on incapacity benefits, whose present-day detachment from the world of work is often considerable even though they often have many years of previous work experience. Realistically, many incapacity claimants are unable to return to work – even our estimates suggest that it is a minority who would probably have been in work in a genuinely fully employed economy. In practice, the key challenge is probably to reduce the numbers dropping out of the labour market – to stem the onflow to incapacity benefits and to facilitate an early return to work. This is a process that needs to involve employers at least as much as claimants themselves. They need to be more flexible about expectations and requirements, and more open-minded about potential employees who may have been out of the labour market for some while but still have skills and abilities to offer.

Office for National Statistics: written submission

What are the key factors driving the increase in labour market inactivity?

In the decade to 2015, the inactivity rate in Scotland was broadly similar to that of England'. However, from 2016 onwards, Scotland's inactivity rate has diverged slightly – slightly increasing while England's fell - and is now similar to that of Wales, while Northern Ireland's inactivity rate remains highest among the four nations.

In more recent periods, the Annual Population Survey (APS) illustrates that labour market inactivity in Scotland has increased by 35,000 to 808,000 when comparing the 12 months to March 2022 with 2019 levels (before the COVID-19 pandemic began). This makes up 18.6% of the total UK rise in inactivity over that period.

The APS also tells us that in 2021, Scotland experienced its highest inactivity rate since these records began in 2004, at 23.8%.

Long-term sickness is the main reason for inactivity in Scotland (among those aged 16 to 64) and is the reason that has seen the largest increase since before the pandemic. The number of those reporting long-term sickness as the reason for inactivity has increased by 23,000 (to 240,000) in the 12 months to March 2022, compared with 2019 levels. However, increases in long-term sickness predate the pandemic, starting in 2019.

The increases in total levels of inactivity in Scotland (which grew by 4.5% in the latest period compared with the pre-pandemic period) and long-term sickness (which grew by 10.4%) grew at a faster rate than the increases seen for the UK (where it grew by 2.1% and 6.8%, respectively, over that period).

The number of those retiring increased by 11,000 (to 122,000) and the number of those temporary sick also increased by 4,000 (to 20,000) and are the second and third largest contributors to the rise in inactivity in the Scottish labour market. The respective increases of 9.9% and 21.8%, are greater than the rate of increases seen for those retiring and temporary sick in the UK as a whole (8.5% and 20.1%, respectively).

However, compared to pre-pandemic, in the Scottish labour market there has been a 0.4% decrease in students being inactive (falling to 197,000), whereas in the UK a 5.6% increase was seen in April 2021 to March 2022.

Among those who were economically inactive in the Scottish labour market, the number of people wanting a job fell by 14,000 (8.6%) when comparing April 2021 to March 2022 with January to December 2019. The number of such people reached 144,000 in the latter period, only just above the record low of 143,000 seen in the January to December 2021 period. The 8.6% fall up to the latest period was lower than the equivalent 9.7% fall seen for the UK as a whole.

Has long-COVID been a factor in current levels of labour market inactivity? If so,

is this likely to be a permanent feature of the labour market?

In the UK, as of July 2022, 5.0% of people who were not in and not looking for paid work were experiencing self-reported long COVID. This was higher than for the other labour market statuses: unemployed (3.5%), employed (3.3%), retired (2.9%) and students (1.7%).

Data suggests that some of the increased inactivity could be due to long COVID. In July 2022, 1.8m people (2.8% of the population) reported suffering from long COVID in the UK, with 369,000 "limited a lot" by their symptoms. Institute for Fiscal Studies analysis estimates that this amounts to 110k additional "long-term sick" people absent from the labour market.

Evidence for Scotland specifically is limited. However, experimental statistics show that the latest prevalence of ongoing symptoms following coronavirus (COVID-19) infection is higher in Scotland compared with England (differences with Wales and Northern Ireland were not statistically significant). In July 2022, 3.83% of the private-households population were estimated to be living with self-reported long COVID of any duration, compared with 2.98% in England.

The same research on the prevalence of long COVID also shows that the employment status with the highest prevalence across the UK is the 'inactive and not looking for work' group; with 6.43% of that population estimated to be living with self-reported long COVID of any duration. This compares with 3.81% among those employed, and 3.41% among those unemployed.

What has been the labour market impact of the pandemic on people with pre-existing health conditions?

The impact of long-COVID is felt unequally. As a proportion of the UK population, the prevalence of self-reported long COVID was greatest in people aged 35 to 69 years, females, people living in more deprived areas, those working in social care, those aged 16 years or over who were not students or retired and who were not in or looking for paid work, and those with another activity-limiting health condition or disability.

The NHS waiting list (UK wide) has been growing and will likely be responsible for some of the increase in long-term sick inactivity. Since April 2018, 18-week waits are up 2m and inactivity is up 0.4m. Further work is required to look at conditions and geography to consider any relationship between waiting lists and inactivity. The second wave of the ONS Over-50s Lifestyle Study (OLS) should provide us with helpful insights later in September. The ONS is happy to share a copy of findings once they are available.

What factors have influenced some people to take early retirement?

Evidence for Scotland specifically is limited. However, across the UK, the OLS found that among adults aged 50 to 70 years who had left or lost their job since the start of the pandemic, just over 6 in 10 (63%) adults said they had left work sooner than

expected. Those in their 50s were more likely to say this (77%) than those aged 60 years and over (57%).

Leaving work to retire was the most reported reason (47%), with the vast majority saying it was their choice to leave. However, 6% said they had lost their job and subsequently retired, suggesting that their exit from the labour market was involuntary.

The next most frequent reasons given for leaving work were:
• the coronavirus (COVID-19) pandemic (15%);
• illness or disability (13%);
• and they did not want to work anymore (11%).

75% said it was their choice to leave their previous job. 5% said they had lost their job, and 10% had been furloughed and then lost their job .

Findings from the OLS suggest that people leaving professional occupations may be more likely to be able to afford their retirement with increased savings since the pandemic compared with other occupations.

Of those leaving professional occupations, 22% reported their savings had increased since the start of the pandemic, the highest for all occupational groups. In comparison, 20% of those leaving caring occupations reported they had no savings.

Thinking about labour market participation, have certain groups of society and parts of the country been impacted more than others?

Comparing the latest period (April 2021 to March 2022) with the pre-pandemic reference point (January to December 2019), APS estimates of the number of economically inactive people aged 16-64 in Scotland show a larger increase among men (up 24,000 to 341,000) than among women (up 10,000 to 466,000).

Looking at age groups in more detail, increases in economic inactivity levels have been seen across all age groups in the Scottish labour market, except for those aged 18 – 24 which have decreased by 6,000 to 131,000 (or 4.5%) in April 2021 to March 2022.

The largest increase in level terms is seen amongst those aged 50 – 64, rising by 22,000 to 334,000 (or 7.2%).

In April 2021 to March 2022 the economic inactivity rate for ethnic minorities (33.4%) in Scotland was greater than the Scottish labour market average (23.5%), and the economic inactivity rate for ethnic minorities in the UK (26.7%). However, the economic inactivity rate has decreased for ethnic minorities in Scotland since pre-pandemic (down 3.0 percentage points from 36.4).

Comparing the period April 2021 to March 2022 with January to December 2019, the most notable increase in the economic inactivity rate across Scottish Local Authority regions is seen in the Highland, rising 9.2 percentage points to 28.1%. Other notable

increases are seen in North Lanarkshire (6.2 percentage point increase to 28.2%), Aberdeen City (5.3 percentage point increase to 23.7%), North Ayrshire (4.3 percentage point increase to 29.5%) and Aberdeenshire (4.0 percentage point increase to 21.0%). On the other hand, Inverclyde, Midlothian, Glasgow City and the City of Edinburgh have seen 5.2, 3.4, 3.7 and 2.9 percentage point decreases (to 22.4%, 14.2%, 25.6% and 19.8%) respectively.

Have there been sectoral differences from economic inactivity – for example, have Health and Hospitality sectors been more exposed than, for example, Finance?

In the Scottish labour market, the arts, entertainment and recreation industry saw the greatest fall in workforce jobs down 31,000 to 74,000, with a percentage rate change of negative 29.4% when compared to a pre-pandemic December 2019. Other industries displaying large falls in workforce jobs were accommodation and food service activities, down 16,000 and other service activities down 12,000. There was also a fall of 8,000 for agriculture, forestry and fishing.

These falls in the number of jobs were partially offset by increases in other industries, the largest of which were human health and social work activities (up 28,000, or 6.9%) and administrative and support services (up 16,000, 7.2%).

More broadly, in June 2022, businesses in Scotland report the lowest proportion of businesses currently experiencing a shortage of workers (12.5%), compared with Northern Ireland (22.8%), Wales (15.6%) and England (13.7%). Businesses in construction were more likely to report worker shortages in Scotland (16.6%) than those in the services sector (10.9%).